



**KWAZULU-NATAL PROVINCE**

EDUCATION  
REPUBLIC OF SOUTH AFRICA

CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS) SUPPORT DOCUMENT

Stanmorephysics.com

GRADE 12

ACCOUNTING

PAPER 1

TEACHERS GUIDE

Stanmorephysics.com

**SUPPORT DOCUMENT SOLUTIONS**

**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
A	6 740 000 – 2 689 000	4 051 000
B	140 000 – 33 600	106 400
C	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.**

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



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 ✓)	One part correct	8 298 400	☑
<b>Cost of sales</b> (4 595 000 – 900 ✓)		(4 594 100)	☑
<b>Gross profit</b>	6	3 704 300	☑
<b>Other income</b>	Check operation	166 380	☑
<b>Commission income</b>		<b>64 140</b>	
Rent income (87 720 ✓ + 6 000 ✓ + 8 520 ✓ ✓)		102 240	☑
<b>Gross income</b>	7	3 870 680	☑
<b>Operating expenses</b>	Check operation	(2 775 880)	☑
<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 ✓ ✓)	Check operation	768 000	☑
Salaries and wages (1 020 000 ✓ + 18 500 ✓ ✓)	Check operation	1 038 500	☑
Employer's contributions (156 000 ✓ + 5 050 ✓)		161 050	☑
Bad debts (17 600 ✓ + 2 475 ✓ ✓)	Check operation	20 075	☑
Provision for bad debts adjustments		850	✓ ✓
Trading stock deficit (376 000 ✓ + 900 ✓ – 369 100 ✓)		7 800	☑
Depreciation	30	278 200	✓ ✓
<b>Operating profit</b>	Check operation	1 094 800	☑
<b>Interest income</b>		<b>3 000</b>	
<b>Profit before interest expense</b>	Check operation	1 097 800	☑
<b>Interest expense</b> (540 800 + 100 800 – 601 600)	One part correct	(40 000)	☑ ✓ ✓
<b>Net profit before tax</b>		1 057 800	☑
<b>Income tax</b>		<b>(300 300)</b>	
<b>Net profit after tax</b>	Check operation 7	757 500	☑

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	☑
Provision for bad debts	(8 000)	✓
	110 900	
Accrued income/Receivable <span style="float: right;">see Rent income</span>	8 520	☑
SARS – Income tax	14 700	✓✓
	134 120	☑

10

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
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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 <input checked="" type="checkbox"/> + 39 500 <input checked="" type="checkbox"/> )	<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

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2.4.1  
**ORDINARY SHARE CAPITAL**

<b>AUTHORISED:</b>	
Number of authorized ordinary shares: 3 000 000 shares	
<b>ISSUED:</b>	
<b>2 000 000 ordinary shares in issue at the beginning of financial year</b>	<b>5 225 000</b>
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"/>
<b>2 240 000✓ Ordinary shares in issue at the end of the financial year</b>	<b>5 824 000<input checked="" type="checkbox"/></b>

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

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

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

3.2.1 KHWESI LTD

INCOME STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2021

	15 370 000		15 335 000	☑*
	(10 600 000 ✓ x 145% ✓ - 35 000 ✓)		(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 ✓L + 2 340 ✓)		1 080 000	☑*
	Directors' fees (932 200 ✓ + 15 800 ✓L)		948 000	☑*
	Packing material (55 400 ✓ - 7 900 ✓)		47 500	
	Depreciation (189 500 L + 3 500 LL)		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 ✓*

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### 3.2.3 Retained Income

<b>Balance at beginning of financial year</b>	555 500 ∩
Net profit after tax	see 3.2.1 below 1 225 000 ✓
Buy back of shares (170 000 ✓ x 0,95c ✓) <b>R9,70 – ASP end of year</b> ignore brackets	(161 500) ✓*
<b>Ordinary share dividends</b> ignore brackets	(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 ✓*

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<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 ✓ ✓

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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		108 000	
<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✓	
<b>Prepaid expenses (18 000 + 2 880)</b>	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 \checkmark - 450\,000 \checkmark = 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> 	<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;">5</div>										
<p><b>The value of trading stock on hand as per physical stock count</b>  <math>740\,900 \checkmark - 30\,000 \checkmark + 48\,750 \checkmark - 3\,000 \checkmark - 48\,500 \checkmark</math>  <math>= 708\,150 \checkmark</math> Operation if one part correct</p> <table 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	<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>
Trading Stock											
740 900	30 000										
48 750	3 000										
	48 500										
	708 150										

4.2.4	<p>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.</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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TOTAL MARKS
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
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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> see 5.1 (174 250 + 33 150 ✓ - 2 600 ✓ - 6 000 ✓ ✓)	198 800 ✓ one part correct
Provision for bad debts (11 940 - 2 000 ✓) see 5.1 Or 5% of the debtors control balance above for two method marks	(9 940) ✓
Accrued income (Interest)	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
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**Debt-equity ratio**

$$2\,651\,460 \checkmark : (7\,960\,000 \checkmark + 540\,300 \checkmark)$$

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

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

4
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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
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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)

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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 +13 600 ✓✓
<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 ✓ see 6.1.1
Repurchase of shares (20 000 × R1,10) OR (50 000 – 28 000)	(22 000) ✓ 1 mark 2 marks 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 × 0,22 )	875 600 ✓ One part correct
<b>Balance at end of year</b>	<b>2 952 400</b> ✓ Operation, one part correct

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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	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 191 900
Trade and other receivables	<input checked="" type="checkbox"/> 315 700
Cash and cash equivalents	<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	<input checked="" type="checkbox"/> 207 000
	5
<b>CURRENT LIABILITIES</b>	<input checked="" type="checkbox"/> 1 218 600
Trade and other payable	<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 (i))	* <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
	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 ✓ <input checked="" type="checkbox"/> <b>Old:</b> 1 281 000 x 20% = 256 200 ✓ <input checked="" type="checkbox"/>	R287 450 <input checked="" type="checkbox"/>
(iii)	<b>Disposal of equipment</b>  $21\ 000\checkmark - (15\ 000\checkmark + 450\checkmark)$ <small>(6 000 x 15% x 6/12)</small> <small>15 450</small>	R5 550 <input checked="" type="checkbox"/>
(iv)	<b>Accumulated depreciation of equipment</b>  200 000 ✓ + 42 450 ✓ - 15 450 <input checked="" type="checkbox"/> see (iii above)	R227 000 <input checked="" type="checkbox"/>

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 <input checked="" type="checkbox"/>
(60 000)	Shares re-purchased (ASP: R7.00)	(420 000)✓✓
1 140 000 <input checked="" type="checkbox"/>	Shares in issue at end <small>Closing number of shares x R7.00</small>	7 980 000 <input checked="" type="checkbox"/>


7
7

RETAINED INCOME

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

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)	✓
<b>Net trade debtors</b>	<b>42 900</b>	✓
	Operation one part correct	
Prepaid expense (Directors fees) See 2.2	25 000	✓
SARS Income tax (267 000✓ – 255 000✓) See 2.2	12 000	✓
	Operation one part correct	
	<b>79 900</b>	✓

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)	✓
<b>Net profit after tax</b>	<b>595 000</b>	✓
	See 2.2	
<b>Dividends</b>	<b>(190 820)</b>	✓
	Operation one part correct	
Paid / interim	55 820	✓
Final/ recommended (180 000✓ X 0.75✓)	135 000	✓
<b>Balance at the end of the year</b>	<b>534 180</b>	✓
	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

<b>TOTAL MARKS</b>
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 ✓	Shares in issue at 29 February 2020	4 000 000 ✓

8
8

(b) **RETAINED INCOME**

Balance at beginning	745 000
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
<b>Loan</b>	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 ✓ – 429 500 ✓)		100 500	35
<b>Total equity and liabilities</b>	operation	2 793 100	35

<b>TOTAL MARKS</b>
55
55

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	
✓(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✓	7

**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>	9

1.1.2

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

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

**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

2

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"/>	<b>Ordinary shares on 31 August 2020</b>	<b>5 292 000</b>		<b>7</b>

**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"/>
<b>Ordinary share dividends</b>	(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"/>
<b>Balance on 31 August 2020</b>	<b>250 000</b>	<input checked="" type="checkbox"/>

7

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

(a)	$3\,640\,000 - 2\,002\,000 = 1\,638\,000 \checkmark\checkmark$	
(b)	$750\,000 \checkmark - (491\,750 \checkmark + 37\,500 \checkmark\checkmark) = 220\,750 \checkmark$ $529\,250 \text{ (three marks)}$	
(c)	(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): $2\,890\,000 \checkmark\checkmark \times 15\% = 433\,500 \checkmark$ $\text{Total: } 527\,250 \checkmark$	
(d)	$3\,640\,000 + 900\,000 - 750\,000 = 3\,790\,000 \checkmark\checkmark$	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**

600 000	Ordinary shares on 1 January 2019	4 200 000	
100 000	Issued on 31 August 2019	840 000	☑*
(40 000) ✓	Re-purchased (ASP: R7,20)	(288 000)	✓✓
660 000 ✓	Ordinary shares on 31 December 2019	4 752 000	✓

6
---

**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)	☑
• Interim dividends	240 000	☑
• Final dividends	175 000	✓
Balance on 31 December 2019	637 000	✓

9
---

4.1.2 **CASH EFFECTS OF OPERATING ACTIVITIES**

<b>CASH EFFECTS OF OPERATING ACTIVITIES</b>	292 600	☑*
<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)	☑*
270 000 + (415 000 - 175 000) both one mark	(510 000)	☑*
Dividends paid (270 000 ✓ + 240 000 ☑)		

9
---

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: 40px; height: 40px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 40px; 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: 40px; height: 40px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 40px; 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 ✓ see 5.1</p> <p>New: 20% x 150 000 ✓ x 6/12 ✓ = 15 000 ✓</p> <p>Old: (780 000 ✓ – 431 600 ✓) x 20% = 69 680 ✓</p> <p><b>348 400</b> (2 marks)</p>	92 840 ☑

12

5.3.1 Calculate the income tax paid.

$$1\,240\,000 - 892\,800$$

$$- 347\,200 \checkmark \checkmark + 17\,400 \checkmark + 35\,700 \checkmark = - 294\,100 \checkmark$$

or

$$+ 347\,200 - 17\,400 - 35\,700 = + 294\,100$$

5

5.3.2 Calculate the net change in cash and cash equivalents.

$$549\,580 \checkmark + 92\,000 \checkmark \checkmark = 641\,580 \checkmark$$

$$(110\,000 - 18\,000)$$

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**

$$- 275\,000 \checkmark - 360\,000 \checkmark \checkmark = - 635\,000 \checkmark \text{ (One part Correct)}$$

$$+ 275\,000 \checkmark + 360\,000 \checkmark \checkmark = + 635\,000 \checkmark \text{ use one line only}$$

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

1.1.1	What type of audit report did Pinetown LTD receive? Explain your answer.	3
<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.		
1.1.2	To whom is the audit report addressed to and why?	2
Shareholders, because they are the owners or investors of the company.		
1.1.3	State TWO consequences that this report could have on the company.	4
<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>		
1.1.4	What impact would this report have on the company share prices in the JSE market?	2
<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

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.	4
<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>		
1.2.2	<ul style="list-style-type: none"> <li>• Explain the need for Corporate Social Investment</li> </ul>	2
<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>	2
<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

4.2.1	Briefly explain the role of an independent auditor.	2
	<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>	
4.2.2	Explain why the independent auditors mentioned IFRS and the Companies Act in the audit report.	2
	<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>	
4.2.3	Provide TWO possible consequences of this audit report on the market price of the shares.	4
	<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

<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.

- $740\,000 / 1\,500\,000$  shares = 49% ✓, Dlams family was a minor shareholder before the repurchase of shares ✓
- $740\,000 / 1\,450\,000$  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