



**CURRICULUM GRADE 10 -12 DIRECTORATE**

**NCS (CAPS) SUPPORT DOCUMENT**

**GRADE 12**

**ACCOUNTING**

**RECORDING, REPORTING AND EVALUATION OF  
FINANCIAL INFORMATION & CORPORATE GOVERNANCE**

**PAPER 1**

**SUPPORT DOCUMENT**

**2021**

## PREFACE

This support document is designed to assist Accounting teachers and learners on how to deal with assessment in the subject by taking into account the curriculum gaps as well as learning losses as a result of the impact of COVID-19 in 2020. It captures the types of questions which appeared in the recent NSC Examination Papers. Please use other documents for explanatory notes on topics covered in this one. It will cover the following:

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**A. TANGIBLE ASSETS**

**ACTIVITY A 1**

**ASSET MANAGEMENT CONTROL**

You are provided with information from the accounting records of Mavuso Traders.

**INFORMATION:**

**A)**

Extract information from the balance sheet	30 June 2021	30 June 2020
Land and buildings	3 000 000	5 500 250
Vehicles at cost	1 500 000	1 200 000
Accumulated depreciation on Vehicles	?	540 000

**B)** All the Vehicle, which has been bought on 30 June 2017, was traded in on 30 December 2021, for R600 000. Vehicle is depreciated at 15% p.a. on cost.

**C)** No new Land and buildings were bought during this year.

**REQUIRED:**

1.1.1 Prepare the Asset Disposal Account in the General Ledger.

1.1.2 Complete the Fixed Assets Note to the Financial Statements on 30 June 2021.

**ANSWER SHEET**

1.1.1

**ASSET DISPOSAL**


**1.1.2 TANGIBLE ASSET NOTE**

	Land and buildings	Vehicles
Cost at the beginning of the year	5 500 250	1 200 000
Accumulated depreciation		(540 000)
<b>Carrying amount at the beginning</b>		
<b>Movements</b>		
Additions at cost		
Disposals at carrying amount		
Depreciation for the year		
Cost at the end of the year	3 000 000	
Accumulated depreciation		
<b>Carrying amount at the end of the year</b>		

**ACTIVITY A2****FIXED ASSETS****EXTRACT OF THE FIXED ASSETS NOTE:**

	VEHICLES	EQUIPMENT
Cost (1March 2020)	450 000	450 000
Accumulated depreciation (1Mar2020)	(396 750)	(187 595)
<b>CARRYING VALUE (1 March 2020)</b>	<b>(i)</b>	<b>172 405</b>
Additional at cost	<b>510 000</b>	<b>0</b>
Disposals at carrying amount	<b>0</b>	<b>(iii)</b>
Depreciation	<b>(ii)</b>	<b>(31 281)</b>
<b>CARRYING AMOUNT (28 February 2021)</b>		
Cost ( 28 Feb.2021)	<b>960 000</b>	<b>285 000</b>
Accumulated depreciation (28 Feb.2021)		

**B) Adjustments are as follows:****Fixed assets:****Vehicles:**

- The business owns two vehicles on 28 February 2021. The second vehicles were purchased on 1 November 2020.
- Vehicles are depreciated at 15%pa on cost.

**Equipment:**

- Depreciation in 20% pa on the diminishing balance method.
- Unused equipment was sold for R50 000 on 1 October 2020'
- Accumulated depreciation on the equipment sold was R360 000 on 1 march 2020.

**REQUIRED:**

Calculate the following:

2.1.1 The missing amounts denoted by (i) to (iii) on the fixed assets Note (11)

2.1.2 Profit/loss on the sale of equipment on 1 October 2020 (2)

**ANSWER SHEET**

WORKINGS	ANSWER
A)	
B)	
C)	

**ACTIVITY A3**

**Required:** CALCULATE THE MISSING AMOUNT INDICATED (A, B, C) IN THE FIXED ASSET NOTE FOR FEBRUARY 2021.

**A. Fixed/Tangible assets:**

	LAND AND BUILDINGS	VEHICLES
<b>Carrying value at the beginning of the financial year</b>	<b>2 689 000</b>	<b>1 880 000</b>
Cost	2 689 000	3 250 000
Accumulated depreciation	-	(1 370 000)
<b>Movements</b>		
Additions at cost	<b>A</b>	330 000
Disposals at carrying value	-	<b>B</b>
Depreciation	-	<b>C</b>
<b>Carrying value at the end of the financial year</b>	<b>6 740 000</b>	
Cost	6 740 000	3 440 000
Accumulated depreciation	-	

**Additional information in respect of fixed/tangible assets:**

- (i) A vehicle was sold for cash at its carrying value on 31 May 2020. The following extract of the vehicle sold was taken from the Fixed Assets Register:

<b>Cost price:</b> R140 000		<b>Date purchased:</b> 1 March 2019
<b>Rate of depreciation:</b> 20% p.a. on the diminishing-balance method		
<b>FINANCIAL YEAR END</b>	<b>DEPRECIATION</b>	<b>ACCUMULATED DEPRECIATION</b>
28 February 2020	28 000	28 000
31 May 2020	5 600	33 600

- (ii) A new vehicle, costing R330 000, was purchased and paid for by EFT on 1 January 2021.
- (iii) Vehicles are depreciated at 20% p.a. on the diminishing balance method.
- (iv) New premises (land and buildings) were acquired during the financial year.

**ANSWER SHEET**

<b>WORKINGS</b>	<b>ANSWER</b>
A)	
B)	
C)	

## ACTIVITY A4

## A. Fixed assets:

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT	TOTAL
Cost		350 000	460 000	
Accumulated depreciation		(315 000)		
Carrying value (01/03/2020)	(a)	35 000		
Movements:				
Additions	325 000	422 550	0	
Disposals	0	0	(d)	
Depreciation		(b)	(13 766)	
Carrying value (28/02/2021)	2 550 000	(c)	50 994	(e)
Cost		772 550	340 000	
Accumulated depreciation				

- Depreciation on vehicles is calculated at 20% p.a. on cost.  
The company has two vehicles on 28 February 2021. One of these vehicles was purchased on 1 September 2020.
- **Extract from the Fixed Assets Register in respect of equipment sold:**

<b>Refrigerator (250 Model)</b>			
<b>Date purchased:</b> 1 March 2018			
<b>Date sold:</b> 31 December 2020		<b>Sold for:</b> R81 250	
<b>Depreciation rate:</b> 10% p.a. (diminishing-balance method)			
	COST	DEPRECIATION	BOOK VALUE
28 February 2019	R120 000	R12 000	R108 000
29 February 2020		?	?
31 December 2020		?	?

**B.STATEMENT OF COMPREHENSIVE INCOME****ACTIVITY B1:****STATEMENT OF COMPREHENSIVE INCOME AND NOTE**

You are provided with information relating to Bonga Limited for the year ended 31 December 2020

**REQUIRED:**

- 1.1 Prepare the Statement of comprehensive income
- 1.2 Prepare the Note to the Balance Sheet for Trade and Other Receivables.

**INFORMATION:**

**Extract from Pre-adjustment Trial Balance on 31 December 2020:**

<b>Balance Sheet Accounts Section</b>	<b>Debit</b>	<b>Credit</b>
Ordinary share capital		3 000 000
Retained income (1 January 2019)		628 000
Loan from Paris Bank		540 800
Debtors' control	125 000	
Creditors' control		96 200
Provision for bad debts		7 150
Trading stock	376 000	
SARS: Income tax	315 000	
<b>Nominal Accounts Section</b>		
Sales		8 412 000
Cost of sales	4 595 000	
Debtors' allowances	112 000	
Sundry expenses	257 400	
Bank charges	41 905	
Audit fees	75 600	
Packing materials	15 400	
Repairs and maintenance	107 500	
Commission income		64 140
Directors' fees	736 000	
Salaries and wages	1 020 000	
Employer's contributions	156 000	
Interest on current bank account		3 000
Bad debts	17 600	
Rent income		87 720
Dividends on ordinary shares	360 000	



**Adjustments and additional information:**

- A. Provide for R278 200 depreciation for the financial year.
- B. On 27 December 2020 Zesu Mkhize, a debtor, returned merchandise. A credit note for R1 600 was issued to her. (The cost price was R900.) No entries were made for the return of the merchandise. These items were returned to stock.
- C. The insolvent estate of a debtor, J Jobe, paid out 45 cents in the rand and made a direct deposit of R2 025 on 31 December 2020. The outstanding balance must be written off. No entries were made to record the direct deposit and the amount written off.
- D. The provision for bad debts must be increased to R8 000.
- E. The stock count on 31 December 2020 revealed:
- Trading stock R369 100
  - Packing material R2 400
- F. The company has two directors. Each director receives the same monthly remuneration. One of the directors did not receive his directors' fee for December 2020.
- G. Interest on the loan from Khwezi Bank has not been entered yet. Interest is capitalised. The loan statement received from Khwezi Bank reflected the following:

Balance on 1 January 2019	R601 600
Repayments made during the year	R100 800
Balance on 31 December 2020	R540 800

- H. There was no change in the monthly rent during the financial year. The tenant paid R6 000 for repairs to the premises. As Bonga Limited is responsible for all repairs, the tenant deducted this amount from the rent, which he paid for November 2020. The repairs have not been recorded, and the rent for December 2020 has not been received yet.
- I. An employee was left out of the Salaries Journal. His details are:

Net salary	R12 150
Deductions	R6 350
Employer's contributions	R5 050

- J. Income tax for the year was correctly calculated at R300 300.



1.2 TRADE AND OTHER RECEIVABLES




ACTIVITY B2

STATEMENT OF COMPREHENSIVE INCOME, NOTES TO BALANCE SHEET

You are provided with information relating to MOMBAD Limited. The company sells Microwaves and repairs Microwaves for their customers.

REQUIRED:

2.1 Choose the correct word/s from those given below to complete the sentences:

working capital	Financial asset	Operating expense
Cash and cash equivalents	Operating profit	Borrowed capital
Qualified	Finance cost	unqualified

- 2.1.1 The difference between current assets and current liabilities is referred to as ...
- 2.1.2 The audit report states: "With the exception of a few aspects, shareholders can rely on the figures in the financial statements." This will be regarded as a/an ... report.
- 2.1.3 Interest on the bank overdraft is classified as a/an ....
- 2.1.4 A fixed deposit which will mature in the next financial year will be regarded as part of in the Balance sheet. (4)
- 2.2 Prepare the Asset Disposal Account to record the sale of vehicles. **See information 7 and 8 under adjustments below.** (10)
- 2.3 Prepare the Income Statement (Statement of Comprehensive Income) for the year ended 30 June 2021. (51)
- 2.4 Prepare the following notes to the Balance Sheet:
  - 2.4.1 Ordinary share capital (8)
  - 2.4.2 Retained income (12)

**INFORMATION:**

Figures extracted from the Pre-adjustment Trial Balance on 30 June 2021:

Ordinary share capital (1 July 2020)	R5 225 000
Retained income (1 July 2020)	770 000
Trading stock	197 000
Debtors control	85 000
Creditors control	78 800
Land and buildings	8 100 000
Vehicles	1 900 000
Equipment	600 000
Accumulated depreciation on vehicles	815 000
Accumulated depreciation on equipment	180 000
Mortgage loan from: Pinetown Bank	80 000
Medical aid fund	41 000
Pension fund	32 000
Provision for bad debts	4 200
SARS: PAYE	67 000
SARS: Income tax (provisional tax payment) DR	140 000
Sales	3 600 000
Debtors allowances	12 800
Cost of sales	2 400 000
Rent income	93 800
Interest income	12 000
Interest expense	7 000
Salaries and wages	270 000
Bad debts recovered	600
Employers contribution to Pension Fund and Medical aid	72 000
Audit fees	21 000
Directors fees	420 000
Consumable stores	12 000
Insurance	48 000
Sundry expenses	?
Dividends on ordinary shares (interim)	R100 000

**Adjustments and additional information:**

- A. A credit note issued to a debtor, Zodidi dated 27 June 2021 was not recorded in the books. The credit note was for:
  - Goods returned by Zodidi, R 7 200. The mark-up on goods sold was 50% on cost.
- B. No entries have been made for stock stolen on 7 June 2021. The insurance company has informed MOMBAD Limited that they have transferred R42 000 into the business bank account in respect of the insurance claim. MOMBAD Limited bears 20% of any stock loss.
- C. The physical stock count on 30 June 2021 revealed the following on hand:
  - Trading stock, R144 000
  - Consumable stores R3 000
- D. An employee was left out of the Salaries Journal for June 2021. The details from his pay-slip were:

Gross salary	R10 000
PAYE deduction (18%)	R1 800
Pension deduction (7,5%)	R 750
Medical aid	R1 200
Net salary	R6 250

The business contributions were:

- Pension fund 10,5% of gross salary
- Medical aid : Rand-For-Rand basis

- E. The provision for bad debts must be decreased by R340.
- F. The tenant has paid his rent for July 2021 in advance. **NOTE:** The rent was increased by R700 on 1 April 2021 and that the premises were rented for the whole year.
- G. An old vehicle was sold for R70 000 cash on 31 December 2020. The fixed asset register revealed the following regarding this vehicle:

Cost price	R 800 000
Accumulated depreciation on 1 July 2020	R 750 000

This transaction has not yet been recorded by the bookkeeper.

- H. Make provision for depreciation as follows:
- Vehicles at 15% p.a. on cost price
  - Equipment at R39 500
- I. The authorised share capital comprises 3 000 000 ordinary shares.
- There were 2 000 000 ordinary shares issued at the beginning of the financial year.
  - A further 250 000 new ordinary shares were issued on 1 May 2021 at R2,50 each. These shares qualify for final dividends.
  - The directors decided to buy back 10 000 shares from Z. Mathews at R3,10 per share. An electronic transfer was made for the full amount. Mathews is still entitled to final dividends.
- J. Final dividends were declared at 10 cents per share.
- K. After taking into account all adjustments the **Net profit** for the financial year amounted to:  
**Before tax** R500 000  
**After tax** R350 000.

## ACTIVITY B 2

<b>2.1</b>	<b>Choose the correct word/s from those given below to complete the sentences:</b>
2.1.1	
2.1.2	
2.1.3	
2.1.4	

**2.2**

**Asset Disposal Account**




2.4.1

**ORDINARY SHARE CAPITAL**

<b>AUTHORISED:</b>	
Number of authorized ordinary shares: 3 000 000 shares	
<b>ISSUED:</b>	
2 000 000 ordinary shares in issue at the beginning of financial year	5 225 000

2.4.2

**RETAINED INCOME**

Balance at the beginning of the financial year	770 000



- 3.1 Choose an explanation from COLUMN B that matches the GAAP principle in COLUMN A. Write only the letter (A–E) next to the number (3.1.1–3.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
3.1.1 Historical cost	A Amounts reflected on financial statements are expected to be realistic (conservative).
3.1.2 Matching	B Items of significance should be shown separately in financial statements.
3.1.3 Going concern	C Income and expenses must be recorded in the correct financial year.
3.1.4 Materiality	D Financial statements are prepared with the assumption that the company will continue operating in the future.
	E Fixed assets are recorded at their original cost price, although their market value may be different.

3.2 **KHWEZI LTD**

The information presented is for the financial year ended 29 February 2020.

**REQUIRED:**

- 3.2.1 Complete the statement of comprehensive income for the year ended 29 February 2020.
- 3.2.2 Prepare the following notes to the Balance Sheet:
- Ordinary Share Capital
  - Retained Income

**INFORMATION:****EXTRACT: PRE-ADJUSTMENT TRIAL BALANCE ON 29 FEBRUARY 2021**

<b>Balance Sheet Accounts Section</b>	<b>Dr</b>	<b>Cr</b>
Ordinary share capital		8 925 000
Retained income (1 March 2020)		555 500
Loan: Bas Bank		1 466 000
Trading stock	1 142 000	
Debtors' control	465 000	
SARS (Income tax)	523 600	
Provision for bad debts (1 March 2020)		21 340
Fixed deposit: Money Bank (8%)	620 000	
<b>Nominal Accounts Section</b>		
Sales		?
Cost of sales	10 600 000	
Debtors allowances	35 000	
Rent income		264 420
Interest on fixed deposit		37 200
Bad debts recovered		8 140
Audit fees	150 000	
Advertising	345 500	
Salaries and wages	1 054 260	
Directors' fees	932 200	
Depreciation	189 500	
Packing material	55 400	
Sundry expenses	?	
Bad debts	14 000	

**ADJUSTMENTS AND ADDITIONAL INFORMATION:**

- A. Goods are sold at a profit mark-up of 45% on cost.
- B. Stock-take on 29 February 2021 reflected the following stock on hand:
- Trading stock R1 130 000
  - Packing material R7 900
- C. One of the old directors is still owed his February 2021 fees. He has received R173 800 to date. There were no changes to the fee structure.
- D. The bookkeeper calculated depreciation on fixed assets as R189 500. He did not take into account that a new vehicle, cost R140 000 was purchased on 1 January 2021. Vehicles are depreciated at 15% on carrying value.
- E. A debtor, Emihle, with an outstanding balance of R19 000, must be written off as bad debts.
- F. The provision for bad debts at 4% of the outstanding debtors must be taken into account

- G. An employee on leave was omitted from the Salary Journal for February 2021. His salary details are as follows:
- Net salary: R17 550
  - Total deductions (including Pension, UIF and Tax): 25%
  - Employer's contribution: R2 340
- All employers' contributions are debited to the Salaries and Wages Account.
- H. Outstanding interest on fixed deposit must still be taken into account. The fixed deposit was unchanged during the year and interest is not capitalised.
- I. The rent income includes rent received for March 2021. The rent income increased by R1 560 per month from 1 September 2020.
- J. Loan statement from Bas Bank on 29 February 2021 reflected:

	R
Balance at beginning of financial year	1 850 000
Repayments during financial year	384 000
Interest capitalised	?
Balance at end of financial year	1 671 000

- K. Income tax at 30% of the net profit for the financial year was R525 000.
- L. Sundry expenses is the balancing figure on the Income Statement.
- M. **Shares and dividends:**
- The authorised ordinary share capital consists of 1 200 000 ordinary shares of which 75% were in issue before 1 March 2020.
  - Interim dividends of 60 cents per share was paid on 1 September 2020.
  - During October 2020 a further 120 000 shares were issued at R9,50 each. This was taken into account.
  - On 29 February 2021, final dividend of 55 cents per share was declared.
  - On 29 February 2021, 170 000 shares were repurchased at R9,70 per share. This transaction has not been recorded yet. These shareholders qualify for final dividends.

**ACTIVITY B3**

3.1

<b>Write only the letter (A–E) next to the question number.</b>	
3.1.1	
3.1.2	
3.1.3	
3.1.4	

3.2.1 See Income Statement on the next page.

3.2.2 Ordinary Share Capital Note

<b>Authorised Share Capital</b>		
1 200 000 ordinary shares		
<b>Issued Shares:</b>		
	Shares in issue on 1 March 2020	
	Shares issued at R9,50 each	
	Shares repurchased: ASP:	
	Shares in issue on 29 February 2021	

3.2.3 Retained Income

Balance at beginning of financial year	
Ordinary share dividends	
Balance at end of financial year	

3.2.1 KHWEZI LTD

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 29 FEBRUARY 2021

<b>Sales</b>	
<b>Cost of sales</b>	
<b>Gross profit</b>	
<b>Other income</b>	
<b>Gross operating income</b>	
<b>Operating expenses</b>	
<b>Advertising</b>	<b>345 500</b>
<b>Sundry expenses</b>	
<b>Operating profit</b>	
<b>Profit before interest expense</b>	
<b>Net profit before tax</b>	
<b>Income tax</b>	
<b>Net profit after tax</b>	

**ACTIVITY B4:****INCOME STATEMENT, NOTES TO FINANCIAL STATEMENTS AND ANALYSIS AND INTERPRETATION****4.1 CONCEPTS  
REQUIRED:**

- 4.1.1 What purpose does the Income Statement serve in the books of the business enterprise?
- 4.1.2 The Companies Act makes it compulsory for Public Companies to publish their financial statements. Give ONE reason.
- 4.1.3 Briefly describe the matching principle of GAAP.
- 4.1.4 Explain the difference between a receipt and an income.

**4.2 MVC LTD.**

The following information was taken from the books of MVC Ltd. on 28 February 2021, the end of the financial year.

**REQUIRED:**

- 4.2.1 Prepare the Income Statement for the year ended 28 February 2021.
- 4.2.2 Complete the trade and other receivables notes to the financial statements on 28 February 2021.
- 4.2.3 Calculate the following on 28 February 2021:
- The rate at which depreciation on equipment is written off.
  - The value of trading stock as per physical stock count. (You may draw a Trading stock account.)
- 4.2.4 Refer to Information C and comment on the operating efficiency of MVC Ltd. Quote and explain TWO relevant financial indicators with figures to support your opinion.

**INFORMATION:**

The following balances and totals were extracted from the Pre-adjustment Trial Balance of MVC Ltd. on 28 February 2021.

<b>Balance Sheet Accounts Section</b>		
Ordinary share capital		8 000 000
Mortgage Loan: ELTO Bank (interest rate: 18% p.a.)		1 200 000
Vehicles		?
Equipment		950 000
Accumulated depreciation on vehicles (1 March 2020)		1 350 000
Accumulated depreciation on equipment (1 March 2020)		450 000
Fixed Deposit: ELTO Bank (interest rate: 12% p.a.)		900 000
Creditors Control		660 000
Debtors Control		458 500
Trading stock		740 900
Provision for bad debts (1 March 2020)		21 985
Bank		45 200
Pension fund		45 400
SARS (PAYE)		64 100
SARS (Income tax)		100 000
<b>Nominal Accounts Section</b>		
Sales		3 640 000
Cost of sales		2 730 000
Debtors allowances		20 000
Insurance		53 800
Rent income		168 000
Salaries and wages		260 000
Interest on loan		90 000
Interest on fixed deposit		108 000
Packing material		52 000
Bad debts		14 000
Pension fund contributions		36 200
Bad debts recovered		3 400

**Additional information and adjustments:**

- A. The internal auditor discovered, among others, that entries in relation to the following were never made:
- An invoice issued to a debtor for credit sales of R40 000 upon which a trade discount of 20% was granted. These goods were sold at cost plus 33 $\frac{1}{3}$  % mark-up.
  - A credit note issued to a debtor for merchandise returned, R65 000. The cost price of these goods was R48 750. The goods were put back into stock.
- B. VC Mbuli, a debtor who owed R12 000, was declared insolvent. From his insolvent estate, the company received 60 cents in a rand and the balance was written off as irrecoverable. No entries were made of these transactions.

- C. Y. Nortje whose account of R1 800 was written off as irrecoverable subsequently settled the debt in full. The accountant has made the following entry in this respect: Dr Bad Debts and Cr Debtors Control. Rectify the error.
- D. Adjust the provision for bad debts to R20 765.
- E. Packing material bought for R3 000 was erroneously posted to the trading stock account. This must be corrected.
- F. R40 000 worth of packing material was used during the financial year.
- G. Trading stock deficit of R48 500 was uncovered after the physical stock count.
- H. The insurance premiums on company vehicles were paid for 11 months. Note that after the annual review of the policy, the premium was reduced by 8% on 1 November 2020.
- I. Included in the rent income amount is R48 000 annual rent for the period 1 June 2020 to 31 May 2021.
- J. The secretary to the general manager went on leave on 15 February 2021 and was paid her March 2021 salary on that date. Her salary slip details are as follows:
- |                          |         |
|--------------------------|---------|
| Gross salary:            | R18 000 |
| PAYE: Deductions         | 2 160   |
| Pension fund: Deductions | 1 440   |
- The employer contributes R2 for every rand deducted from the employee towards pension fund.
- K. Provide for outstanding interest on loan. A payment of R300 000 was made towards the loan on 30 June 2020 and this was properly recorded.
- L. Depreciation on fixed assets for the current financial year must be provided as follows:
- On vehicles R100 000
  - On equipment R50 000 (on the diminishing balance method)
- M. Income tax for the financial year ended 28 February 2021 amounted to R96 885. This must still be brought into account.

#### Financial Indicators on 28 February:

	<b>2021</b>	<b>2020</b>
Gross profit percentage on turnover/sales	24.4%	26.5%
Net profit before tax on turnover/sales	9%	11%
Operating expenses percentage on turnover/sales	16.4%	14.8%
Acid test ratio	0,9 : 1	0,7 : 1
Current ratio	1,9 : 1	1,6 : 1
Earnings per share (EPS)	100 cents	120 cents
% return on average shareholders' equity	19%	17%
Debt-equity ratio	0,49 : 1	0,31 : 1



## ACTIVITY B4

## 4.1 CONCEPTS

4.1.1	
4.1.2	
4.1.3	
4.1.4	

## 4.2 MVC LTD.

## 4.2.1 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2021

Sales (3 640 000)	
Cost of sales (2 730 000)	
Gross profit	
Other income	
Rent income (168 000)	
Bad debts recovered (3 400)	
Gross operating income	
Operating expenses	
Insurance (53 800)	
Salaries and wages (260 000)	
Packing material (52 000)	
Bad debts (14 000)	
Pension fund contributions (36 200)	
Depreciation	
Trading stock deficit	
Operating income	
Interest income	108 000
Profit before interest expense	
Interest expense	
Profit before income tax	
Income tax	
Net profit for the year	

**NOTES TO FINANCIAL STATEMENTS**

**4.2.2 TRADE AND OTHER RECEIVABLES**

Net trade debtors	
Debtors control (458 500)	

**4.2.3 CALCULATE THE FOLLOWING ON 28 FEBRUARY 2021.**

The rate at which depreciation on equipment is written off
The value of trading stock on hand as per physical stock count (You may draw up a Trading stock account)

<b>4.2.4</b>	Refer to Information C and comment on the profitability and/or operating efficiency of PJF Ltd. Quote and explain TWO relevant financial indicators with figures to support your opinion.
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## ACTIVITY B5: STATEMENT OF COMPREHENSIVE INCOME, NOTES, RATIO ANALYSIS AND AUDIT REPORT

### 5.1 MANENZE LTD

You are provided with information from the books of Manenze Ltd. The financial year ended on 30 June 2021.

#### REQUIRED:

- 5.1.1 Prepare the statement of comprehensive income for the year ended 30 June 2021.
- 5.1.2 Prepare the Trade and Other Receivables note.
- 5.1.3 Calculate the following financial indicators on 30 June 2021:
- Percentage net profit on turnover
  - Debt-equity ratio
- 5.1.4 The board of directors wants to acquire an additional loan to fund expansions within the company. Comment on why you think this is a good idea or not. Quote TWO financial indicators (with figures) to support your opinion.

#### INFORMATION:

Extract from the Pre-adjustment Trial Balance on 30 June 2021:

	R
Ordinary share capital	7 960 000
Retained income	540 300
Mortgage Loan: AM Bank (10,5%)	2 651 460
Fixed assets	?
Fixed deposit: AM Bank	1 600 000
Debtors Control	174 250
Creditors Control	203 200
Provision for bad debts	11 940
Trading stock	246 500
SARS (income tax)	255 700
Sales	5 590 000
Cost of sales	4 300 000
Rates and taxes	69 800
Bad debts	13 700
Insurance	21 000
Interest on loan	251 460
Rent income	414 000
Salaries and wages	256 760
Depreciation	104 700
Interest on fixed deposit	26 000
Sundry expenses	?

Additional information and adjustments:

The business used a mark-up percentage of 30% on cost. This was maintained for the current financial period.

- A. Goods with a cost price of R30 000 sold on credit was not recorded. A 15% trade discount was allowed on this sale.
- B. A debtor returned goods valued at R2 600. These goods were sent back to the supplier.
- C. A debtor who owed R15 000 was declared bankrupt. His estate paid 60 cents for every Rand owed. This was recorded. The balance of his account must still be written off as irrecoverable.
- D. Provision for bad debts must be adjusted to 5% of outstanding debtors.
- E. An EFT of R4 350, received from a debtor whose account was previously written off as irrecoverable was not recorded.
- F. Rates and taxes for June 2021 is outstanding, R11 800.
- G. Trading stock on hand as per a physical stock count on 30 June 2021 amounted to R251 500. Note that an invoice for R45 000 received from Nene Traders for goods purchased on credit must still be recorded.
- H. Insurance premiums were paid until 31 May 2021. Take into account that the premium was decreased by R250 per month from 1 February 2021.
- I. Rent income included rent for July 2021. Note that rent was increased by 10% from 1 December 2020.
- J. The fixed deposit was increased by R800 000 on 1 January 2021, at the same rate of 6.5% p.a. Provide for outstanding interest. Interest is not capitalized.
- K. Income tax for the year amounted to R270 000.
- L. **FINANCIAL INDICATORS CALCULATED ON 30 JUNE:**

	2021	2020
Net profit percentage on turnover	?	10,9%
Debt-equity ratio	?	0,4:1
% return on total capital employed	23,1%	18,9%

5.2

### AUDIT REPORT

The following audit report appeared in a local newspaper.

#### REQUIRED:

Explain each audit opinion underlined in the extract below.

#### Gauteng Provincial Government Audit Report 20/21

The Gauteng Department of Health received another qualified opinion from the Auditor-General. All other departments received unqualified opinions. The province's agencies also received unqualified opinions, except G Fleet, which received a disclaimer.

ACTIVITY B5

MANENZE LTD.

5.1.1 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

Sales (5 590 000)	
Cost of sales (4 300 000)	
Gross profit	
Other income	
Rent income	
Operating expenses	
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	(251 460)
Profit before income tax	
Income tax	
Net profit for the year	630 000

## 5.1.2 Trade and other receivables

Debtors (174 250	

## 5.1.3 Calculate the following financial indicators on 30 June 2021:

Net profit percentage on turnover

Debt-equity ratio

## 5.1.4 The board of directors wants to acquire an additional loan to fund expansions within the company. Comment on why you think this is a good idea or not. Quote TWO financial indicators (with figures) to support your opinion.

5.2 Explain each audit opinion underlined in the extract below.

Audit report	Description (audit opinion)
Qualified	
Unqualified	
Disclaimer	

**ACTIVITY B6: COMPANY FINANCIAL STATEMENTS****6.1 THEMBALENTSHA LIMITED**

The following information relates to Thembalentsha Limited. The financial year ended on 30 June 2020. The business uses the perpetual (continuous) inventory system.

**REQUIRED:****6.1.1 Refer to Information B.**

Calculate the correct net profit after tax for the year ended 30 June 2020. Indicate a + for increase and a – for decrease.

**6.1.2** Prepare the Retained Income Note on 30 June 2020.**6.1.3** Prepare the Balance Sheet on 30 June 2020. Where notes are NOT required, workings must be shown.**INFORMATION:****A.** List of balances/totals on 30 June 2020:

<b>BALANCE SHEET ACCOUNTS SECTION</b>	
Ordinary share capital	R5 600 000
Retained income (1 July 2019)	2 700 000
Mortgage loan:Zungu Bank	262 200
Fixed assets	8 950 000
Trading stock	203 200
Debtors' control	316 000
Provision for bad debts (1 July 2019)	11 400
Cash and cash equivalents (balancing figure)	?
SARS: Income tax (provisional tax payments)	725 000
Income receivable (accrued)	5 200
Creditors' control	261 000

**B.** Net profit before tax of R2 493 600 was determined BEFORE taking into account the following information:

- (i) Trading stock on 30 June 2020 was valued at R191 900.
- (ii) Provision for bad debts must be adjusted to R9 000.
- (iii) Rent for July 2020, R2 800, had been received in advance.
- (iv) An annual insurance premium of R6 000 was paid for the period 1 April 2020 to 31 March 2021.
- (v) The auditor discovered that the profit on disposal of a vehicle, R6 800, was incorrectly shown as a loss.
- (vi) Income tax amounts to R750 000 for the year.

**C.** Dividends and shares:

- (i) Interim dividends of R600 000 were paid on 31 December 2019.
- (ii) The directors declared a final dividend of 22 cents per share on 30 June 2020 on all shares issued to date. Shares repurchased on 31 May 2020 do not qualify for final dividends.
- (iii) Share capital:

1 July 2019	3 000 000 shares were in issue (R3 900 000)
15 August 2019	1 000 000 new shares were issued at R1,70 each (R1 700 000). This has been recorded.
31 May 2020	20 000 shares were repurchased at R2,50 each from an existing shareholder (R50 000). This has not been recorded.



- D. A debtor's debit balance of R1 000 in the Debtors' Ledger must still be transferred to his account in the Creditors' Ledger.
- E. The mortgage loan from Zungu Bank was obtained on 1 April 2019. This will be repaid over 6 years. A fixed loan repayment (excluding interest) is made at the end of each month. The first monthly loan repayment was made on 30 April 2019. All other loan repayments have been made. Interest is not capitalised and has been correctly recorded.

**ACTIVITY B6**

6.1 THEMBALENTSHA LIMITED

6.1.1

Calculation of the correct net profit after tax	
Incorrect net profit	2 493 600
Correct net profit before tax	
Income tax	
Net profit after tax	

6.1.2 RETAINED INCOME NOTE ON 30 JUNE 2020

Balance at beginning of year	2 700 000
Dividends	
Balance at end of year	

6.1.3 THEMBALENTSHA LIMITED  
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

ASSETS	
NON-CURRENT ASSETS	8 950 000
Fixed assets at carrying value	8 950 000
CURRENT ASSETS	
Inventories	
Trade and other receivables	
Cash and cash equivalents	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
ORDINARY SHAREHOLDERS' EQUITY	
Ordinary share capital	5 572 000
Retained income	
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
Trade and other payables	
TOTAL EQUITY AND LIABILITIES	

**C. STATEMENT OF FINANCIAL POSITION****ACTIVITY C1: FIXED ASSETS AND FINANCIAL STATEMENTS****AVENGERS LTD**

The information relates to the financial year ended 31 March 2020.

**REQUIRED:****1.1 Refer to Information B.**

Calculate the missing amounts denoted by (i) to (iv). (16)

**1.2 Prepare the following notes to the Balance Sheet on 31 March 2020:**

• Ordinary share capital (7)

• Retained income (8)

**1.3 Complete the Balance Sheet (Statement of Financial Position) on 31 March 2020.**

Show workings. (34)

**INFORMATION:****A. Amounts extracted from the books on 31 March:**

<b>BALANCE SHEET ACCOUNTS</b>	<b>2020 R</b>	<b>2019 R</b>
Ordinary share capital	?	4 800 000
Retained income	?	1 181 250
Mortgage loan: Grandeur Bank	2 508 000	3 150 000
Fixed assets at carrying value	11 458 500	
Trading stock (balancing figure)	?	
Net trade debtors	881 000	
Bank (favourable)	454 000	
Creditors' control	1 318 000	
SARS: Income tax (provisional)	972 000	
Income received in advance	32 000	
Shareholders for dividends	889 200	752 000
<b>Nominal accounts (pre-adjustment amounts)</b>		
Commission income	29 920	
Rent expense	364 000	
Directors' fees	2 275 000	

**B. Incomplete Fixed Asset Note:**

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT
<b>Carrying value (1 April 2019)</b>		<b>631 000</b>	
Cost	(i)	1 281 000	
Accumulated depreciation		(650 000)	(200 000)
<b>Movements</b>			
Additions		625 000	
Disposals	(850 000)	0	(iii)
Depreciation		(ii)	(42 450)
<b>Carrying value (31 March 2020)</b>			
Cost	9 650 000		
Accumulated depreciation			(iv)

**Land and buildings:**

- A building, on a separate property, was sold at cost.

**Vehicles:**

- A new vehicle was bought on 1 January 2020.
- Vehicles are depreciated at 20% p.a. on cost.

**Equipment:**

- Old equipment, cost R21 000, was sold on 30 September 2019. The accumulated depreciation was R15 000 on 1 April 2019. Equipment is depreciated at 15% p.a. on the diminishing-balance method.

**C. Share capital:**

DATE	INFORMATION
1 April 2019	800 000 ordinary shares in issue
31 May 2019	400 000 ordinary shares issued
1 October 2019	60 000 ordinary shares repurchased <ul style="list-style-type: none"> <li>• Average share price, R7,00</li> <li>• Repurchase price per share, R10,80</li> </ul>

**D. Dividends:**

- An interim dividend of 124 cents was paid on 30 September 2019.
- Final dividends were declared, R889 200.

**E. Mortgage loan: Grandeur Bank**

- Fixed monthly repayments (including interest) have been made and correctly recorded.
- Interest of R258 000 has not been recorded by the business yet.
- The capital repayment will remain the same over the next financial year.

F. The decrease in the provision for bad debts, R2 500, was not recorded.

- G. Commission income for March 2020, R41 900, was still outstanding.
- H. The company has three directors who earn the same monthly directors' fee. One director has not received his directors' fee for March 2020 yet.
- I. Rent for April 2020 has been paid. The rent was increased by 25% on 1 January 2020.
- J. **Net profit after tax and income tax:**
- The correct net profit after tax **after all adjustments** is R2 534 400.
  - Income tax is calculated at 28% of the net profit.

**ACTIVITY C1 ANSWER SHEET**

1.1

	Workings	Answer
(i)	Cost of land and buildings at beginning of year	
(ii)	Depreciation of vehicles for the year	
(iii)	Disposal of equipment	
(iv)	Accumulated depreciation of equipment	

**1.2 ORDINARY SHARE CAPITAL:  
ISSUED SHARE CAPITAL**

800 000	Shares in issue at beginning	4 800 000

**RETAINED INCOME:**

Balance at beginning	1 181 250
Net profit after tax	2 534 400
Dividends	
Interim	
Final	889 200
Balance at the end	

## 1.3 BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON 31 MARCH 2020

<b>ASSETS</b>	
Non-current assets	11 458 500
Fixed assets at carrying value	11 458 500
<b>Current assets</b>	
Inventories	
Cash and cash equivalents	454 000
<b>TOTAL ASSETS</b>	
<b>EQUITY AND LIABILITIES</b>	
<b>Ordinary shareholders' equity</b>	
<b>Non-current liabilities</b>	
<b>Current liabilities</b>	
Trade and other payables	
<b>TOTAL EQUITY AND LIABILITIES</b>	

**ACTIVITY C 2****2.1 CONCEPTS**

Choose the correct term to complete each of the following statements. Write only the term next to the question number (2.1.1 – 2.1.3).

Competitors, Internal Auditor, Shareholders, External Auditor, Directors
--

2.1.1 The audit report is addressed to the ...

2.1.2 The management duties are given to the ... by owners.

2.1.3 The audit report is issued by the ...

**HARRY LTD**

The following information relates to Harry Ltd. The financial year ended 28 February 2021.

**REQUIRED:**

2.2 Calculate the correct Net Profit after tax for the financial year ended 28 February 2021.

2.3 Prepare the following notes to the Balance Sheet on 28 February 2021:

2.3.1 Trade and other receivables

2.3.2 Retained income

2.4 Prepare the Balance Sheet (Statement of Financial Position) on 28 February 2021. Show all workings



**INFORMATION:**

- A. The following items appeared in the Pre-Adjustment Trial Balance on 28 February 2021:

Ordinary share capital (180 000 shares) 28 February 2021	R 909 000
Retained income (4 December 2020)	130 000
Loan: M.G.M Bank	1 140 000
Fixed asset at carrying value	?
Fixed deposit	700 000
SARS: Income Tax (Provisional tax payment) (dr)	267 000
Creditors control	43 000
Debtors control	44 800
Provision for bad debts	1 700
Trading stock	92 400
Consumable stores on hand (Packing material)	12 000
Bank overdraft	5 000
Petty cash	1 500

- B. On 4 December 2020, the directors approved the repurchase of 20 000 shares at R9.00 each. This transaction was properly recorded.
- C. The net profit before tax was incorrectly calculated as R1 449 200.
- D. The following information **was not** taken into account:
- (i) The director's fees of R625 000 was paid to two directors.  
One of the two directors requested his fees for March 2021 be paid in February 2021, due to financial problems. All two directors receive the same monthly salary.
  - (ii) 80% of the packing material were used during the financial year.

- (iii) A debtor B. Zulu, who owes R1 200, has been declared insolvent his estate paid R480. This amount was received and not recorded. Write off the balance.
- (iv) Rent income of R177 600 was received for 14 months. The rent was increased on 1 September 2020 by 10%.
- (v) An interim dividend of R55 820 was paid on 1 September 2020, but was debited incorrectly to the salaries account.
- (vi) A debtor with a credit balance of R1 000 on 28 February 2021 must be transferred to the Creditors ledger.
- (vii) The loan statement from KZN Bank reflected the following:

Balance at beginning of financial year	R 1 500 000
Repayment during the year (was recorded)	?
Interest capitalised	157 500
Balance at the end of financial year	1 140 000

The capital portion of the repayment of the loan for the next financial year remains the same as the current financial year.

- (viii) Outstanding EFT on the Bank Reconciliation Statement on 28 February 2021 included:

EFT No.	Date of EFT	Name of payee	Reason for EFT	Amount
401	21 Feb 2021	BB Stores	On account	R3 000

- (ix) Income tax amount to R255 000 and is equal to 30% of the net profit before tax.
- (x) A final dividend of 75 cents per share was declared on 28 February 2021.

**ACTIVITY C 2**

**2.1**

2.1.1	
2.1.2	
2.1.3	

**2.2**

<b>Net profit before tax</b>	<b>1 449 200</b>
<b>Operating profit before interest expense</b>	
<b>Interest expense</b>	
<b>Net profit before tax</b>	
<b>Income tax</b>	
<b>Net profit after tax</b>	

**2.3.1**

<b>Trade and other receivables</b>	

2.3.2

Retained income	
Balance at the beginning	
Balance at the end of the year	

## 2.4 Balance Sheet (Statement of Financial Position) on 28 February 2019.

<b>Asset</b>	
<b>Non-current assets</b>	
Tangible assets	
Fixed deposit	
<b>Current assets</b>	
<b>Total assets</b>	
<b>Equity and liabilities</b>	
<b>Shareholders' equity</b>	
<b>Non-current liabilities</b>	
Loan (1 140 000)	
<b>Current liabilities</b>	
Trade and other payables	
<b>Total equity and liabilities</b>	

**ACTIVITY C3: BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AND NOTES**

**MAKIZOLE LIMITED**

You are provided with information for the financial year ended 29 February 2020.

**REQUIRED:**

3.1 Complete the following notes for the financial year ended 29 February 2020.

- (a) Ordinary share capital
- (b) Retained income )

3.2 Complete the Balance Sheet (Statement of Financial Position) on 29 February 2020. Where notes are not required, show ALL workings.

**INFORMATION:**

**A. Extract from the books on 29 February 2020:**

Balance sheet accounts section	R
Ordinary share capital	4 500 000
Retained income	745 000
Fixed assets at carrying value (balancing figure)	?
Trading stock ( see information D)	?
Debtors' control	473 000
Provision for bad debts	18 500
Bank (favourable)	429 500
Water and electricity deposit	2 640
Fixed deposit: Shallow Bank (6% p.a.)	715 000
Creditors' control	727 760
SARS (Income tax)	405 500
<b>Nominal accounts section</b>	
Consumable stores	119 750
Interest on fixed deposit	35 750
Directors' fees	552 000
Dividends on ordinary shares	390 000

**B. Share capital:**

- The company is authorised to sell 1 400 000 ordinary shares.
- 650 000 shares were in issue on 1 March 2019.
- 250 000 new shares were issued on 1 September 2019. The amount of R1 300 000 was received and has been properly recorded.
- 100 000 shares were repurchased on 5 February 2020 from an unsatisfied shareholder for 30 cents above the average share price. This transaction was not recorded. This shareholder does not qualify for final dividends.



**C. Dividends:**

- An interim dividend was paid on 20 August 2019.
- The directors declared a final dividend of 40 cents per share on 29 February 2020.

**D Stock records:**

The first-in-first-out method of valuing stock is used.

	Number of units	Price per unit	Total (R)
<b>Stock balances:</b>			
1 March 2019	1 000	250	250 000
29 February 2020	1 250		?
<b>Purchases:</b>	10 500		3 380 000
April 2019	5 000	R300	1 500 000
July 2019	4 000	R350	1 400 000
January 2020	1 200	R400	480 000
<b>Returns:</b> 50 units from the order received in January 2020.			

**E. The following adjustments have not been taken into account:**

- Consumable stores used during the year amounts to R109 950.
- Interest on fixed deposit still outstanding, R7 150.
- The three directors earn the same monthly fees. The third director was appointed on 1 January 2020 and has not been paid yet.

**F.** 75% of the fixed deposit matures on 31 March 2020.

**G.** After the actual tax was calculated on the corrected net profit for the year, it was found that the provisional tax paid was R35 500 less than the actual tax.

**H.** Income tax is calculated at 30% of net profit.

**I.** After processing all adjustments the debt-equity ratio is 0,1 : 1.

**ACTIVITY C 3 ANSWER SHEET  
MAKIZOLE LIMITED**

3.1

(a)

<b>ORDINARY SHARE CAPITAL</b>		
<b>AUTHORISED: 1 400 000 shares</b>		
<b>ISSUED:</b>		
<b>650 000</b>	<b>Shares in issue on 1 March 2019</b>	
<b>250 000</b>	<b>Shares issued during the year</b>	<b>1 300 000</b>
	<b>Shares in issue at 29 February 2020</b>	

(b)

<b>RETAINED INCOME</b>	
<b>Balance at the beginning of the year</b>	<b>745 000</b>
<b>Dividends on ordinary shares</b>	
<b>Balance at the end of the year</b>	



3.2 MAKIZOLE LIMITED

<b>BALANCE SHEET ON 29 FEBRUARY 2020</b>	
<b>ASSETS</b>	
<b>NON-CURRENT ASSETS</b>	
Fixed assets	
<b>CURRENT ASSETS</b>	
<b>TOTAL ASSETS</b>	
<b>EQUITY AND LIABILITIES</b>	
<b>ORDINARY SHAREHOLDERS' EQUITY</b>	
Ordinary share capital	
Retained income	
<b>NON-CURRENT LIABILITIES</b>	
Loan: Capital Bank	
<b>CURRENT LIABILITIES</b>	
Trade and other payables	
Current portion of loan	100 680
<b>TOTAL EQUITY AND LIABILITIES</b>	

## D. CASH FLOW STATEMENT

### ACTIVITY D1

#### 1.1 FUZE LTD

You are provided with information relating to FUZE Ltd for the financial year ended 30 June 2019.

**Where financial indicators are required to support your answer, name the financial indicator, the actual figure/ratio/percentage and trends.**

#### REQUIRED:

1.1.1 Prepare the following notes to the Statement of financial position:

- Ordinary share capital
- Retained income

1.1.2 Calculate the following amounts for the Cash Flow Statement:

- Change in loan
- Income tax paid

1.1.3 Complete the extract from the Cash Flow Statement for cash and cash equivalents.

#### INFORMATION:

##### A. Share capital and dividends:

- 900 000 shares were in issue on 1 July 2018.
- 75 000 ordinary shares were repurchased from the estate of a deceased shareholder at R10,70 per share on 1 October 2018.
- The company issued 125 000 ordinary shares at R10,80 per share on 1 April 2019.
- The 2019 Cash Flow Statement reflected dividends paid of R434 250.

##### B. Extract from Statement of comprehensive income for the year ended 30 June 2019:

	R
Sales	5 220 000
Cost of sales	3 600 000
Operating profit	1 295 000
Income tax	190 500
Net profit after tax	444 500

## C. Extract from Statement of financial position on 30 June:

	2019	2018
	R	R
Fixed assets (carrying value)	17 420 950	14 683 300
Fixed deposit: Ken Bank	250 000	380 000
<b>Current assets</b>	<b>1 015 000</b>	<b>456 000</b>
Inventories (only trading stock)	564 000	281 500
Trade and other receivables (debtors)	246 000	167 000
Cash and cash equivalents	205 000	7 500
<b>Shareholders' equity</b>	<b>10 050 750</b>	<b>9 540 000</b>
Ordinary share capital	?	9 180 000
Retained income	?	360 000
<b>Loan: Barbie Bank</b>	<b>8 000 000</b>	<b>4 500 000</b>
<b>Current liabilities</b>	<b>635 200</b>	<b>1 479 300</b>
Trade and other payables	420 000	683 400
Shareholders for dividends	209 000	162 000
SARS: Income tax	6 200	23 400
Bank overdraft	-	610 500

## ACTIVITY D1

1.1.1 ORDINARY SHARE CAPITAL:  
AUTHORISED SHARE CAPITAL

1 500 000 ordinary shares
---------------------------

## ISSUED SHARE CAPITAL

900 000	Ordinary shares on 1 July 2018	9 180 000

**RETAINED INCOME:**

<b>Balance on 1 July 2018</b>	<b>360 000</b>
<b>Net profit after tax</b>	<b>444 500</b>
<b>Balance on 30 June 2019</b>	

1.1.2

<b>Calculate the change in loan for the Cash Flow Statement.</b>	
<b>Calculate the income tax paid for the Cash Flow Statement.</b>	
1.1.3	<b>Net change in cash and cash equivalents</b>

**ACTIVITY D2****NANDISA LTD**

The given information relates to NANDISA Ltd for the financial year ended 31 August 2020.

**REQUIRED:**

2.1.1 Prepare the following notes to the Statement of financial position on 31 August 2020:

- Ordinary share capital
- Retained income

2.1.2 Complete the Cash Flow Statement by inserting only the details and figures indicated by a question mark (?).

**INFORMATION:**

**A. Information from the Statement of comprehensive income for the financial year ended 31 August 2020:**

Sales	R8 652 000
Operating expenses	1 760 000
Depreciation	320 000
Interest expense	86 100
Operating profit	697 000
Income tax	187 770
Net profit after income tax	438 130

**B. Information from the Statement of financial position on 31 August:**

	<b>2020</b> (R)	<b>2019</b> (R)
Fixed assets (carrying value)	6 177 000	4 975 000
Fixed deposits	220 000	300 000
Loan: Dolphin Bank	985 000	450 000
Current assets	619 600	663 300
Current liabilities	490 000	614 300
Shareholders' equity	?	?
Ordinary share capital	5 292 000	?
Retained income	?	147 370
Cash and cash equivalents	23 400	2 500
Bank overdraft	-	65 100
Shareholders for dividends	168 000	120 000
SARS: Income tax	11 800 (Cr)	2 400 (Dr)

**C. Share capital and dividends**

- The authorised share capital comprises 1 200 000 ordinary shares.
- 900 000 ordinary shares were in issue on 1 September 2019.
- The company issued 150 000 ordinary shares at R6,30 per share on 1 May 2020.
- 70 000 ordinary shares were repurchased from shareholders on 30 August 2020. A cheque for R437 500 was issued for these shares. These shareholders qualify for final dividends.
- An interim dividend of 12 cents per share was paid on 1 February 2020.
- A final dividend was declared on 30 August 2020.

**D. Fixed assets:** Transactions during the current financial year.

- Old equipment was sold for cash at the carrying value of R324 000.
- Additional equipment and delivery vehicles were purchased.

## ACTIVITY D2

## 2.1 NANDISA LTD

## 2.1.1 ORDINARY SHARE CAPITAL

## AUTHORISED SHARE CAPITAL

1 200 000 ordinary shares
---------------------------

## ISSUED SHARE CAPITAL

900 000	Ordinary shares on 1 September 2019	
	Ordinary shares on 31 August 2020	5 292 000

## RETAINED INCOME

Balance on 1 September 2019	147 370
Net profit after income tax	438 130
Ordinary share dividends	
Balance on 31 August 2020	

## 2.1.2 NANDISA LTD

## CASH FLOW STATEMENT FOR YEAR ENDED 31 AUGUST 2020

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash generated from operations	
Interest paid	
Dividends paid	
Income tax paid	?
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
	?
?	?
Change in investments	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
?	?
?	?
Change in non-current liabilities	
Net change in cash and cash equivalents	?
Cash and cash equivalents – opening balance	?
Cash and cash equivalents – closing balance	?



**ACTIVITY D3****3.1 DUBE LTD**

The information presented relates to the financial year ended 30 April 2021.

**REQUIRED:****3.1.1 Refer to Information C.**

Calculate the missing amounts denoted by **(a)** to **(d)** for equipment in the Fixed Asset Note. Show all workings.

**3.1.2 Calculate the following amounts for the Cash Flow Statement. Show ALL workings.**

- Income tax paid
- Net changes in cash and cash equivalents

**3.1.3 Complete the section on FINANCING ACTIVITIES in the Cash Flow Statement.****INFORMATION:****A. Information extracted from the Statement of comprehensive income on 30 April 2021:**

	<b>R</b>
Operating profit	1 590 000
Interest expense	300 000
Net profit before income tax	1 279 000
Net profit after income tax	895 300

**B. Information extracted from the Statement of financial position on 30 April 2021:**

	2021 (R)	2020 (R)
Fixed deposit	200 000	520 000
Current assets (including cash and cash equivalents)	946 550	887 250
Cash and cash equivalents	125 750	54 750
Shareholders' equity	7 166 850	6 142 800
Ordinary share capital	6 660 000	5 600 000
Retained income	506 850	542 800
Non-current liabilities	1 800 000	2 750 000
Current liabilities	526 750	509 500
Trade and other payables	285 600	232 800
Bank overdraft	0	92 000
Shareholders for dividends	231 250	176 000
SARS: Income tax	9 900	8 700

**C. Fixed assets:**

Fixed assets comprises of land and buildings and equipment.

**Extract from the Fixed Asset Note:**

	EQUIPMENT
Cost (1 May 2020)	3 640 000
Accumulated depreciation (1 May 2020)	(a)
<b>Carrying value (1 May 2020)</b>	2 002 000
<b>Movements:</b>	
Additions	900 000
Disposals	(b)
Depreciation	(c)
<b>Carrying value (30 April 2021)</b>	
Cost (30 April 2021)	(d)
Accumulated depreciation (30 April 2021)	

- Equipment is depreciated at 15% p.a. on cost.
- On 31 August 2020 old equipment costing R750 000 was sold for cash at its carrying value. The accumulated depreciation on this equipment was R491 750 on 1 May 2020.
- On 1 December 2020 new equipment valued at R900 000 was purchased.
- There were no other movements.

**D. Share capital and dividends:**

The business is registered with an authorised share capital of 1 200 000 ordinary shares.

1 May 2020	The issued share capital consisted of 800 000 ordinary shares.
1 February 2021	200 000 ordinary shares were issued at R8,00 per share.
25 April 2021	75 000 ordinary shares were repurchased from a retired shareholder at a total cost of R600 000.
30 April 2021	There were 925 000 shares in issue.

Total dividends for the financial year amounted to R871 250.

**ACTIVITY D3**

3.1.1

<b>(a)</b>	
<b>(b)</b>	
<b>(c)</b>	
<b>(d)</b>	

3.1.2

Calculate the income tax paid.

Calculate the net changes in cash and cash equivalents.

3.1.3

**CASH FLOW FROM FINANCING ACTIVITIES**


**1ACTIVITY D4**

#### 4.1 KHANYILE LTD

You are provided with information relating to KHANYILE Ltd for the financial year ended 31 December 2019.

#### REQUIRED:

4.1.1 Prepare the following notes on 31 December 2019:

- Ordinary share capital (6)
- Retained income (9)

4.1.2 Complete the CASH EFFECTS OF OPERATING ACTIVITIES section of the Cash Flow Statement. Show workings. (9)

4.1.3 Calculate the following amounts that will appear in the Cash Flow Statement. State whether these are inflows or outflows.

- Change in fixed deposit (3)
- Proceeds on disposal of equipment (6)

**INFORMATION:****A. Extract from Statement of comprehensive income (Statement of Comprehensive Income) for the year ended 31 December 2019:**

Sales	R6 090 000
Gross profit	1 890 000
Interest expense (all paid)	100 000
Depreciation	360 400
Net profit before tax	1 150 000
Income tax	322 000

**B. Extract from Statement of financial position (Statement of Financial Position) on 31 December 2019:**

	2019	2018
Ordinary share capital	R4 752 000	R4 200 000
Retained income	637 000	276 000
Fixed assets (carrying value)	5 828 000	4 905 800
Fixed deposits	200 000	500 000
Loan: Sharks Bank	1 000 000	600 000
Cash and cash equivalents	126 400	2 000
Bank overdraft	-	85 600
SARS: Income tax	3 600 (Dr)	9 200 (Cr)
Shareholders for dividends	175 000	270 000

**C. Share capital:**

- The company is registered with an authorised share capital of 800 000 ordinary shares.
- On 1 January 2019, there were 600 000 ordinary shares in issue.
- On 31 August 2019, a further 100 000 shares were issued.
- On 30 December 2019, the company repurchased 40 000 shares from a disgruntled shareholder at R1,30 above the average share price of R7,20. This shareholder qualified for final dividends.

**D. Dividends:**

- Interim dividends were paid on 30 June 2019.
- A final dividend of 25 cents per share was declared on 31 December 2019.

**E. Fixed assets:**

- R1 495 000 was paid for extensions to buildings.
- Old equipment was sold for cash at carrying value.

**ACTIVITY D4**

**4.1.1 ORDINARY SHARE CAPITAL**

**Authorised Share Capital**

800 000 ordinary shares

**Issued Share Capital**

600 000	Ordinary shares on 1 January 2019	4 200 000
100 000		

## RETAINED INCOME

	Balance on 1 January 2019	276 000
4.1.2	<b>CASH EFFECTS OF OPERATING ACTIVITIES</b>	
	Cash generated from operations	1 237 400

## 4.1.3 Amounts in the Cash Flow Statement:

Calculate: Change in fixed deposit

Calculate: Proceeds on disposal of equipment

**ACTIVITY D5: CASH FLOW STATEMENT, ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS**

You are provided with information for the financial year ended 28 February 2021, taken from the books of Mhlathuze Ltd, a listed public company.

- 5.1 **Refer to Information C.**  
Prepare the Asset Disposal Account in respect of equipment sold on 31 August 2020.
- 5.2 **Refer to Information C.**  
Calculate the amounts indicated by (a) to (c).
- 5.3 Calculate the following figures which will appear in the Cash Flow Statement for the year ended 28 February 2021: (Show ALL workings.)
- 5.3.1 Income tax paid
- 5.3.2 Net change in cash and cash equivalents
- 5.4 Prepare the section of the cash effects on financing activities of the Cash Flow Statement for the year ended 28 February 2021.
- 5.5 Calculate the following financial indicators for the financial year ended 28 February 2021: (Round off your calculation to ONE decimal point or the nearest cent, where applicable.)
- 5.5.1 Net asset value per share
- 5.5.2 Return on average shareholders' equity
- 5.5.3 Debt-equity ratio
- 5.6 **Refer to Information F.**
- 5.6.1 The directors are not satisfied with the liquidity position. Quote and explain THREE relevant financial indicators (with figures) to support this statement.
- 5.6.2 The directors decided to increase the loan during the current financial year. Explain why this was a good decision. Quote and explain TWO financial indicators (with figures) in your answer.
- 5.6.3 The directors were pleased with the price that the company paid to buy back the 40 000 shares. Give a suitable reason why the directors felt that way. Quote relevant financial indicators (with figures) to support your answer.

**INFORMATION:**

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

Sales	R2 800 000
Net profit before tax	1 240 000
Income tax	?
Net profit after tax	892 800



## B. Extract from the Statement of financial position on 28 February 2021:

	2021	2020
<b>Fixed assets (carrying value)</b>	?	?
<b>Fixed deposit: FS Bank</b>	<b>1 450 000</b>	<b>1 200 000</b>
<b>Current assets</b>	<b>1 944 280</b>	<b>1 010 000</b>
Inventory	975 700	345 000
Debtors and other receivables	419 000	629 600
SARS (Income tax)	0	17 400
Cash and cash equivalents	549 580	18 000
<b>Shareholders' equity</b>	<b>5 950 800</b>	<b>4 345 000</b>
Share capital	5 402 000	4 200 000
Retained income	548 800	145 000
<b>Mortgage loan: TKO Bank</b>	<b>1 950 000</b>	<b>400 000</b>
<b>Current liabilities</b>	<b>587 200</b>	<b>555 000</b>
Creditors and other payables	437 800	165 000
Accrued expenses	8 700	5 000
SARS (Income tax)	35 700	0
Shareholders for dividends	105 000	275 000
Bank overdraft	0	110 000

## C. Fixed Assets

(i)	Land and Buildings	Vehicles	Equipment
<b>Carrying value at the beginning of the year</b>	2 000 000		<b>(b)</b>
Cost	2 000 000		900 000
Accumulated depreciation	0		(470 000)
<b>Movements:</b>			
Additions	<b>(a)</b>		150 000
Disposals	0		
Depreciation	0		<b>(c)</b>
<b>Carrying value at the end of the year</b>	<b>3 900 000</b>		
Cost	3 900 000		930 000
Accumulated depreciation	0		

**(ii) Equipment**

- An old printer, bought for R120 000, was sold for cash on 31 August 2020 at carrying value. Accumulated depreciation on this printer was R38 400 on 1 March 2020.
- A new printer was bought for R150 000 on 1 September 2020.
- Depreciation on equipment is written off at 20% p.a. according to the diminishing-balance method.

**D. Share Capital**

- Authorised share capital is 3 000 000 ordinary shares.
- On 1 March 2020, 1 200 000 ordinary shares had been issued at R3,50 per share.
- On 1 November 2020, 300 000 ordinary shares were issued at R4,50 each.
- On 28 February 2021, 40 000 shares were repurchased at R0,60 more than the average price per share.
- 

**E. Dividends**

The directors declared a final dividend of 7 cents per share. The shares bought back on 28 February 2021 also qualify for the final dividends.

**F. Financial Indicators on 28 February:**

	2021	2020
Net profit after tax on sales	31,9%	24,5%
Current ratio	3,3 : 1	1,8 : 1
Debtors' collection period	36 days	28 days
Creditors' payment period	45 days	80 days
Acid-test ratio	1,7 : 1	1,2 : 1
Rate of stock turnover	3 times	5 times
Return on shareholders' equity	?	17,5%
Return on total capital employed	24,2%	21,2%
Debt-equity ratio	?	0,09 : 1
Interest rate on loans	10,5%	10,5%
Net asset value per share	?	362 cents
Market value per share	505 cents	480 cents

**ACTIVITY D5**

5.1

**ASSET DISPOSAL**

2020 Aug.	31			2020 Aug.	31		

5.2

No.	Calculation	Amount
(a)		
(b)		
(c)		

5.3.1

**Calculate the income tax paid.**

5.3.2 Calculate the net change in cash and cash equivalents.

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5.4 Cash effects on financing activities


5.5.1 Calculate the net asset value per share.

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5.5.2 Calculate the return on average shareholders' equity.

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5.5.3 Calculate the debt-equity ratio.

5.6.1 The directors are not satisfied with the liquidity position. Quote and explain THREE relevant financial indicators (with figures) to support this statement.

5.6.2 The directors decided to increase the loan during the current financial year. Explain why this was a good decision. Quote and explain TWO financial indicators (with figures) in your answer.

5.6.3 The directors were pleased with the price that the company paid to buy back the 40 000 shares. Give a suitable reason why the directors felt that way. Quote relevant financial indicators (with figures) to support your answer.

## E. GOVERNANCE AND AUDIT REPORT

### ACTIVITY E1

1.1 You are provided with an extract from the audit report of the independent auditors of PINETOWN LTD.

1.1.1 What type of audit report did Pinetown LTD receive? Explain your answer.

1.1.2 To whom is the audit report addressed to and why?

1.1.3 State TWO consequences that this report could have on the company.

1.1.4 What impact would this report have on the company share prices in the JSE market?

1.2 Governance

1.2.1 The directors engage with clients on a regular basis in an effort to negotiate contracts and increase sales and services.

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

1.2.2 The directors cite the donation to the School as a Corporate Social Investment (CSI) initiative. )

- Explain the need for Corporate Social Investment
- What is the meaning of triple bottom line

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

### INFORMATION

#### EXTRACT FROM THE REPORT OF PINETOWN LTD

##### Independent Auditor's Responsibility

We have examined the annual financial statements set out on pages 10 to 24.

##### Basic for qualification of opinion

The donation of computers for R270 000 made to the local school for online learning due to covid-19 constraints, could not be authenticated as no documentation existed for this expense. Subsequently, the fixed asset note is overstated and operating expenses stated in the Statement of Comprehensive Income has been understated as well.

##### Audit Opinion

Due to the significant of the matters described above, we have not been able to obtain sufficient evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statement of Pinetown LTD for the financial year ended 28 February 2021.

**Kubheka & Ngcobo, Chartered Accountants (SA)**



1.1.1	What type of audit report did Pinetown LTD receive? Explain your answer.	
1.1.2	To whom is the audit report addressed to and why?	
1.1.3	State TWO consequences that this report could have on the company.	
1.1.4	What impact would this report have on the company share prices in the JSE market?	

**1.2**

1.2.1	Provide TWO points to explain why there should be company policy that directors must declare to the Board all gifts, donations or favours received from clients.	
1.2.2	<ul style="list-style-type: none"> <li>• Explain the need for Corporate Social Investment</li> </ul>	
	<ul style="list-style-type: none"> <li>• What is the meaning of triple bottom line</li> </ul>	
1.2.3	Provide TWO suggestions on how good corporate governance can be achieved.	

**ACTIVITY E2****Governance and Audit Report****AUDIT REPORT**

You are provided with an extract from the audit report of the independent auditors of Cooper Ltd. Read the report and answer the questions that follow.

**To Shareholders**

*Point 1* We have audited the annual financial statements of Cooper Limited for the year ended 30 June 2019, set out on pages 25 to 51.....

**Basis for Opinion**

*Point 2* An amount that was shown as additions to Land and buildings was for revaluations of the Buildings. No audit evidence was provided.

**Opinion**

*Point 3* In our opinion, the financial statements fairly present the financial position of the company at 30 June 2020, except for the increase in the value of the fixed assets in the Balance Sheet.

**REQUIRED:**

2.1.1 Explain why the auditors specifically address the report to shareholders?

2.1.2 **Refer to point 1.**

Explain why the independent auditors referred to pages 25-51 in the report.

2.1.3 **Refer to point 2.**

The directors claimed that the value of the buildings increased over the years and that the value must be increased and shown as additions in the fixed asset note.

As the independent auditor, what advice would you give? Provide ONE point.

2.1.4 **Refer to point 3.**

- The company received a/an (unqualified/qualified/disclaimer) audit report.
- Give a reason for your answer.

**ACTIVITY E2 ANSWER BOOK**



2.1.1	Explain why the auditors specifically address the report to shareholders?	
2.1.2	Explain why the independent auditors referred to pages 25-51 in the report.	
2.1.3	<p>The directors claimed that the value of the buildings increased over the years and that the value must be increased and shown as additions in the fixed asset note.</p> <p>As the independent auditor, what advice would you give? Provide ONE point.</p>	
2.1.4	<ul style="list-style-type: none"><li>• The company received a/an (unqualified/qualified/disclaimer) audit report.</li></ul>	
	<ul style="list-style-type: none"><li>• Give a reason for your answer.</li></ul>	

## ACTIVITY E3

## Governance and Audit Report

## AUDIT REPORT

You are provided with the extracts of the independent audit reports of Giovanni Ltd.

## REQUIRED:

- 3.1.1 Provide ONE reason why public companies must be externally audited.
- 3.1.2 What type of report did Giovanni Ltd receive from the independent auditors? Explain your answer.
- 3.1.3 **Refer to Information B.**

One of the directors says that “the company must not waste money on things like this.” Provide THREE reasons against his opinion.

## INFORMATION:

## A. Extract from the Independent Auditors' Report:

In our opinion, these financial statements present fairly, in all material respects, the financial position of Giovanni Ltd as at 31 March 2021, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act (Act 71 of 2008) of South Africa.

## B. The following extract appeared in the Directors' report of Giovanni Ltd:

In terms of the outreach programme, Giovanni Ltd has established a sports academy for the local community. The company is providing sporting facilities to schools and is maintaining the sports ground.

## ACTIVITY E3 ANSWER BOOK

3.1.1 Provide ONE reason why public companies must be externally audited.

3.1.2 What type of report did Giovanni Ltd receive from the independent auditors? Explain your answer.

3.1.3 One of the directors says that “the company must not waste money on things like this.” Provide THREE reasons against his opinion.

**ACTIVITY E4****Governance and Audit Report****AUDIT REPORT****PART A**

You are provided with an extract from the audit report of Graafwater Ltd.

**REQUIRED:**

- 4.1.1 Choose the correct word from those in brackets and explain your choice.  
Graafwater Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.
- 4.1.2 Briefly indicate how this audit report would possibly affect the shares of Graafwater Ltd on the Johannesburg Securities Exchange (JSE). Mention TWO points.
- 4.1.3 You have been appointed as the external auditor of Graafwater Ltd. The managing director, Laetitia Witbooi, has asked you to reflect her directors' fees of R5 million under 'Salaries and wages' in the Income Statement. Would you agree to her request? Give a reason for your answer.

**INFORMATION:****Audit Opinion**

Because of the significance of the matter 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 of Graafwater Limited for the year ended 28 February 2021.

Justin Williams, Chartered Accountants (CA)

**PART B****4.2 AUDIT REPORT**

You are provided with an extract from the audit report of the independent auditors of Moody Ltd.

**REQUIRED:**

- 4.2.1 Briefly explain the role of an independent auditor.
- 4.2.2 Explain why the independent auditors mentioned IFRS and the Companies Act in the audit report.

- 4.2.3 Provide TWO possible consequences of this audit report on the market price of the shares.

**INFORMATION:**

**EXTRACT FROM THE AUDIT REPORT OF MOODY LTD**

<p><b>Independent Auditor's Responsibility</b></p> <p>We have audited the annual financial statements of Moody Ltd for the year ended 30 June 2021. These financial statements are the responsibility of the company's directors.</p> <p><b>Basis for ... Opinion</b></p> <p>The fixed assets of R1 564 000 in the Balance Sheet has been overvalued, with no reliable documentation or evidence to justify the revaluation.</p> <p><b>Audit Opinion</b></p> <p>In our opinion, except for the overvaluation of fixed assets, the financial statements fairly represent the financial position of the company on the 30 June 2021.</p> <p><b>Titus &amp; Tlou</b></p> <p><b>Chartered Accountants (SA)</b></p>	<p><b>25 August 2021</b></p>
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**ACTIVITY E4 ANSWER BOOK**

**PART A**

4.1.1 Graafwater Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.

4.1.2 Briefly indicate how this audit report would possibly affect the shares of Graafwater Ltd on the Johannesburg Securities Exchange (JSE). Mention TWO points.

**4.1.3** You have been appointed as the external auditor of Graafwater Ltd. The managing director, Laetitia Witbooi, has asked you to reflect her directors' fees of R5 million under 'Salaries and wages' in the Income Statement. Would you agree to her request? Give a reason for your answer.

**PART B**

**4.2.1** Briefly explain the role of an independent auditor.

**4.2.2** Explain why the independent auditors mentioned IFRS and the Companies Act in the audit report.

**4.2.3** Provide TWO possible consequences of this audit report on the market price of the shares.

## F. ANALYSIS AND INTERPRETATION

### ACTIVITY F1

You are provided with the information relating to Ndaba LTD, The financial year end on 28 February each year.

#### REQUIRED

- 1.1 The directors wanted to expand business operations and therefore chose to increase loans during the current financial year, instead of issuing more shares.

Explain and quote TWO financial indicators (actual figures/ratios/percentages) that are relevant to their choice. Explain whether this was a good choice or not.

- 1.2 The directors are of the opinion that the liquidity has deteriorated  
Explain and quote THREE financial indicators (with figures) to support their opinion.

- 1.3 The Dlams family owns 740 000 shares in this company. Explain the effect that the repurchase of shares on 31 December 2020 had on their control of the company.  
Give calculation(s) to support your answer.

#### INFORMATION:

##### A. Shares

DATE	DETAILS
1 March 2020	1 200 000 shares in issue
31 March 2020	300 000 new shares issued at R8 each
31 December 2020	50 000 shares were repurchased at R9.50 each. The average issue price of all shares issued to date was R6 per share
28 February 2021	1 450 000 shares were in issue

##### B. Some Financial indicators:

Financial indicators	2021	2020
Debt/equity ratio	0.06:1	0,1:1
Net Asset Value Per Share (NAV)	610 cents	617 cents
Current ratio	1,6:1	2,2:1
Acid test ratio	0,9:1	1.6:1
Stock turnover	6,8 times p.a	5,1 times p.a
Debtors collection period	41 days	35 days
Return on total capital employed	18,8%	16,4%
Interest on loan	12,5%	12,5%

**ACTIVITY F1 : NDABA LTD**

1.1

The directors wanted to expand business operations and therefore chose to increase loans during the current financial year, instead of issuing more shares. Explain whether this was a good choice or not. Quote **TWO** financial indicators (actual figures/ratios/percentages) that are relevant to their choice.

1.2.

The directors are of the opinion that the liquidity has deteriorated. Explain and quote **THREE** financial indicators (with figures) to support their opinion.

The Dlams family owns 740 000 shares in this company. Explain the effect that the repurchase of shares on 31 December 2020 had on their control of the company. Give calculation(s) to support your answer.

**ACTIVITY F2**

The information below relates to Nkomonde LTD, the financial year end on 30 April 2021

- 2.1 Comment on the overall liquidity position of the company. Quote THREE relevant financial indicators (with figures).
- 2.2 The directors decided to change the dividend pay-out policy in 2020.
  - Provide calculations that indicate the policy change.
  - Explain the effect of this change of policy on the company. State TWO points
- 2.3 One of the directors feels that the company should pay back the loan as soon as possible.
  - Explain your views about this. Quote and explain TWO relevant financial indicators with figures.
- 2.4 Explain why the shareholders are satisfied with:
  - The market price of the shares on the JSE
  - The price at which the 75 000 shares were repurchased on 25 April 2021. In EACH case, quote figures/financial indicators.
- 2.5 Directors feels that shareholders should be satisfied with their returns; do you agree? Quote financial indicator(s)/ figures to support your answer

**ACTIVITY F2 - NKOMONDE LTD**

2.1

Comment on the overall liquidity position of the company. Quote THREE relevant financial indicators (with figures).

2.2

The directors decided to change the dividend pay-out policy in 2020. Provide calculations that indicate the policy change. Explain the effect of this change of policy on the company. State TWO points



2.3.

One of the directors feels that the company should pay back the loan as soon as possible. Explain your views about this. Quote and explain TWO relevant financial indicators with figures.

2.4

Explain why the shareholders are satisfied with:

- The market price of the shares on the JSE
- The price at which the 75 000 shares were repurchased on 25 April 2021. In EACH case, quote figures/financial indicators.

2.5

Directors feels that shareholders should be satisfied with their returns; do you agree? Quote financial indicator(s)/ figures to support your answer

**ACTIVITY F3**

The following information appeared in the accounting records of NTOKOZO Ltd for the financial year ended 28 February.

- 3.1 Calculate N. Mlambo's percentage shareholding before and after the issue of additional shares on 30 June 2020
- 3.2 Explain why Mlambo would be disappointed that he was not able to purchase any additional shares when these shares were issued.
- 3.3 Mlambo convinced the CEO to repurchase 160 000 shares from a close friend who was not interested in being a shareholder of the company on 1 March 2020.
  - 3.3.1 Explain the effect of this re-purchase on Mlambo's % shareholding.
  - 3.3.2 Explain why the other shareholders would be concerned about this transaction, once they received inside information about the share buyback.
- 3.4 Show the change on the dividend pay-out rate by doing a calculation.
- 3.5 Provide TWO possible reasons why the directors decided to change the trend (policy) of previous year.

**INFORMATION****A. Details of shares**

	<b>2021</b>	<b>2020</b>
Number of shares	850 000	650 000
Ordinary share capital	R6 070 000	R4 550 000

- B. N. Mlambo, a senior director on Board owns 350 000 shares on 1 March 2020. Additional shares were issued on 30 June 2020. Haw was on holiday and missed the opportunity to purchase any shares

**C. Financial indicators calculated**

Financial Indicators	<b>2021</b>	<b>2020</b>
Earnings per share (EPS)	98 cents	112 cents
Dividends per share (DPS)	84 cents	58 cents
Interest on fixed deposit	6,5%	6%

**ACTIVITY F3 - NTOKOZO LTD**

3.1

Directors feels that shareholders should be satisfied with their returns; do you agree? Quote financial indicator(s)/ figures to support your answer

--

3.2

Explain why Mlambo would be disappointed that he was not able to purchase any additional shares when these shares were issued.

--

3.3

Mlambo convinced the CEO to repurchase 160 000 shares from a close friend who was not interested in being a shareholder of the company on 1 March 2020.

3.3.1 Explain the effect of this re-purchase on Mlambo's % shareholding.

3.3.2 Explain why the other shareholders would be concerned about this transaction, once they received inside information about the share buyback.

**Effect of repurchase:**

**Concern:**

--

1.4.

Show the change on the dividend pay-out rate by doing a calculation.

--

1.5

Provide TWO possible reasons why the directors decided to change the trend (policy) of previous year.

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#### Activity F4

#### CHONCO LTD AND ZWANE LTD

You have R100 000 to invest in listed company. You choose to focus on two companies in the same industry

**NB: When answering the questions always compare the information, quote relevant financial indicators of both companies (percentages, ratios and or amounts)**

#### REQUIRED:

- 4.1 Comment on the value of the shares for two companies on the JSE. Explain how this will influence your choice of company
- 4.2 Compare and comment on the dividend pay-out policies of the two companies
- 4.3 Comment on the degree financial risk and gearing. Explain how this will influence your choice of company. Quote TWO financial indicators to support your answer
- 4.4 Which company is handling working capital effectively? Quote THREE financial indicators to support your answer

#### INFORMATION

	CHONCO LTD	ZWANE LTD
Current ratio	2:1	4,3:1
Acid test ratio	1,5:1	2,9:1
Creditors payment period	60 days	60 days
Stock turnover rate	6 times	4 times
Debtors collection period	30 days	42 days

Debt/equity ratio	0,3:1	1,2:1
Return on shareholder's equity	21%	16%
Return on total capital employed	18%	10%
Earnings per share	900 cents	450 cents
Dividends per share	450 cents	450 cents
Net asset value per share	310 cents	300 cents
Market price	400 cents	250 cents
Interest on loan	11,5%	11,5%

**Activity F4 - CHONCO LTD AND ZWANE LTD**

Comment on the value of the shares for two companies on the JSE. Explain how this will influence your choice of company

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

Comment on the degree financial risk and gearing. Explain how this will influence your choice of company. Quote TWO financial indicators to support your answer.

Which company is handling working capital effectively? Quote THREE financial indicators to support your answer

#### ACTIVITY F5

##### THABO LTD AND ANDILE LTD

Your friend Ntokozo want to buy shares in a company which sells clothing. He asks for your advice and presents you with the information relating to both companies.

Both companies have same number of shares in issue,

Required

- 5.1.1 Ntokozo is of the opinion that Andile LTD is handling its working capital more effectively and is in a better liquidity position than Thabo LTD. Explain and quote THREE financial indicators to support his opinion
- 5.1.2 The existing shareholders of the two companies hold different opinions of the current market value of their shares
- Explain why the existing shareholders of Thabo LTD are happy with this. Quote TWO financial indicators/figures to support your answer
  - Explain why the existing shareholders of Andile LTD are very disappointed with the current market value. Quote TWO financial indicators/ figures to support your answer

**INFORMATION**

	<b>THABO LTD</b>	<b>ANDILE LTD</b>
Market price at JSE	800 cent	900 cents
Net asset Value (NAV)	720 cents	1 010 cents
Earnings per share (EPS)	410 cents	178 cents
Dividends per share (DPS)	240 cents	185 cents
% return on shareholder's equity	21.3%	11.2 %
Current ratio	6,0 :1	1,5:1
Acid test ratio	3:1	1:1
Stock-holding period	180 days	32 days
Average debtors collection period	60 days	28 days

**ACTIVITY F5 - THABO LTD AND ANDILE LTD**

5.1.1

Ntokozi is of the opinion that Andile LTD is handling its working capital more effectively and is in a better liquidity position than Thabo LTD. Explain and quote THREE financial indicators to support his opinion

5.1.2

The existing shareholders of the two companies hold different opinions of the current market value of their shares

- Explain why the existing shareholders of Thabo LTD are happy with this. Quote TWO financial indicators/figures to support your answer
- Explain why the existing shareholders of Andile LTD are very disappointed with the current market value. Quote TWO financial indicators/ figures to support your answer

**5.2 LINDELO LTD AND SYANDA LTD**

Sbonga (your friend), want to buy shares in one of the companies which sells TV Games. He asked you for advice and presented you with the financial indicators for both companies. Both companies have the same number of shares in issue

**REQUIRED**

- 5.2.1 Compare and comment on the dividends pay-out policy of the two companies
- 5.2.2 Comment on the degree of risk and gearing. Explain how this will influence your choice of company.

**INFORMATION**

	<b>LINDELO LTD</b>	<b>SYANDA LTD</b>
Current ratio	5:1	1.7:1
Debt/equity ratio	0,3:1	2:1
% return on capital employed (ROTCE)	14%	10%
% return on shareholders' equity (ROSHE)	19%	9%
Earnings per share (EPS)	600 cents	1000 cents
Dividends per share(DPS)	450 cents	500 cents
Net asset value per share (NAV)	350 cents	800 cents
Interest on loan	12%	12%
Interest on fixed deposit	8,5%	8,5%

5.2.1

Compare and comment on the dividends pay-out policy of the two companies

5.2.2

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



**ACTIVITY F6****6.1 VUTHA LTD**

You are provided with information relating to Vutha Ltd for the financial year ended 30 September 2020.

**REQUIRED**

- 6.1.1 The shareholders of Vutha Ltd are concerned about the liquidity position of the company. Explain and quote THREE financial indicators to support their opinion.
- 6.1.2 From 2019 to 2020 the directors made a deliberate decision to change the policy on the distribution of profit in the form of dividends. Explain this change. Quote figures/calculations to support your answer.
- 6.1.3 Comment on whether the shareholders should be satisfied with the market price of their shares. Quote TWO relevant financial indicators (actual figures/ratios/percentages) and their trend. Give an additional comment to support your answer.
- 6.1.4 Comment on the degree of risk. Quote ONE financial indicator.

**INFORMATION****FINANCIAL INDICATORS**

	<b>28 Feb. 2021</b>	<b>29 Feb. 2020</b>
Current ratio	1,4 : 1	1,5 : 1
Acid test ratio	0,4 : 1	0,6 : 1
Stock turnover rate	4 times	6 times
Debtors Collection Period	56 days	30 days
Earnings per share (EPS)	60 cents	56 cents
Dividends per share (DPS)	33 cents	56 cents
Market price per share	385 cents	310 cents
Net asset value per share	364,7 cent	315,6 cents
Debt/Equity ratio	0,8 : 1	0,3 : 1

**ACTIVITY F6 - VUTHA LTD**

6.1.1

The shareholders of Vutha Ltd are concerned about the liquidity position of the company. Explain and quote THREE financial indicators to support their opinion.

6.1.2

From 2019 to 2020 the directors made a deliberate decision to change the policy on the distribution of profit in the form of dividends. Explain this change. Quote figures/calculations to support your answer.

--

6.1.3

Comment on whether the shareholders should be satisfied with the market price of their shares.  
Quote TWO relevant financial indicators (actual figures/ratios/percentages) and their trend. Give an additional comment to support your answer.

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6.1.4

Comment on the degree of risk. Quote ONE financial indicator.

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## 6.2 MCEBENI LTD

You are provided with the information of Mcebeni Limited. The company is registered with an authorized share capital of 2 000 000 shares. The financial year ended on 29 February 2020.

### REQUIRED

- 6.2.1 The CEO, Nqobile Ndaba, currently owns 40% of the issued shares. The board of directors decided to issue 50% of the unissued shares in July 2020.

Calculate the minimum number of shares that Nqobile must buy in July 2020 to gain control of the company.

- 6.2.2 Nqobile wants to purchase the additional shares, at R12 per share without advertising the shares to the public. Give TWO reasons why you would not approve of this arrangement.
- 6.2.3 New shares were issued at the beginning of the financial year at R10,00 each. Explain why the existing shareholders would or would not be happy with this issue price. Quote TWO financial indicators (with figures) to explain their opinion.

### ACTIVITY F6 - MCEBENI LTD

- 6.2.1 The CEO, Nqobile Ndaba, currently owns 40% of the issued shares. The board of directors decided to issue 50% of the unissued shares in July 2020.

Calculate the minimum number of shares that Nqobile must buy in July 2020 to gain control of the company.

- 6.2.2 Nqobile wants to purchase the additional shares, at R12 per share without advertising the shares to the public. Give TWO reasons why you would not approve of this arrangement.

New shares were issued at the beginning of the financial year at R10,00 each. Explain why the existing shareholders would or would not be happy with this issue price. Quote TWO financial indicators (with figures) to explain their opinion.



**CURRICULUM GRADE 10 -12 DIRECTORATE**

**NCS (CAPS) SUPPORT DOCUMENT**

**GRADE 12**

**ACCOUNTING**

**PAPER 1**

**TEACHERS GUIDE**

**2021**

**TANGIBLE / FIXED ASSETS: SOLUTIONS**  
**FIXED ASSET VALUATION FOR REPORTING**

**ACTIVITY A 1 (P1)**

**1.1.1 ASSET DISPOSAL**

2020 June	30	Vehicles	1 200 000		2020 June	30	Accumulated depreciation (540 000+90 000)	630 000	
		Profit on sale	30 000				Creditors	600 0000	
			<b>1 230 000</b>					<b>1 230 000</b>	

**1.1.2 TANGIBLE ASSETS NOTE**

	Land and buildings	Vehicles
Cost at the beginning of the year	5 500 250	1 200 000
Accumulated depreciation		(540 000)
<b>Carrying amount at the beginning</b>	<b>5 500 250</b>	<b>660 000</b>
<b>Movements</b>		
Additions at cost		<b>1 500 000</b>
Disposals at carrying amount	<b>2 500 250</b>	<b>(570 000)</b>
Depreciation for the year		<b>(202 500)</b>
Cost at the end of the year	3 000 000	<b>1 500 000</b>
Accumulated depreciation		<b>(630 000)</b>
<b>Carrying amount at the end of the year</b>	<b>3 000 000</b>	<b>870 000</b>

**ACTIVITY A 2 (P1)**

**SOLUTIONS:**

WORKINGS	ANSWER
I. 450 000 - 396 750	53 250
II. 510 000 X 15% X 4/12 = 25 500 450 000 X 15% X 12/12 = 67 500 Therefore: dep. is above CV 53 250 53 250 - 1 = 53 249	25 500 + 53 249 = 78 749
III. CALCULATE: Carrying value equipment sold 75 000 - 36 600 - 4 480 OR 75 000 - (36 600 + 4 480)	33 920

**ACTIVITY A3 (P1)**

**3.1 Calculate the missing amounts (indicated by a, b and c) in the Fixed/Tangible Asset Note for the year ended 28 February 2021.**

NO.	WORKINGS	AMOUNT
<b>A</b>	6 740 000 – 2 689 000	4 051 000
<b>B</b>	140 000 – 33 600	106 400
<b>C</b>	5 600 + 11 000 + 20% x (3 110 000 – 1 342 000) <b>OR</b> 5 600 + 20% x [(1 768 000 x 10/12) + (2 098 000 x 4/12)] 294 667 + 69 933	370 200

**ACTIVITY A4: (P1)**

**A. Calculate the carrying value of Land and Buildings on 1 March 2020.**

$$2\,550\,000 - 325\,000 = 2\,225\,000$$

**B. Calculate the total depreciation on vehicles on 28 February 2021.**

New:

$$422\,550 \times 20/100 \times 6/12 = 42\,255$$

Old:

$$350\,000 \times 20/100 = 70\,000 \text{ but can only write off R34\,999}$$

$$(350\,000 - 315\,000 - 1 = 34\,999)$$

$$42\,255 + 34\,999 = 77\,254$$

**C. Calculate the carrying value of Vehicles on 28 February 2021.**

$$35\,000 + 422\,550 - 77\,254 = 380\,296$$

OR

$$772\,550 - (315\,000 + 77\,254) = 380\,296$$

**D. Calculate the carrying value of Equipment sold on 31 December 2020.**

$$120\,000 - (12\,000 + 10\,800 + 8\,100) = 89\,100$$

OR

$$120\,000 - 12\,000 - 10\,800 - 8\,100 = 89\,100$$

**E. Calculate the total carrying value of fixed assets on 28 February 2021.**

$$2\,550\,000 + 380\,296 + 50\,994 = 2\,981\,290$$

## ACTIVITY B1

1.1

## BONGA LIMITED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

<b>Sales</b> (8 412 000 – 112 000 ✓ – 1 600 ✓) <span style="float: right;">One part correct</span>	8 298 400	<input checked="" type="checkbox"/>
<b>Cost of sales</b> (4 595 000 – 900 ✓)	(4 594 100)	<input checked="" type="checkbox"/>
<b>Gross profit</b> <span style="float: right;">6</span>	3 704 300	<input checked="" type="checkbox"/>
<b>Other income</b> <span style="float: right;">Check operation</span>	166 380	<input checked="" type="checkbox"/>
<b>Commission income</b>	<b>64 140</b>	
Rent income (87 720 ✓ + 6 000 ✓ + 8 520 ✓ ✓)	102 240	<input checked="" type="checkbox"/>
<b>Gross income</b> <span style="float: right;">7</span>	3 870 680	<input checked="" type="checkbox"/>
<b>Operating expenses</b> <span style="float: right;">Check operation</span>	(2 775 880)	<input checked="" type="checkbox"/>
<b>Sundry expenses</b>	<b>257 400</b>	
<b>Bank charges</b>	<b>41 905</b>	
<b>Audit fees</b>	<b>75 600</b>	
Packing material (15 400 ✓ – 2 400 ✓)	13 000	✓
Repairs and maintenance (107 500 ✓ + 6 000 ✓)	113 500	✓
Director's fees (736 000 ✓ + 32 000 ✓ ✓) <span style="float: right;">Check operation</span>	768 000	<input checked="" type="checkbox"/>
Salaries and wages (1 020 000 ✓ + 18 500 ✓ ✓) <span style="float: right;">Check operation</span>	1 038 500	<input checked="" type="checkbox"/>
Employer's contributions (156 000 ✓ + 5 050 ✓)	161 050	<input checked="" type="checkbox"/>
Bad debts (17 600 ✓ + 2 475 ✓ ✓) <span style="float: right;">Check operation</span>	20 075	<input checked="" type="checkbox"/>
Provision for bad debts adjustments	850	✓ ✓
Trading stock deficit (376 000 ✓ + 900 ✓ – 369 100 ✓)	7 800	<input checked="" type="checkbox"/>
Depreciation <span style="float: right;">30</span>	278 200	✓ ✓
<b>Operating profit</b> <span style="float: right;">Check operation</span>	1 094 800	<input checked="" type="checkbox"/>
<b>Interest income</b>	<b>3 000</b>	
<b>Profit before interest expense</b> <span style="float: right;">Check operation</span>	1 097 800	<input checked="" type="checkbox"/>
<b>Interest expense</b> (540 800 + 100 800 – 601 600) <span style="float: right;">One part correct</span>	(40 000)	<input checked="" type="checkbox"/> ✓ ✓
<b>Net profit before tax</b>	1 057 800	<input checked="" type="checkbox"/>
<b>Income tax</b>	<b>(300 300)</b>	
<b>Net profit after tax</b> <span style="float: right;">Check operation 7</span>	757 500	<input checked="" type="checkbox"/>



**1.2 TRADE AND OTHER RECEIVABLES**

Debtors' control (125 000 ✓ – 1 600 ✓ – 2 025 ✓ – 2 475 ✓) (4 500 2 marks) <span style="float: right;">One part correct</span>	118 900	<input checked="" type="checkbox"/>
Provision for bad debts	(8 000)	<input checked="" type="checkbox"/>
	110 900	
Accrued income/Receivable <span style="float: right;">see Rent income</span>	8 520	<input checked="" type="checkbox"/>
SARS – Income tax	14 700	<input checked="" type="checkbox"/>
	134 120	<input checked="" type="checkbox"/>

10
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**ACTIVITY B2**

<b>2.1</b>	<b>Choose the correct word/s from those given below to complete the sentences:</b>
2.1.1	working capital ☐
2.1.2	qualified ☐
2.1.3	finance cost ☐
2.1.4	cash and cash equivalents ☐

4
4

**2.2**

**Asset Disposal Account**

2020 DEC	31	Vehicles ✓	GJ	800 000 ✓	2020 DEC	31	Accumulated Depreciation: Vehicles ✓ (750 000 ✓ + 50 000 ✓)	GJ	800 000 ✓
		Profit on sale of asset ✓	GJ	70 000 ☑			Bank ✓	GJ	70 000 ✓
		<span style="background-color: yellow;">operation</span>							
				870 000					870 000

10
10

2.3 **MOMBAD LIMITED**  
**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2021**

	Sales(3 600 000✓ - 12 800✓ -7 200✓ )	<input checked="" type="checkbox"/>	3 580 000
	Cost of sales ( 2 400 000✓ - 4 800✓✓ )	<input checked="" type="checkbox"/>	( 2 395 200)
<b>9</b>	Gross profit	<input checked="" type="checkbox"/>	1 184 800
	Other operating income	<input checked="" type="checkbox"/>	445 840
	Bad debts recovered	<input checked="" type="checkbox"/>	600
	Rent income ( 93 800✓ - 7 700✓✓ )	<input checked="" type="checkbox"/>	86 100
	Provision for bad debts adjustment	<input checked="" type="checkbox"/>	340
<b>9</b>	Profit on sale of asset	<input checked="" type="checkbox"/>	70 000
	Gross operating income		1 630 640
	Operating Expense	<input checked="" type="checkbox"/>	( 1 135 640)
	<b>Audit fees</b>		<b>21 000</b>
	<b>Insurance</b>		<b>48 000</b>
	<b>Directors fees</b>		<b>420 000</b>
	Salaries and wages(270 000✓ + 10 000✓ )	<input checked="" type="checkbox"/>	280 000
	Employer contribution (72 000✓ + 1 050✓ + 1 200✓ )	<input checked="" type="checkbox"/>	74 250
	Consumable stores ( 12 000✓ - 3 000✓ )	<input checked="" type="checkbox"/>	9 000
	Sundry expenses	<input checked="" type="checkbox"/>	13 090
	Loss due to theft (42000 ✓ x 20/80✓ )	<input checked="" type="checkbox"/>	10 500
	Trading stock deficit (197 000✓ + 4 800✓ - 52 500✓✓ - 144 000✓ )	<input checked="" type="checkbox"/>	5 300
<b>26</b>	Depreciation ( 50 000 <input checked="" type="checkbox"/> + 165 000✓✓ + 39 500✓ )	<input checked="" type="checkbox"/>	254 500
	Operating profit	<input checked="" type="checkbox"/>	495 000
	Interest Income	<input checked="" type="checkbox"/>	12 000
	Operating profit before interest expense	<input checked="" type="checkbox"/>	507 000
	Interest expense	<input checked="" type="checkbox"/>	(7 000)
	Net profit before tax	<input checked="" type="checkbox"/>	500 000
	Income tax	<input checked="" type="checkbox"/>	(150 000)
<b>7</b>	Net profit after tax	<input checked="" type="checkbox"/>	350 000

51

51

2.4.1  
**ORDINARY SHARE CAPITAL**

<b>AUTHORISED:</b>	
Number of authorized ordinary shares: 3 000 000 shares	
<b>ISSUED:</b>	
2 000 000 ordinary shares in issue at the beginning of financial year	5 225 000
250 000✓ additional shares issued during the financial year at an issue price of R2,50 per share	625 000✓
(10 000)✓ shares bought back during the financial year at R2,60✓ <input checked="" type="checkbox"/>	(26 000) <input checked="" type="checkbox"/>
2 240 000✓ Ordinary shares in issue at the end of the financial year	5 824 000 <input checked="" type="checkbox"/>

2.4.2

**RETAINED INCOME**

Balance at the beginning of the financial year	770 000
Funds used for shares buy-back (10 000✓ x 0,50✓ <input checked="" type="checkbox"/> )	(5 000) <input checked="" type="checkbox"/>
Net profit after tax for the year	350 000✓
Dividends	(325 000) <input checked="" type="checkbox"/>
Interim/paid	(100 000)✓
Final/recommended (2250 000✓✓ x 0,1✓)	(225 000) <input checked="" type="checkbox"/>
Balance at the end of the financial year	790 000 <input checked="" type="checkbox"/>

<b>TOTALMARKS</b>
85
85

**ACTIVITY B3**

3.1

<b>Write only the letter (A–E) next to the question number.</b>	
3.1.1	E ✓
3.1.2	C ✓
3.1.3	D ✓
3.1.4	B ✓

## 3.2.1 KHWEZI LTD

## INCOME STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2021

	15 370 000		15 335 000	☑*
	<b>Sales</b>	(10 600 000 ✓ x 145% ✓ - 35 000 ✓)		
	<b>Cost of sales</b>		(10 600 000)	☐
6	<b>Gross profit</b>	subtracted	4 735 000	☑
	<b>Other income</b>	operation	255 000	☑*
	Rent income	(264 420 ✓ - 21 060 ✓✓)	243 360	☑*
	Bad debts recovered		8 140	☐
	Provision for bad debt adjustment	(21 340 - 17 840)	3 500	☐
9	<b>Gross operating income</b>	GP + OI	4 990 000	☑
	<b>Operating expenses</b>	GOI - OP	(3 084 600)	☑
	Audit fees		150 000	☐
	Trading <u>stock</u> deficit	(1 142 000 - 1 130 000)	12 000	☐
	Salaries and wages	(1 054 260 ✓ + 23 400 ✓☐ + 2 340 ✓)	1 080 000	☑*
	Directors' fees	(932 200 ✓ + 15 800 ✓☐)	948 000	☑*
	Packing material	(55 400 ✓ - 7 900 ✓)	47 500	☐
	Depreciation	(189 500 ☐ + 3 500 ☐)	193 000	☑*
	Bad debts	(14 000 ✓ + 19 000 ✓)	33 000	☐
	<b>Advertising</b>		<b>345 500</b>	
	<b>Sundry expenses</b>	Balancing figure	275 600	☑
25	<b>Operating profit</b>	PBIE - int inc	1 905 400	☑
	Interest income	620 000 x 8%	49 600	☐
	<b>Profit before interest expense</b>	NPBT + int exp	1 955 000	☑
	Interest expense	1 671 000 + 384 000 - 1 850 000	(205 000)	☐☑
	<b>Net profit before tax</b>	(525 000 x 100 ÷ 30) or NPAT + tax	1 750 000	☑☑^
	<b>Income tax</b>		(525 000)	☐
10	<b>Net profit after tax</b>	(525 000 x 70 ÷ 30) or NPBT - tax	1 225 000	☑☑^

### 3.2.2 Ordinary Share Capital Note

<b>Authorised Share Capital</b>		
1 200 000 ordinary shares		
<b>Issued Shares:</b>		
1 200 000 x 75% 900 000 □	8 925 000 (on trial balance) – 1 140 000 (shares issued) <b>Shares in issue on 1 March 2020</b>	7 785 000 ✓
120 000	<b>Shares issued during the year at R9,50 each</b>	1 140 000 □
(170 000)	8 925 000 / 1 020 000 or (900 000 + 120 000) <b>Shares repurchased: ASP: R8,75 □</b>	(1 487 500) ✓*
850 000 ✓*	<b>Shares in issue on 29 February 2021</b>	7 437 500 ✓*

10
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### 3.2.3 Retained Income

<b>Balance at beginning of financial year</b>	555 500 □
Net profit after tax <span style="float: right;">see 3.2.1 below</span>	1 225 000 ✓
Buy back of shares (170 000 ✓ x 0,95c ✓) <span style="float: right;">R9,70 – ASP end of year ignore brackets</span>	(161 500) ✓*
<b>Ordinary share dividends</b> <span style="float: right;">ignore brackets</span>	(1 101 000) ✓*
• Interim (900 000 ✓ x 60c) or 0,6 or 60%	540 000 ✓*
• Final (1 020 000 ✓ x 55c) or 0,55 or 55%	561 000 ✓*
<b>Balance at end of financial year</b>	518 000 ✓*

11
----

<b>TOTAL MARKS</b>
75

## ACTIVITY B4

### 4.1 CONCEPTS

4.1.1	Gives the business financial performance/results for the year/calculates the net profit of the business ✓
4.1.2	To protect the investing public Any acceptable answer ✓
4.1.3	Relates income and expenditure to the relevant financial year ✓
4.1.4	Receipts, relate to all amounts received during the year while income relates to amount relevant to the year or year under review ✓✓

5
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4.2 MVC LTD

4.2.1 INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2021

Sales (3 640 000 – 20 000✓ + 32 000✓✓ – 65 000✓) if one part correct		3 587 000✓	
Cost of sales (2 730 000 + 30 000✓ – 48 750✓) if one part correct		(2 711 250)✓	
<b>Gross profit</b>	check operation	875 750✓	
<b>Other income</b>	if one part correct	162 420✓	
Rent income (168 000 – 12 000✓)		156 000✓	
Bad debts recovered (3 400 + 1 800✓)		5 200✓	
Provision for bad debts adjustment (21 985 – 20 765)		1 220✓✓	
<b>Gross operating income</b>	check operation	1 038 170✓	
<b>Operating expenses</b>	check operation	(589 220) ✓	
Insurance (53 800 + 4 600✓✓✓)	check operation	58 400✓	
Salaries and wages (260 000 - 18 000✓)		242 000✓	
Packing material (52 000 + 3 000 – 15 000)		40 000✓✓	
Bad debts (14 000 + 4 800✓ – 1 800✓) if one part correct		17 000✓	
Pension fund contributions (36 200–2 880✓) check operation		33 320✓	
Depreciation (100 000 + 50 000)		150 000✓	
Trading stock deficit		48 500✓	
<b>Operating income</b>		448950	
Interest income		<b>108 000</b>	
<b>Profit before interest expense</b>	check operation	556 950✓	
Interest expense (90 000✓ + 144 000✓✓) if one part correct		(234 000) ✓	
<b>Profit before income tax</b>	check operation	322 950✓	
Income tax if 30% of net profit before tax		(96 885) ✓	
<b>Net profit for the year</b>	check operation	226 065✓	<b>42</b>

4.2.2 TRADE AND OTHER RECEIVABLES

Net trade debtors	check operation	394 535✓	
Debtors control (458 500 + 32 000✓ – 65 000✓ – 12 000✓ + 1 800✓) operation if one part correct		415 300✓	
Provision for bad debts (21 985 – 1 220) see 4.2.1 operation if one part correct		(20 765) ✓	
SARS (Income tax) (100 000 – 96 885) see 4.2.1 operation if one part correct		3 115✓	
Prepaid expenses (18 000 + 2 880) check operation		397 650✓	<b>11</b>

4.2.3 CALCULATE THE FOLLOWING ON 28 FEBRUARY 2021

<p><b>The rate at which depreciation on equipment is written off</b>  <math>950\,000 - 450\,000 = 500\,000</math> (2 marks)  <math>500\,000 \times \frac{x}{100} = 50\,000 \checkmark / 100 = 10\% \checkmark</math> operation if one part correct</p>	<table border="1"> <tr> <td style="text-align: center;">5</td> </tr> </table>	5										
5												
<p><b>The value of trading stock on hand as per physical stock count</b>  <math>740\,900 - 30\,000 + 48\,750 - 3\,000 - 48\,500</math>  <math>= 708\,150 \checkmark</math> Operation if one part correct</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2">Trading Stock</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">740 900</td> <td style="text-align: right;">30 000</td> </tr> <tr> <td style="text-align: right;">48 750</td> <td style="text-align: right;">3 000</td> </tr> <tr> <td></td> <td style="text-align: right;">48 500</td> </tr> <tr> <td></td> <td style="text-align: right;">708 150</td> </tr> </tbody> </table>	Trading Stock		740 900	30 000	48 750	3 000		48 500		708 150	<table border="1"> <tr> <td style="text-align: center;">6</td> </tr> </table>	6
Trading Stock												
740 900	30 000											
48 750	3 000											
	48 500											
	708 150											
6												

4.2.4	<p><b>Refer to Information C and comment on the profitability and/or operating efficiency of MVC Ltd. Quote TWO relevant financial indicators with figures to support your opinion.</b></p> <p>Financial indicator ✓✓      Trend ✓✓      Figure ✓✓</p> <p>It is on the decline and is not looking good because:</p> <ul style="list-style-type: none"><li>• The gross profit percentage on turnover, declined from 26,5% in 2020 to 24.4% in 2021.</li><li>• The percentage net profit on turnover also decreased from 11% in 2020 to 9% in 2021.</li><li>• The percentage operating expenses increased from 14,8% in 2020 to 16,4% in 2021, signifying an increase in operating expenses.</li></ul>
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6

<b>TOTAL MARKS</b>
75

ACTIVITY B5

MANENZE LTD.

5.1.1 INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2021

$39\ 000 - 1\ \text{mark} - 5\ 850 - 2\ \text{marks}$ <b>Sales</b> (5 590 000 + 33 150✓✓✓ - 2 600✓) <b>one part correct</b>	5 620 550✓
<b>Cost of sales</b> (4 300 000 + 30 000✓ - 2 000✓) <b>one part correct</b>	(4 328 000) ✓
<b>Gross profit</b> (9) <b>operation</b>	1 292 550✓
<b>Other income</b> <b>operation</b>	387 350✓
<b>Rent income</b> (414 000✓ - 33 000✓✓) <b>one part correct</b>	381 000✓
Bad debts recovered	4 350✓
Provision for bad debts adjustment (11 940✓ - 9 940✓✓✓) or check 1.1.2 <b>one part correct</b>	2 000✓
(12) <b>operation</b>	1 679 900✓
<b>Operating expenses</b> <b>operation</b>	(606 440)✓
Rates and taxes (69 800✓ + 11 800✓)	81 600✓
Bad debts (13 700 ✓ + 6 000✓✓) <b>one part correct</b>	19 700✓
Insurance (21 000✓ + 1 750✓✓) <b>one part correct</b>	22 750✓
Salaries and wages	256 760✓
Depreciation	104 700✓
Trading stock deficit <b>one part correct</b> (246 500✓ - 30 000✓ + 45 000✓ - 251 500✓)	10 000✓
Sundry expenses <b>balancing figure</b>	110 930✓
<b>Operating profit</b>	1 073 460✓
Interest income (26 000✓ + 52 000✓) <b>one part correct</b>	78 000✓
<b>Profit before interest expense</b> (25)	1 151 460✓
Interest on loan	(251 460)
<b>Profit before income tax</b>	900 000✓
<b>Income tax</b> (2)	(270 000)✓
<b>Net profit for the year</b>	<b>630 000</b>

48
----

Foreign items -1 (max -2)

Trading stock surplus - Award (246 500 + 45 000 - 271 500 = 20 000 four marks



5.1.2 Trade and other receivables

Net trade debtors	188 860 ✓ operation
<b>Debtors</b> <span style="background-color: yellow;">see 5.1</span> (174 250 + 33 150 ✓ - 2 600 ✓ - 6 000 ✓ ✓)	198 800 ✓ one part correct
Provision for bad debts (11 940 - 2 000 ✓) <span style="background-color: yellow;">see 5.1</span> Or 5% of the debtors control balance above for two method marks	(9 940) ✓
Accrued income <span style="background-color: yellow;">(Interest)</span>	52 000 ✓
	240 860 ✓

10

5.1.3 Calculate the following financial indicators on 30 June 2021:

**Net profit percentage on turnover**

$$\frac{630\,000 \checkmark}{5\,620\,550 \checkmark} \times 100 = 11.2\% \checkmark \text{ one part correct}$$

See 5.1

3

**Debt-equity ratio**

$$2\,651\,460 \checkmark : \frac{8\,500\,300}{(7\,960\,000 \checkmark + 540\,300 \checkmark)}$$

$$2\,651\,460 : 8\,500\,300$$

$$0,3:1 \checkmark \text{ one part correct}$$

4

5.1.4 The board of directors wants to acquire an additional loan to fund expansions within the company. Comment on why you think this is a good idea or not. Quote TWO financial indicators (with figures) to support your opinion.

see 5.2.2

Debt-equity ratio improved from 0,4:1 in 2020 to 0,3:1 in 2021 signifying low risk. ✓ ✓

Percentage return on total capital employed increased from 18.9% in 2020 to 23.1% in 2021 and much more than the interest on the loan of 10.5%. This is positive gearing. ✓ ✓

4

5.2 Explain each audit opinion underlined in the extract below.

Audit report	Description (audit opinion) ✓✓ ✓✓ ✓✓ Any reasonable explanation
Qualified	Financial statements fairly present except for something that cannot be properly accounted for (can be relied upon except for a few items that need attention)
Unqualified	Financial statements fairly present in all material respects (positive – can be relied upon)
Disclaimer	Unable to express an opinion (negative – cannot be relied upon)

6

TOTAL MARKS
75

ACTIVITY B6

6.1 THEMBALENTSHA LIMITED

6.1.1

<b>Calculation of the correct net profit after tax</b>	
Accept brackets instead of – If no sign, assume + Positive/negative effect & figure must be correct Foreign entries -1 (max -2)	
<b>Incorrect net profit</b>	<b>2 493 600</b>
Trading stock deficit	-11 300 ✓✓
Provision for bad debts adjustment	+2 400 ✓✓
Rent income	-2 800 ✓✓
Insurance	+4 500 ✓✓
Correction of error: Asset disposal	6 800 1 mark ✓✓
<b>Correct net profit before tax</b>	2 500 000 ✓
	Operation, one part correct, reasonable, must be approx. R2m
<b>Income tax</b>	-750 000 ✓
	Accept if no sign
<b>Net profit after tax</b>	1 750 000 ✓
	Check operation, NP – tax

13

6.1.2 RETAINED-INCOME NOTE ON 30 JUNE 2020

<b>Balance at beginning of year</b>	<b>2 700 000</b>
Net profit after tax	1 750 000 ✓
Repurchase of shares	(22 000) ✓
(20 000 □ x R1,10 □) OR (50 000 – 28 000)	
	One part correct, must be negative / brackets If 22 000 without brackets or –ve sign, give 3 marks
<b>Dividends</b>	(1 475 600) ✓
	One part correct, must be negative / brackets
Interim	600 000 ✓
Final (3 980 000 □ x 0,22 □)	875 600 ✓
	One part correct
<b>Balance at end of year</b>	<b>2 952 400</b> ✓
	Operation, one part correct

11

6.1.3 THEMBALENTSHA LIMITED  
BALANCE SHEET AS AT 30 JUNE 2020

ASSETS		
<b>NON-CURRENT ASSETS</b>		<b>8 950 000</b>
Fixed assets at carrying value		8 950 000
<b>CURRENT ASSETS</b>		<input checked="" type="checkbox"/> 1 000 000
Inventories	Must be in final column as 191 900 to get 2 marks	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 191 900
<b>Trade and other receivables</b> 316 000 ✓ – 1 000 [ ] + 5 200 ✓ – 9 000 ✓ + 4 500 [ ] See 6.1.1 315 000 / 321 200 2 marks [-11 400 +2 400] 1 mark only 320 200 3 marks		<input checked="" type="checkbox"/> 315 700 Operation, one part correct
Cash and cash equivalents	Balancing figure	<input checked="" type="checkbox"/> 492 400
<b>TOTAL ASSETS</b>		<input checked="" type="checkbox"/> 9 950 000
		11
EQUITY AND LIABILITIES		
<b>ORDINARY SHAREHOLDERS' EQUITY</b>		<input checked="" type="checkbox"/> 8 524 400
Ordinary share capital		5 572 000
Retained income		<input checked="" type="checkbox"/> 2 952 400
		2
<b>NON-CURRENT LIABILITIES</b>		207 000
Mortgage loan: Custom Bank 262 200 ✓ – 55 200 ✓ ✓ [ ] Any figure if subtracted 4 600 x 12 2 marks		<input checked="" type="checkbox"/> 207 000 one part correct
		5
<b>CURRENT LIABILITIES</b>		<input checked="" type="checkbox"/> 1 218 600
<b>Trade and other payable</b> see 6.1.1 Operation, one part correct (261 000 ✓ – 1 000 ✓ + 2 800 [ ]) 260 000 2 marks		<input checked="" type="checkbox"/> 262 800
Current portion of loan		* <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 55 200
SARS: Income tax (750 000 ✓ – 725 000 [ ]) Operation, one part correct		* <input checked="" type="checkbox"/> 25 000
Shareholders for dividends		* <input checked="" type="checkbox"/> 875 600
<b>TOTAL EQUITY AND LIABILITIES</b>		<input checked="" type="checkbox"/> 9 950 000
*Items under CL may be combined		12

ACTIVITY C1

	WORKINGS	ANSWER
(i)	<b>Cost of land and buildings at beginning of year</b> 9 650 000 + 850 000	R10 500 000 ✓✓
(ii)	<b>Depreciation of vehicles for the year</b> <b>New:</b> 625 000 x 20% x 3/12 = 31 250 ✓☑ <b>Old:</b> 1 281 000 x 20% = 256 200 ✓☑	R287 450 ☑
(iii)	<b>Disposal of equipment</b>  $21\ 000\checkmark - \left( \begin{array}{l} (6\ 000 \times 15\% \times 6/12) \\ 15\ 450 \end{array} + 450\checkmark \right)$	R5 550☑
(iv)	<b>Accumulated depreciation of equipment</b> 200 000 ✓ + 42 450 ✓ - 15 450 ☑ see (iii above)	R227 000☑

16
16

1.2 ORDINARY SHARE CAPITAL

ISSUED SHARE CAPITAL

800 000	Shares in issue at beginning	4 800 000
400 000✓	Shares issued during year	3 600 000☑
(60 000)	Shares re-purchased (ASP: R7.00)	(420 000)✓✓
1 140 000☑	Shares in issue at end Closing number of shares x R7.00	7 980 000✓☑

7
7

RETAINED INCOME

<b>Balance at beginning</b>	<b>1 181 250</b>
<b>Net profit after tax</b>	<b>2 534 400</b>
Shares re-purchased (60 000 ✓ x R3, 80)	(228 000)☑
<b>Dividends</b>	(2 377 200)☑
<b>Interim</b> (1 200 000✓ x 124 cents✓)	1 488 000☑
<b>Final</b>	<b>889 200</b>
<b>Balance at end</b>	<b>1 110 450☑</b>

8
8

## 1.3 BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) ON 31 MARCH 2020

<b>ASSETS</b>	
Non-current assets	<b>11 458 500</b>
Fixed assets at carrying value	<b>11 458 500</b>
<b>Current assets</b> TA – 11 458 500	2 715 750☑
Inventories balancing figure	1 303 850☑
Trade and other receivables (881 000✓ + 2 500✓✓ + 41 900✓ + 32 500✓✓)	957 900☑
Cash and cash equivalents	<b>454 000</b>
<b>TOTAL ASSETS</b>	<b>14 174 250☑☑</b>
<b>EQUITY AND LIABILITIES</b>	
<b>Ordinary shareholders' equity</b>	9 090 450☑
Ordinary share capital	7 980 000☑
	1 110 450☑
<b>Non-current liabilities</b>	2 382 000
Mortgage loan (2 508 000✓ + 258 000✓ – 384 000✓✓✓)	2 382 000☑
<b>Current liabilities</b>	
<b>Trade and other payables</b> (1 318 000✓ + 32 000✓ + 65 000✓✓)	1 415 000☑
Shareholders for dividends	889 200✓✓
SARS: Income tax (985 600✓✓ – 975 000✓)	13 600☑
Current portion of loan	384 000☑
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>14 174 250☑</b>

**ACTIVITY C2**

**2.1**

2.1.1	Shareholders ✓	
2.1.2	Directors ✓	
2.1.3	External Auditor ✓ do not accept auditor	

3

**2.2**

<b>Net profit before tax</b>	<b>1 449 200</b>	
Directors fees (625 000✓ – 25 000✓)	(600 000)	✓
Packing material (12 000✓ x 80/20✓)	(48 000)	✓
Bad debts (1 200✓ - 480✓)	(720)	✓
Rent income (177 600✓ – 26 400✓)	151 200	✓
Salaries	55 820	✓✓
<b>Operating profit before interest expense</b>	<b>1 007 500</b>	✓
<b>Interest expense</b>	<b>(157 500)</b>	✓
<b>Net profit before tax</b>	<b>850 000</b>	✓
	Operation one part correct	
<b>Income tax</b>	<b>(255 000)</b>	✓
<b>Net profit after tax</b>	<b>595 000</b>	✓
	Operation	

19

**2.3.1**

<b>Trade and other receivables</b>		
Trade debtors (44 800✓ – 1 200✓ + 1 000✓)	44 600	✓
Provision for bad debts	(1 700)	✓
Net trade debtors	42 900	✓
Prepaid expense (Directors fees) See 2.2	25 000	✓
SARS Income tax (267 000✓ – 255 000✓)	12 000	✓
	79 900	✓
	Operation one part correct	

11

**2.3.2**

<b>Retained income</b>		
Balance at the beginning (130 000 ✓ + 79 000✓)	209 000	✓
Buy-back of shares (20 000✓ X 3.95✓)	(79 000)	✓
Net profit after tax	595 000	✓
Dividends	(190 820)	✓
Paid / interim	55 820	✓
Final/ recommended (180 000✓ X 0.75✓)	135 000	✓
Balance at the end of the year	534 180	✓
	Operation	

13

<b>Asset</b>			
<b>Non-current assets</b>	TA – CA	2 607 300	3
Tangible assets	Balancing figure	1 907 300	
Fixed deposit		700 000	
<b>Current assets</b>	Operation	185 800	7
Inventory (92 400 ✓ + 12 000 ✓)		104 400	
Trade and other receivables	See 2.3.1	79 900	
Cash and cash equivalent		1 500	
<b>Total assets</b>	(Total equity + liabilities = Total asset)	2 793 100	
<b>Equity and liabilities</b>			
<b>Shareholders' equity</b>	operation	1 443 180	3
Ordinary share capital		909 000	
Retained income	see 2.3.2	534 180	
<b>Non-current liabilities</b>		780 000	3
Loan (1 140 000 – 360 000 ✓ ✓)		780 000	
<b>Current liabilities</b>	operation	569 920	13
Trade and other payables (43 000 ✓ + 26 400 ✓ + 1 000 ✓ + 3 000 ✓)		73 400	
Current portion of loan	see NCL	360 000	
Shareholders for dividends	see 2.3.2	135 000	
Bank overdraft (5 000 ✓ – 480 ✓ – 3 000 ✓) or (- 5000 + 480 + 3 000)		1 520	
<b>Total equity and liabilities</b>	operation	2 793 100	29

TOTAL MARKS

75

75



ACTIVITY C3

3.1

(a) **ORDINARY SHARE CAPITAL**  
AUTHORISED: 1 400 000 shares

**ISSUED**

650 000	Shares in issue on 1 March 2019	3 200 000 ✓✓
250 000	Shares issued during year	1 300 000
(100 000) ✓	Shares re-purchased at R5 ✓✓	(500 000) ✓
800 000 ✓	<b>Shares in issue at 29 February 2020</b>	4 000 000 ✓

8
8

(b) **RETAINED INCOME**

<b>Balance at beginning</b>	<b>745 000</b>
Net profit after tax (405 500 ✓ + 35 500 ✓) x 70/30 ✓	1 029 000 ✓
Shares re-purchased (100 000 x 30c)	(30 000) ✓✓
<b>Dividends on ordinary shares</b>	(710 000) ✓
<b>Interim</b> (1 200 000 ✓ x 124 cents ✓)	390 000 ✓
<b>Final</b> (800 000 ✓ x 40c ✓)	320 000 ✓
<b>Balance at end of the year</b>	1 034 000 ✓

8
8

<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>	TA – CA	5 362 500	3
Tangible assets	Balancing figure	5 183 750	
Financial assets: Fixed deposit (715 000 – 536 250 ✓✓)		178 750	
<b>CURRENT ASSETS</b>	Operation	1 505 340	7
Inventory (460 000 ✓✓ + 35 000 ✓✓ + 9 800 ✓)		504 800	
Trade and other receivables (473 000 ✓ – 18 500 ✓ + 7 150 ✓)		461 650	
Cash and cash equivalents (536 250 + 2 640)		538 890	
<b>Total assets</b>	(Total equity + liabilities = Total asset)	6 867 840	
<b>Equity and liabilities</b>			
<b>Shareholders' equity</b>	operation	5 034 000	3
Ordinary share capital		4 000 000 ✓	
Retained income		1 034 000	
<b>Non-current liabilities</b>		503 400	3
Loan	OSE x 0.1	503 400	
<b>Current liabilities</b>	operation	569 920	13
Trade and other payables (727 760 ✓ + 46 000 ✓✓)		773 760	
Current portion of loan		<b>100 680</b>	
Shareholders for dividends		320 000	
SARS: Income Tax		35 500 ✓	
Bank overdraft (530 000 <input checked="" type="checkbox"/> – 429 500 ✓)		100 500	35
<b>Total equity and liabilities</b>	operation	2 793 100	35

TOTAL MARKS

55

55

ACTIVITY D1

1.1.1 ORDINARY SHARE CAPITAL:

**AUTHORISED SHARE CAPITAL**

<b>1 500 000 ordinary shares</b>
----------------------------------

**ISSUED SHARE CAPITAL**

<b>900 000</b>	<b>Ordinary shares on 1 July 2018</b>	<b>9 180 000</b>
✓(75 000)	Shares re-purchased (Average: R10,20)	✓✓ (765 000)
✓125 000	Shares issued (R10,80 per share)	✓1 350 000
✓950 000	Ordinary shares on 30 June 2019	9 765 000 ✓

<b>7</b>

**RETAINED INCOME:**

<b>Balance on 1 July 2018</b>	<b>360 000</b>
<b>Net profit after tax</b>	<b>444 500</b>
Funds used for repurchase of shares 75 000 ✓ x 0,50 ✓	(37 500) ✓
Ordinary share dividends	(481 250) ✓
Interim (434 250✓ – 162 000✓)	272 250 ✓
Final	209 000 ✓
<b>Balance on 30 June 2019</b>	<b>285 750 ✓</b>

<b>9</b>

1.1.2

**Calculate the change in loan for the Cash Flow Statement.**

$$8\,000\,000 - 4\,500\,000 = 3\,500\,000 \checkmark\checkmark$$

2

**Calculate the income tax paid for the Cash Flow Statement.**

$$23\,400 \checkmark + 190\,500 \checkmark - 6\,200 \checkmark = 207\,700 \checkmark$$

**OR**

$$-23\,400 - 190\,500 + 6\,200 = -207\,700$$

**OR** T-account with figures on correct sides

Debit	Credit
207 700	23 400
6 200	190 500

4

1.1.3

<b>Net change in cash and cash equivalents</b>	✓ 808 000
Cash and cash equivalents (beginning of year)	✓✓ (603 000)
Cash and cash equivalents (end of year)	✓ 205 000

4

ACTIVITY D2

2.1 NANDISA LTD

2.1.1 ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL

1 200 000 ordinary shares
---------------------------

ISSUED SHARE CAPITAL

900 000	Ordinary shares on 1 September 2019	4 725 000	<input checked="" type="checkbox"/>
150 000	Issued on 1 May 2019 at R6,30 each	945 000	<input checked="" type="checkbox"/>
(70 000)	Re-purchased 30 August 2020 (ASP: R5,40 <input checked="" type="checkbox"/>	(378 000)	<input checked="" type="checkbox"/>
980 000 <input checked="" type="checkbox"/>	Ordinary shares on 31 August 2020	5 292 000	

7
---

RETAINED INCOME

Balance on 1 September 2019	147 370
Net profit after income tax	438 130
Shares repurchased (437 500 <input checked="" type="checkbox"/> – 378 000 <input checked="" type="checkbox"/> <span style="color: red;">(70 000 <input checked="" type="checkbox"/> x 0,85 <input checked="" type="checkbox"/></span> )	(59 500) <input checked="" type="checkbox"/>
Ordinary share dividends	(276 000) <input checked="" type="checkbox"/>
• Interim dividends (900 000 <input checked="" type="checkbox"/> x 0,12)	108 000 <input checked="" type="checkbox"/>
• Final dividends	168 000 <input checked="" type="checkbox"/>
Balance on 31 August 2020	250 000 <input checked="" type="checkbox"/>

9
---

## 2.1.2 NANDISA LTD

## CASH FLOW STATEMENT FOR YEAR ENDED 31 AUGUST 2020

	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
	Cash generated from operations		
	Interest paid		
	Dividends paid		
4	Income tax paid (- 2 400 ✓ + 187 770 ✓ - 11 800 ✓)	? (173 570)	☑*
	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
	Purchases of fixed assets (6 177 000 ✓ + 320 000 ✓ + 324 000 ✓ - 4 975 000 ✓)	? (1 846 000)	☑*
	? ✓ Proceeds from the sale of fixed assets	? 324 000	✓
7	<b>Change in investments</b>		
	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
	? ✓ Proceeds from issue of share capital <b>see 5.1.1</b>	? 945 000	☑
	? ✓ Repurchase of shares	? (437 500)	✓
4	<b>Change in non-current liabilities</b>		
	<b>Net change in cash and cash equivalents</b>	? 86 000	☑*
	<b>Cash and cash equivalents – opening balance</b> (2 500 – 65 100)	? (62 600)	✓✓
4	<b>Cash and cash equivalents – closing balance</b>	? 23 400	✓

ACTIVITY D3

3.1.1

<b>(a)</b>	$3\,640\,000 - 2\,002\,000 = 1\,638\,000 \checkmark\checkmark$
<b>(b)</b>	$750\,000 \checkmark - (491\,750 \checkmark + 37\,500 \checkmark\checkmark) = 220\,750 \checkmark$ $529\,250 \text{ (three marks)}$
<b>(c)</b>	(Sold): $37\,500 \checkmark$ refer (b) (New): $900\,000 \times 15\% \times \frac{5}{12} = 56\,250 \checkmark\checkmark$ $(3\,640\,000 - 750\,000)$ (Old): $2\,890\,000 \checkmark\checkmark \times 15\% = 433\,500 \checkmark$ $\text{Total: } 527\,250 \checkmark$
<b>(d)</b>	$3\,640\,000 + 900\,000 - 750\,000 = 3\,790\,000 \checkmark\checkmark$

16

3.1.2

<b>Calculate the income tax paid.</b>
$383\,700 \checkmark\checkmark$
$8\,700 \checkmark + (1\,279\,000 - 895\,300) - 9\,900 \checkmark = 382\,500 \checkmark$

5

<b>Calculate the net changes in cash and cash equivalents.</b>
$125\,750 \checkmark - 54\,750 \checkmark + 92\,000 \checkmark = 163\,000 \checkmark$

4

3.1.3

<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	$50\,000 \checkmark$
Proceeds from shares issued ( $200\,000 \times R8,00$ )	$1\,600\,000 \checkmark\checkmark$
Funds used to repurchase shares	$(600\,000) \checkmark\checkmark$
Decrease in loan ( $2\,750\,000 - 1\,800\,000$ )	$(950\,000) \checkmark\checkmark$

7

**ACTIVITY D4**

**KHANYILE LTD**

**4.1.1 ORDINARY SHARE CAPITAL**

**Authorised Share Capital**

**800 000 ordinary shares**

**Issued Share Capital**

<b>600 000</b>	<b>Ordinary shares on 1 January 2019</b>	<b>4 200 000</b>	
<b>100 000</b>	Issued on 31 August 2019	840 000	<input checked="" type="checkbox"/> *
(40 000) ✓	Re-purchased (ASP: R7,20)	(288 000)	✓✓
<b>660 000 ✓</b>	<b>Ordinary shares on 31 December 2019</b>	<b>4 752 000 ✓</b>	<b>6</b>

**RETAINED INCOME**

<b>Balance on 1 January 2019</b>	<b>276 000</b>	
Net profit after income tax (1 150 000 – 322 000)	828 000	✓✓
Shares repurchased (40 000 ✓ x R1,30 ✓)	(52 000)	✓
Ordinary share dividends	(415 000)	<input checked="" type="checkbox"/>
• Interim dividends	240 000	<input checked="" type="checkbox"/>
• Final dividends	175 000	✓
<b>Balance on 31 December 2019</b>	<b>637 000 ✓</b>	<b>9</b>

**4.1.2 CASH EFFECTS OF OPERATING ACTIVITIES**

<b>CASH EFFECTS OF OPERATING ACTIVITIES</b>	<b>292 600</b>	<input checked="" type="checkbox"/> *
<b>Cash generated from operations</b>	<b>1 237 400</b>	
Interest paid	(100 000)	✓
Income tax paid (9 200 ✓ + 322 000 ✓ + 3 600 ✓)	(334 800)	<input checked="" type="checkbox"/> *
270 000 + (415 000 - 175 000) both one mark	(510 000)	<input checked="" type="checkbox"/> *
<b>Dividends paid (270 000 ✓ + 240 000 <input checked="" type="checkbox"/>)</b>		<b>9</b>



4.1.3 Amounts in the Cash Flow Statement:

<p><b>Calculate: Change in fixed deposit</b></p> <p>300 000 ✓✓ Inflow ✓</p>	<div style="border: 1px solid black; width: 30px; height: 30px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 30px; height: 30px; margin: 0 auto; text-align: center;">3</div>
<p><b>Calculate: Proceeds on disposal of equipment</b></p> <p>5 828 000 ✓ + 360 400 ✓ – 1 495 000 ✓ – 4 905 800 ✓ = 212 400 ☑ Inflow ✓</p> <p><b>OR:</b></p> <p>– 5 828 000 – 360 400 + 1 495 000 + 4 905 800 = –212 400 signs reversed</p>	<div style="border: 1px solid black; width: 30px; height: 30px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 30px; height: 30px; margin: 0 auto; text-align: center;">6</div>

ACTIVITY D5

5.1

ASSET DISPOSAL

2020 Aug.	31	Equipment ✓	120 000 ✓	2020 Aug.	31	Accumulated depreciation on equipment ✓ (38 400✓ + 8 160✓✓)	46 560☑	
						Bank ✓	73 440 ☑	
			120 000				120 000	

9

5.2

No.	Calculation	Amount
(a)	3 900 000 - 2 000 000	1 900 000✓✓
(b)	900 000 – 470 000	430 000✓✓
(c)	<p>Sold: 8 160 ✓ <b>see 5.1</b></p> <p>New: 20% x 150 000✓ x 6/12✓ = 15 000✓</p> <p>Old: (780 000✓ – 431 600✓) x 20% =</p> <p>69 680✓ <b>348 400</b> (2 marks)</p>	92 840☑

12

5.3.1 Calculate the income tax paid.

1 240 000 – 892 800  
 - 347 200 ✓✓ + 17 400 ✓ + 35 700 ✓ = - 294 100 ✓  
 or  
 + 347 200 - 17 400 - 35 700 = + 294 100

5

5.3.2 Calculate the net change in cash and cash equivalents.

549 580 ✓ + 92 000 ✓✓ = 641 580 ✓  
 (110 000 – 18 000)

4

5.4 Cash effects on financing activities

Proceeds from shares issued (300 000 x R4,50)	1 350 000 ✓
Buy back of shares (40 000 ✓ x R4,30 ✓✓)	(172 000) ✓
Mortgage loan	1 550 000 ✓
	<b>2 728 000 ✓</b>

Dividends paid

- 275 000 ✓ - 360 000 ✓✓ = - 635 000 ✓ (One part Correct)  
 + 275 000 ✓ + 360 000 ✓✓ = + 635 000 ✓ use one line only

7

5.5.1 Calculate the net asset value per share.

$\frac{5\,950\,800 \checkmark}{1\,500\,000 \checkmark} \times \frac{100}{1} = 396,7 \text{ cents } \checkmark$   
**OR**  
 $\frac{5\,950\,800}{1\,460\,000} \times \frac{100}{1} = 407,6 \text{ cents}$

3

5.5.2 Calculate the return on average shareholders' equity.

$$\frac{892\,800 \checkmark}{\frac{1}{2} \checkmark (5\,950\,800 \checkmark + 4\,345\,000) \checkmark} \times \frac{100}{1} = 17,3\% \checkmark$$

(5 147 900 – 3 marks)

5

5.5.3 Calculate the debt-equity ratio.

$$1\,950\,000 \checkmark : 5\,950\,800 \checkmark$$

0,3: 1

3

5.6.1 The directors are not satisfied with the liquidity position. Quote and explain THREE relevant financial indicators (with figures) to support this statement.

Ratio

Trend and figures

- Current ratio increased from 1,8 : 1 in 2020 to 3,3 : 1 in 2021
- Acid test ratio increased from 1,2 : 1 in 2020 to 1,6 : 1 in 2021
- The stock turnover rate declined from 5 times in 2020 to 3 times in 2021

Do not accept Debtors' Collection and Creditors' Payment Period

6

5.6.2 The directors decided to increase the loan during the current financial year. Explain why this was a good decision. Quote and explain TWO financial indicators (with figures) in your answer.

Financial indicator   Figures and trend   Comment beyond trend

**ROTCE**

- This has increased from 21,2% to 24,2%
- Positively geared as ROTCE is higher than interest rate (10,5%)

**DEBT-EQUITY RATIO**

- This has increased from 0,09 : 1 to 0,33 : 1 see 5.5.3
- Low financial risk/not making much use of loans. Relies more on own funds

8

5.6.3 The directors were pleased with the price that the company paid to buy back the 40 000 shares. Give a suitable reason why the directors felt that way. Quote relevant financial indicators (with figures) to support your answer.

Reason ✓✓ Relevant figure ✓

Paid R4,30 per share to buy back shares. This is lower than the market value per share (2020 – 480 cents; 2021 – 505 cents).

(not a big difference to the NAV – 362 cents and 408 cents)

Average issue price was R3,70.

Purchased at a lower price than the issue price of the additional shares. (R4,50)

3

TOTAL MARKS
65

**ACTIVITY E1 SOLUTIONS**

<b>1.1.1</b>	What type of audit report did Pinetown LTD receive? Explain your answer.	<b>3</b>
<i>DISCLAIMER OF OPINION</i>		
<b>Explanation</b>		
There's insufficient evidence to express an opinion as the donation of R270 000 computers could not be verified Fixed asset register is overstated/ operating expenses understated.		
<b>1.1.2</b>	To whom is the audit report addressed to and why?	<b>2</b>
Shareholders, because they are the owners or investors of the company.		
<b>1.1.3</b>	State TWO consequences that this report could have on the company.	<b>4</b>
<ul style="list-style-type: none"> <li>• It can create a bad publicity, which can lead to a poor image.</li> <li>• Investors/potential investors will lose confident in further investing in the company</li> <li>• Directors will not be voted again in the next financial year.</li> </ul>		
<b>1.1.4</b>	What impact would this report have on the company share prices in the JSE market?	<b>2</b>
<ul style="list-style-type: none"> <li>• Potential investors will not want to buy shares in the company at its current prices</li> <li>• Existing shareholders would want to sell back their shares to the company which can also lead to decrease in share prices.</li> </ul>		

**1.2**

<b>1.2.1</b>	Provide TWO points to explain why there should be company policy that directors must declare to the Board all gifts, donations or favours received from clients.	<b>4</b>
<ul style="list-style-type: none"> <li>• This will promote accountability and responsibility for actions of directors and minimise fraudulent activities.</li> <li>• Promotes a good ethical practice of transparency from stakeholders that the directors associated with.</li> <li>• Reduce bribery allegations labelled against directors which in turn tarnishes the image of the company.</li> </ul>		
<b>1.2.2</b>	<ul style="list-style-type: none"> <li>• Explain the need for Corporate Social Investment</li> </ul>	<b>2</b>
<ul style="list-style-type: none"> <li>➤ It's a recommendation of King Code of good corporate governance that ensures goodwill, loyalty and support</li> <li>➤ Its shows a good corporate social responsibility the business has towards the people and planet</li> </ul>		
	<ul style="list-style-type: none"> <li>• What is the meaning of triple bottom line</li> </ul>	<b>2</b>
<ul style="list-style-type: none"> <li>➤ It's a recommendation from the King Code which encourages companies to focus on profit, people and planet so that aims and objectives are realised in a desired manner.</li> </ul>		

<b>1.2.3</b>	Provide TWO suggestions on how good corporate governance can be achieved.	<b>4</b>
	<ul style="list-style-type: none"> <li>• The business should be accountable for all its actions with all stakeholders there interact with, be able to respond effectively to issues of the company.</li> <li>• Employees should be fairly remunerated and avoid the exploitation of labour, follow all relevant Acts that governs our country.</li> <li>• Take part in social development projects and do not exploit the environment, invest in developing local societies.</li> <li>• Ensure that investors are satisfied with the company image and protect investors.</li> </ul>	

### ACTIVITY E2 SOLUTIONS

<b>2.1.1</b>	Explain why the auditors specifically address the report to shareholders?	<b>2</b>
	They are the owners of the company/ shareholders who invested capital to the company	
<b>2.1.2</b>	Explain why the independent auditors referred to pages 25-51 in the report.	<b>2</b>
	The report is based on these pages, and auditors can only be held accountable for these pages	
<b>2.1.3</b>	<p>The directors claimed that the value of the buildings increased over the years and that the value must be increased and shown as additions in the fixed asset note.</p> <p>As an independent auditor, what advice would you give? Provide ONE point.</p>	<b>2</b>
	<p>The directors cannot record the increase as additions as it's against the GAAP principle of historical cost concept.</p> <p>Assets should be recorded at original cost.</p>	
<b>2.1.4</b>	<ul style="list-style-type: none"> <li>• The company received a/an (unqualified/qualified/disclaimer) audit report.</li> </ul>	<b>1</b>
	Qualified report	
	<ul style="list-style-type: none"> <li>• Give a reason for your answer.</li> </ul>	<b>2</b>
	<ul style="list-style-type: none"> <li>➤ An amount that was shown as additions to Land and buildings was for revaluations of the Buildings. No audit evidence was provided.</li> <li>➤ This is a bad report to the company create a bad image of the company to the public.</li> </ul>	



**ACTIVITY E3 SOLUTIONS**

<b>3.1.1</b>	Provide ONE reason why public companies must be externally audited.	<b>2</b>
	<ul style="list-style-type: none"> <li>To ensure that the company receives an unbiased opinion from an autonomous auditor.</li> <li>The report can be trustworthy as it is from an independent auditor who cannot be easily influenced by directors and management.</li> </ul>	
<b>3.1.2</b>	What type of report did Giovanni Ltd receive from the independent auditors? Explain your answer.	<b>3</b>
	Unqualified report, financial statements present fairly, in all material respects, this is a good report, its boost investor/potential investor confidence in the company.	
<b>3.1.3</b>	One of the directors says that “the company must not waste money on things like this.” Provide THREE reasons <u>against</u> his opinion.	<b>6</b>
	<ul style="list-style-type: none"> <li>Giovanni should continue so that the company receives a good publicity and boost investors' confidence.</li> <li>This is part of good corporate social responsibility programme as stated by King Code</li> <li>The company will benefit in a long term from customer loyalty and build good relations with society.</li> </ul>	

**ACTIVITY E4 SOLUTIONS**

**PART A**

<b>4.1.1</b>	Graafwater Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.	<b>3</b>
	<p>Disclaimer report</p> <ul style="list-style-type: none"> <li>Auditors are not expressing an opinion on the reliability of the financial statement of a company.</li> <li>A bad report for a company, creating a bad publicity.</li> </ul>	
<b>4.1.2</b>	Briefly indicate how this audit report would possibly affect the shares of Graafwater Ltd on the Johannesburg Securities Exchange (JSE). Mention TWO points.	<b>4</b>
	<ul style="list-style-type: none"> <li>The demand of shares in JSE will decrease as the company will have bad publicity.</li> <li>Share value will drop as many shareholders will be selling their shares back to the company through JSE.</li> </ul>	
<b>4.1.3</b>	You have been appointed as the external auditor of Graafwater Ltd. The managing director, Laetitia Witbooi, has asked you to reflect her directors' fees of R5 million under 'Salaries and wages' in the Income Statement. Would you agree to her request? Give a reason for your answer.	<b>3</b>
	<p>No.</p> <p>The GAAP of materiality requires that director's fees and Salaries and Wages should be disclosed separately.</p>	

**PART B**

<b>4.2.1</b>	Briefly explain the role of an independent auditor.	<b>2</b>
	<ul style="list-style-type: none"> <li>• To express an opinion on the reliability of the financial statements of the company.</li> <li>• Ensure the directors are controlling the company in the best interests of stakeholders of the company.</li> <li>• To identify and expose any fraudulent or irregularities that might occur in the business.</li> </ul>	
<b>4.2.2</b>	Explain why the independent auditors mentioned IFRS and the Companies Act in the audit report.	<b>2</b>
	<ul style="list-style-type: none"> <li>• The financial statements must be comparable to those prepared by companies internationally.</li> <li>• To comply with the Companies Act which controls companies.</li> </ul>	
<b>4.2.3</b>	Provide TWO possible consequences of this audit report on the market price of the shares.	<b>4</b>
	<ul style="list-style-type: none"> <li>• The demand of shares in JSE will decrease as the company will have bad publicity.</li> <li>• Share value will drop as many shareholders will be selling their shares back to the company through JSE.</li> </ul>	

**Solutions**

**ANALYSIS AND INTERPRETATION**

**Activity F1 - NDABA LTD**

1.1

1.1	<p>The directors wanted to expand business operations and therefore chose to increase loans during the current financial year, instead of issuing more shares.</p> <p>Explain whether this was a good choice or not. Quote <b>TWO</b> financial indicators (actual figures/ratios/percentages) that are relevant to their choice.</p>
	<ul style="list-style-type: none"> <li>• Debt/equity ratio is 0,06 : 1 ✓, low risk ✓</li> <li>• ROTCE increased from 16,4% to 18,8 % ✓ and is above interest rate on loan of 12,5% ✓, positive gearing ✓</li> <li>• Good idea ✓</li> </ul>



1.2 The directors are of the opinion that the liquidity has deteriorated. Explain and quote **THREE** financial indicators (with figures) to support their opinion.

- Current ratio ✓ has decreased from 2,2:1 to 1,6:1 ✓
- Acid test ratio ✓ has decreased from 1,6:1 to 0,9:1 ✓
- Debtors collection period ✓ increased from 35 days to 41 days ✓

**NB: Do not accept Stock turnover rate**  
**1 mark for financial indicator, 1 mark for figures for both years. If only one year figure is shown, give no mark**

1.3 The Dlams family owns 740 000 shares in this company. Explain the effect that the repurchase of shares on 31 December 2020 had on their control of the company. Give calculation(s) to support your answer.

- $740\ 000 / 1500\ 000$  shares = 49% ✓, Dlams family was a minor shareholder before the repurchase of shares ✓
- $740\ 000 / 1450\ 000$  shares = 51,03%, ✓

Repurchase of shares has made Dlams family to become a majority shareholder ✓✓

**ACTIVITY F2 - NKOMONDE LTD**

2.1 Comment on the overall liquidity position of the company. Quote THREE relevant financial indicators (with figures).

Current ratio has improved from 1,7:1 to 1,8:1, ✓ business has enough current asset to meet their short term obligation ✓

Acid test ratio has increased from 0,9:1 to 1:1, ✓ even if the stock is not sold, the business is able to meet their short term liabilities ✓

Stock-holding period has improved from 68 days to 50 days, ✓ the stock is not staying for a shorter period ✓

2.2 The directors decided to change the dividend pay-out policy in 2020. Provide calculations that indicate the policy change. Explain the effect of this change of policy on the company. State TWO points

<b>2020</b>	<b>2021</b>
40/112	104/107
=35,7% ✓	=97% ✓

**Explanation:**  
 In 2020 the business was only distributing 35,7% of their and keep the rest for future use which was good ✓  
 In 2021 the business is paying out 97% of their earnings to keep their shareholders happy ✓



2.3 One of the directors feels that the company should pay back the loan as soon as possible. Explain your views about this. Quote and explain TWO relevant financial indicators with figures.

- Debt/equity ratio is 0,3: 1 ✓, low risk ✓
- ROTCE decreased from 13% to 11% ✓ and is below interest on loan of 14% ✓, negative gearing ✓
- Director is correct ✓

2.4 Explain why the shareholders are satisfied with:

- The market price of the shares on the JSE
- The price at which the 75 000 shares were repurchased on 25 April 2021. In EACH case, quote figures/financial indicators.

- The market price of the shares on the JSE
  - Market price of 960 cents is above NAV of 775 cents ✓, shares are overvalued ✓
- The price at which the 75 000 shares were repurchased on 25 April 2021. In EACH case, quote figures/financial indicators.
  - Shares were repurchased at 800 ✓ cents which is above NAV of 775 cents ✓
  - Shares were repurchased at 800 ✓ cents which is below Market price ✓

2.5 Directors feels that shareholders should be satisfied with their returns; do you agree? Quote financial indicator(s)/ figures to support your answer

Directors feels that shareholders should be satisfied with their returns; do you agree? Quote financial indicator(s)/ figures to support your answer

- ROSHE ✓ decreased form 14,4% to 13% ✓ but is still above ✓ interest on fixed deposit of 9,5% ✓

**Do not accept EPS and DPS**

### ACTIVITY F3 -CHONCO LTD AND ZWANE LTD

3.1 Comment on the value of the shares for two companies on the JSE. Explain how this will influence your choice of company

- CHONCO LTD  
Market price 400 cents is above NAV of 310 cents, ✓ shares are overvalued ✓
- ZWANE LTD  
Market price of 250 cents is below NAV of 300 cents, ✓ shares are undervalued ✓  
Choice of company: Chonco LTD, the shares are doing fine at the market ✓

3.2

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

- CHONCO LTD  
 $450/900 \times 100 = 50\%$  ✓✓  
Chonco LTD is paying out 50% of their earning and retain another 50% for future use ✓
- ZWANE LTD  
 $450/450 \times 100 = 100\%$  ✓✓  
Zwane LTD is paying out 100% of their earnings, nothing is retained ✓

3.3

Comment on the degree financial risk and gearing. Explain how this will influence your choice of company. Quote TWO financial indicators to support your answer.

- Chonco LTD, debt/equity ratio is 0,3: 1, ✓ low risk ✓ whereas Zwane debt/equity ratio is 1,2:1, ✓ high risk ✓
- Chonco LTD: ROTCE of 18% is above interest on loan of 11,5% ✓, positive gearing, ✓ whereas Zwane LTD ROTCE of 10% is below interest on loan of 11,5% ✓, negative gearing ✓

Choice of company will be Chonco LTD ✓

3.4

Which company is handling working capital effectively? Quote THREE financial indicators to support your answer

Current ratio of Chonco LTD is 2:1 which is better than that of Zwane LTD 4,3:1, Zwane is having too much current asset (**compare both companies**) ✓✓

Acid test ratio of Chonco LTD is 1,5:1 which is better than that of Zwane of 2,9:1 (**learner must compare figures for both companies**) ✓✓

Debtors collection period of Chonco is 30 days which is better than that of Zwane LTD of 42 days

Accept stock turnover rate

**(figures for both companies must be compared)** ✓✓

#### ACTIVITY F4 - THABO LTD AND ANDILE LTD

4.1.1

Ntokozo is of the opinion that Andile LTD is handling its working capital more effectively and is in a better liquidity position than Thabo LTD. Explain and quote THREE financial indicators to support his opinion

- Current ratio of ANDILE LTD is 1,5:1 better than Thabo LTD of 6,0:1 ✓✓
- Acid test ratio of ANDILE LTD is 1:1 better than that Thabo LTD of 3:1 ✓✓
- Stock-holding period of Andile LTD is 32 days, better than that of Thabo LTD of 180 days ✓✓

4.1.2

The existing shareholders of the two companies hold different opinions of the current market value of their shares

- Explain why the existing shareholders of Thabo LTD are happy with this. Quote TWO financial indicators/figures to support your answer

Market price of 800 cents is above NAV of 720 cents ✓, overvalued shares ✓

- Explain why the existing shareholders of Andile LTD are very disappointed with the current market value. Quote TWO financial indicators/ figures to support your answer

Market price of 900 cents is below NAV of 1 010 cents ✓, undervalued shares ✓

## 4.2 LINDELO LTD AND SYANDA LTD

4.2.1

Compare and comment on the dividends pay-out policy of the two companies

LINDELO LTD  
 $450/600 \times 100 = 75\%$  ✓ ✓

SYANDA LTD  
 $500/1000 \times 100 = 50\%$  ✓ ✓

Lindelo LTD is paying out 75% of their earnings to keep shareholders happy ✓

Syanda LTD is paying out 50% and keep another half for future use ✓

4.2.2

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

### Lindelo LTD

Debt/equity ratio is 0,3: 1, low risk ✓

ROTCE of 14% is above interest on loan of 12% ✓, positive gearing ✓

### SYANDA LTD

Debt/equity ratio is 2:1, high risk ✓

ROTCE of 10% is below interest on loan of 12% ✓, negative gearing ✓

Choice of company: Lindelo LTD ✓

ACTIVITY F5

5.1 VUTHA LTD

5.1.1

The shareholders of Vutha Ltd are concerned about the liquidity position of the company. Explain and quote THREE financial indicators to support their opinion.

- Current ratio decreased from 1,5:1 to 1,4:1 ✓✓
- Acid test ratio decreased from 0,6:1 to 0,4:1 ✓✓
- Stock turnover rate decreased from 6 times to 4 times ✓✓
- Accept *Debtors collection period* from 30 days to 56 days

5.1.2

From 2019 to 2020 the directors made a deliberate decision to change the policy on the distribution of profit in the form of dividends. Explain this change. Quote figures/calculations to support your answer.

2020

2021

$56/56 \times 100 = 100\%$  ✓✓

$33/60 \times 100 = 55\%$  ✓✓

They have plans to expand as they are retaining more of the profit

5.1.3

Comment on whether the shareholders should be satisfied with the market price of their shares.  
Quote TWO relevant financial indicators (actual figures/ratios/percentages) and their trend.  
Give an additional comment to support your answer.

The NAV ✓ increased from 315,6 c/share to 364,7 c/share. ✓

The MP ✓ increased from 310 c/share to 385 c/share. ✓

The MP exceeds the NAV. Investors are prepared to pay extra for the shares ✓

5.1.4

Comment on the degree of risk. Quote ONE financial indicator.

Debt/equity ratio ✓ increased from 0,3:1 to 0,8:1 ✓ high risk ✓

5.2 MCEBENI LTD

5.2.1

The CEO, Nqobile Ndaba, currently owns 40% of the issued shares. The board of directors decided to issue 50% of the unissued shares in July 2020.

Calculate the minimum number of shares that Nqobile must buy in July 2020 to gain control of the company.

$$40\% \times 1\,200\,000 = 480\,000$$

$$1\,200\,000 + 400\,000 = 1\,600\,000 \checkmark \times 50\% \checkmark = 800\,000$$

$$800\,000 - 480\,000 \checkmark = 320\,000 + 1 / 100$$

$$= 320\,001 \text{ or } 320\,100 \checkmark \text{ one part correct}$$

OR

$$1\,600\,000 \times 51\% = 816\,000 - 480\,000 = 336\,000$$

one mark    one mark                    one mark    one part mark

5.2.2

Nqobile wants to purchase the additional shares, at R12 per share without advertising the shares to the public. Give TWO reasons why you would not approve of this arrangement.

Any TWO reasons ✓✓ ✓✓

- As this is a public company the shares should be offered to the public. The shares should be issued at the current market value of R17 which will bring in R6 800 000 to the company. / NAV is R16 and the market price R17 and want to buy at R12. Company will lose money. ✓✓
  - She would therefore be benefiting while the other shareholders will be disadvantaged through dilution of the share price. ✓✓
- Inside trading and it unethical to withhold information to the public. ✓✓

Quoting of indicator ✓ ✓ Figures ✓ ✓

5.2.3

Nqobile wants to purchase the additional shares, at R12 per share without advertising the shares to the public. Give TWO reasons why you would not approve of this arrangement.

Shares were issued at a price below the NAV of 2019. NAV was R14 and shares were issued at R10. ✓✓

Shares were issued at a price lower than a market price of 2019. Market price was R16 and shares were issued for R10. ✓✓

Do not accept NAV and market price for 2020 since new shares were issued at the beginning of the year