



**KWAZULU-NATAL PROVINCE**

**EDUCATION**  
REPUBLIC OF SOUTH AFRICA



**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ACCOUNTING P1**

**COMMON TEST**

**JUNE 2022**

**MARKS: 150**

**TIME: 2 hours**

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**This question paper consists of 9 pages,  
a formula sheet and an 8-page Answer Book.**

**INSTRUCTIONS AND INFORMATION**

**Read the following instructions carefully and follow them precisely.**

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

QUESTION	TOPIC	MARKS	MINUTES
1	Statement of Comprehensive Income	50	40
2	Tangible note and Cash Flow Statement	50	40
3	Audit report and Interpretation	50	40
<b>TOTAL</b>		<b>150</b>	<b>120</b>

**QUESTION 1****(50 Marks; 40 Minutes)****STATEMENT OF COMPREHENSIVE INCOME****PALM LTD**

You are provided with information taken from the financial records of Palm Ltd. The end of the financial year, 28 February 2022. All goods are sold at a fixed mark-up of 50% on cost.

**REQUIRED:**

- 1.1 Complete the Statement of Comprehensive income for the year ended 28 February 2022. Certain amounts have been entered in the Statement of Comprehensive income. (45)
- 1.2 Prepare the retained income note to the Statement of Financial Position on 28 February 2022. (5)

**INFORMATION:**

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<b>EXTRACT OF BALANCES/TOTALS ON 28 FEBRUARY 2022</b>	
<b>Balance Sheet Accounts Section</b>	<b>R</b>
Retained income (1 March 2021)	700 000
Mortgage loan (interest rate: 12% p.a.)	975 000
Fixed deposit (interest rate: 8, 5% p.a.)	520 000
Trading stock	1 534 000
Debtors control	280 200
Provision for bad debts (1 March 2021)	18 524
SARS: income tax (provisional tax payments)	110 000
<b>Nominal Account Section</b>	
Sales	15 472 000
Cost of sales	?
Debtors allowances	70 000
Directors fees	2 983 500
Audit fees	79 000
Packing material	13 600
Advertising	123 000
Sundry expenses	292 330
Bad debts	12 100
Commission income	146 850
Bad debts recovered	3 005
Interest on fixed deposit	27 000
Interest on loan	?
Interest earned on current account	9 300
Depreciation	92 660
Dividends on ordinary shares	550 000

**Adjustments and additional information:**

- A. A credit note for R45 000 issued to a debtor for goods returned, dated 26 February 2022, was not recorded. Goods are sold at a profit mark-up of 50% on cost.
- B. A debtor, B Zulu, who owes the business R1 200, has been declared insolvent. His estate paid 40 cents in the rand. This amount was received and recorded. Write off the balance as irrecoverable.
- C. Adjust the provision for bad debts to 5% of good book debt.
- D. Stock counts on 28 February 2022 revealed the following on hand:
- Trading stock R1 500 000
  - Packing material R1 200

- E. Commission income for February amounted to R13 350 is still not yet received.
- F. There were three directors at the start of the accounting period. Directors fee for all three directors have been paid for the full accounting period.

On 1 September 2021 directors fees decreased by 5% p.a for all directors.

The new director was employed on 1 February 2022. She will earn the same fee with other directors. Her director's fee was not yet paid. Provide the outstanding fees owed to the director.

- G. Advertising includes a fee of R15 000 which was paid for a contract which start form 1 April 2021 to 31 March 2022.
- H. Outstanding interest on fixed deposit must be taken into account. A further fixed deposit of R60 000 was invested on 1 August 2021. This was properly recorded. Interest on fixed deposit is not capitalised.
- I. External auditors are owed a further R6 000 for the financial year ended 28 February 2022.
- J. The interest on mortgage loan must be brought into account.
- K. A final dividend of R350 000 was recommended on 28 February 2022.
- L. The Income tax rate is 30% of the net profit before tax

**QUESTION 2****(50 Marks; 40 Minutes)****TANGIBLE NOTE AND CASH FLOW STATEMENT****2. ROYAL LTD****1**

You are provided with information relating to Royal Ltd for the financial year ended 30 April 2022.

**REQUIRED:**

**2.1.1** Complete the Fixed/Tangible Asset Note for the year ended 30 April 2022. (16)

**2.1.2** Complete the Cash Flow Statement Ltd for the year ended 30 April 2022. Some of the details and figures have been entered in the ANSWER BOOK. (25)

**2.1.3** Calculate the following financial indicators on 30 April 2022:

- Percentage operating profit on sales (3)
- Debt-equity ratio (3)
- Net asset value per share (3)

**INFORMATION:****A. Information extracted from the Income Statement on 30 April 2022:**

Sales	5 611 000
Operating profit	1 410 550
Interest on loan	86 760
Net profit before tax	1 323 790

**B. Figures extracted from the Balance sheet and notes on 30 April:**

	2022	2021
Shareholder's equity	R4 607 300	R3 808 100
Fixed assets	?	3 948 600
Mortgage loan	1 142 000	920 000
Inventories	759 600	589 500
Cash and cash equivalent	-	20 000
Bank overdraft	?	111 000
Shareholders for dividends	30 000	60 000



**C. Fixed/Tangible assets**

	<b>Buildings</b>	<b>Vehicles</b>	<b>Equipment</b>
<b>Carrying value - 1 May 2021</b>	3 452 000	413 400	83 200
Cost	3 452 000	872 000	340 000
Accumulated depreciation	0	(458 600)	(256 800)
<b>Movement</b>			
Additions at cost	(a)	0	116 000
Disposals at carrying value	0	(b)	0
Depreciation	0	(c)	(e)
<b>Carrying value - 30 April 2022</b>	4 522 800	(d)	
Cost	4 522 800		
Accumulated depreciation	0		

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

- An extension to the office block was undertaken during the year.
- The business had three vehicles at the beginning of the year. The following details appeared in the Fixed Asset Register on 1 May 2021:

	<b>Vehicle 1</b>	<b>Vehicle 2</b>	<b>Vehicle 3</b>
Cost	240 000	352 000	280 000
Accumulated depreciation	(225 000)	(70 400)	(163 200)
Carrying value	15 000	281 600	116 800

**NOTE:** Vehicle 1 is old and is reaching the end of its useful life.

Vehicle 3 was sold at its carrying value of R102 800 during the year.

- Equipment of R116 000 was purchased on 1 October 2021. No equipment was sold.
- Depreciation policy: Vehicles: 20% on cost  
Equipment: 15% on carrying value

**D. Loan**

The company took out an additional loan on 30 April 2022. Repayments on the old loan, including interest totalled R164 760. Interest on loan is capitalised.

**E. Shares**

- Sfiso Mthembu, a shareholder, is very concerned about the liquidity and profitability situation of the company and has decided to sell his shares. The directors repurchased all 80 000 ordinary shares from him at a price of R4,20 per share. The average issue price on this date was R3,05.
- No new shares were issued.
- Number of shares in issue on 30 April 2022 was R750 000.

**F. Dividends**

Total dividends paid and declared for the financial year ended 30 April 2022 amounts to R170 000.



**QUESTION 3****(50 Marks; 40 Minutes)****AUDIT REPORT AND INTERPRETATION**

- 3.1** Choose an accounting concept from **Column B** that best matches the analysis questions in **Column A**. Write only the letter (A – D) next to the number (3.1.1 – 3.1.3) in the ANSWER BOOK.

COLUMN A		COLUMN B	
3.1.1	To what extent does the business rely on borrowed funds?	A.	Liquidity
3.1.2	Can the business pay off all its debts?	B.	Solvency
3.1.3	Is the business able to pay its short-term debts in the next financial year?	C.	Profitability
		D.	Risk and gearing

(1x3)

(3)

**3.2 AUDIT REPORT**

You are provided with an extract from the audit report of MEVAS Limited.

**REQUIRED:**

- 3.2.1** What type of audit opinion is provided by the independent auditor?
- 3.2.2** To whom is the audit report addressed?
- 3.2.3** What is the responsibility of the directors with regards to the audit report?
- 3.2.4** Other than the shareholders of MEVAS Limited, list TWO other parties that will be interested in the audit report of the company. Briefly explain why each would be interested.

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

Because of the significance of the matters, we do not express an opinion on the financial statements as to whether they have been properly prepared, in all material respects, in accordance with the IFRS. In addition, we do not express an opinion on the Statement of Financial Position together with the notes thereon as to whether they are properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 28 February 2022 according to the best of our information and explanations given to us.

### 3.3 MQHELE LTD

You are provided with information relating to Mqhele Limited for the financial year ended 28 February 2022. Mqhele is authorised to issue 2 000 000 shares

#### REQUIRED:

- 3.3.1** Ordinary share capital note to the Statement of Financial Position on 28 February 2022. (10)
- 3.3.2 Liquidity**  
Comment on the liquidity position of the company. Quote THREE financial indicators (with figures) in your answer and explain the change in each trend. (6)
- 3.3.3 Dividends**
- Do a calculation to show the change in the dividend pay-out policy. Provide ONE reason why the directors took this decision. (5)
  - Comment on the dividend per share over the past two years. Quote figures. (2)
- 3.3.4 Returns and earnings**  
Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures. (6)
- 3.3.5 Shareholding**  
A shareholder is not satisfied with the dividend received, as it is less than that of last year. Explain why you agree with him. Quote figures. (3)
- 3.3.6 Risk and gearing**  
Explain how the loan affected the risk and gearing and whether or not it was a good idea to increase the loan. Quote TWO financial indicators with figures (6)



**INFORMATION:****A. Share Capital**

1 March 2021	885 000 shares were in issue
1 September 2021	500 000 additional shares were issued.
31 December 2021	150 000 were repurchased at R1.40 above the average share price.

**B. Financial indicators:**

	2022	2021
Current ratio	2.0 : 1	1.6 : 1
Acid test ratio	1.6 : 1	0.8 : 1
Stock turnover rate	6 times	4 times
Debtors collection period	30 days	35 days
Earnings per share	63 cents	135 cents
Dividends per share	63 cents	81 cents
Dividend payout rate	?	60 %
Debt-equity ratio	0.4 : 1	0.3 : 1
Return on average shareholders' equity (ROSHE)	6.1 %	9%
Return on total capital employed (ROTCE)	7.5 %	8%
Net asset value per share	1229 cents	1017 cents

**C. Additional information:**

	2022	2021
Market price of shares on stock exchange	900	1030
Ordinary shareholders equity	15 179 600	9 000 450
Retained income	3 076 600	2 927 450
Interest rate on loan	11%	12%
Interest rate on fixed deposit (Investment)	8.5%	8.5%

**50**

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET	
$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
Total assets : Total liabilities	Current assets : Current liabilities
(Current assets – Inventories) : Current liabilities	Non-current liabilities : Shareholders' equity
(Trade and other receivables + Cash and cash equivalents) : Current liabilities	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income after tax} + \text{Interest on loans}}{\text{Average Shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
<b>NOTE</b> <ul style="list-style-type: none"> <li>In this case, if there is a change in the number of issued shares during a financial year, the weighted-average number of shares is used in practice.</li> </ul>	



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REPUBLIC OF SOUTH AFRICA



**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ACCOUNTING P1**

**ANSWER BOOK**

**COMMON TEST**

**JUNE 2022**

Name: \_\_\_\_\_ Grade: \_\_\_\_\_

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

**N.B. This answer book consists of 8 pages.**

**QUESTION 1****1.1 Statement of Comprehensive income for the year ended 28 February 2022**

<b>Sales</b>	
<b>Cost of Sales</b>	
<b>Gross profit</b>	
<b>Operating expenses</b>	
<b>Operating profit</b>	

44

**1.2 RETAINED INCOME**

<b>Balance at the beginning</b>	
<b>Balance at the end</b>	

6

**TOTAL MARKS**

50

**QUESTION 2**

2.1	NO.	CALCULATION	ANSWER
	(a)		
	(b)		
	(c)		
	(d)		
	(e)		

**2.2 ROYAL LTD**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 APRIL 2022**

<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
Cash generated from operations	1 295 760
Interest paid	(86 760)
Dividends paid	
Income tax paid	(625 000)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
Purchase of fixed asset	
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	
Proceeds of new loans	
Repayment of loan	
Net change in cash and cash equivalents	
Cash and cash equivalents beginning of year	
Cash and cash equivalents at the end of year	



2.3

Calculate the following financial indicators on 30 April 2022

Calculate the percentage operating profit on sales

3

Calculate the debt-equity ratio

3

Calculate the net asset value per share



3

TOTAL MARKS
50



**3.3.1 Ordinary share capital**  
**Authorised 2 000 000 shares**  
**Issue**


10

**1.3.2 Liquidity**

**Comment on the liquidity position of the company. Quote THREE financial indicators (with figures) in your answer and explain the change in each trend**

6

**3.3.3 Dividends**

- **Do a calculation to show the change in the dividend pay-out policy. Provide ONE reason why the directors took this decision.**

5

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

2

**3.3.4 Returns and earnings**

**Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures.**

6

**3.3.5 Shareholding**

**A shareholder is not satisfied with the dividend received, as it is less than that of last year. Explain why you agree with him. Quote figures.**

3

**3.3.6 Risk and gearing**

**Explain how the loan affected the risk and gearing and whether or not it was a good idea to increase the loan. Quote TWO financial indicators with figures.**

6

<b>TOTAL MARKS</b>
50

**ACCOUNTING**  
**MARKING GUIDELINE**  
**JUNE 2022**  
**PAPER 1**

**NATIONAL  
SENIOR CERTIFICATE**

**MARKS: 150**

**GRADE 12**

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**MARKING PRINCIPLES:**

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item. No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as the final figure, award one mark. Not the method mark for the answer. Note: if figures are stipulated in memo for components of workings, these do not carry the method for final answer.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in a certain question.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
10. 'Operation' means 'Check operation'. 'One part correct' means 'Operation & one part correct'. Note: check operation must be +, -, x, ÷, or per candidates operation.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect, indicate with a ☒. Note: do not award marks for workings if numerator and denominator are swapped-this also applies to ratios.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f=foreign item; p=placement

**This memorandum consists of 8 pages**



**QUESTION 1****1.1 Statement of Comprehensive income for the year ended 28 February 2022**

	Sales (15 472 000✓ – 70 000✓ – 45 000✓)	15 357 000 ✓	
	Cost of sales	(10 238 000) ✓	
6	Gross profit	5 119 000 ✓	
	Other operating income	170 005 ✓	
	Commission income (146 850 ✓ + 13 350 ✓)	160 200 ✓	
	Bad debts recovered	3 005 ✓	
7	Provision for bad debts adjustment	6 800 ✓✓	
	Gross income	5 289 000	
	Other operating expenses	(3 745 210) ✓	
	Directors fees (2 983 500✓ + 80 750✓)	3 064 250 ✓	
	Audit fees (79 000 ✓ + 6 000✓)	85 000 ✓	
	Trading Stock Deficit (1 534 000 + 30 000 – 1 500 000)	64 000 ✓✓	
	Packing material (13 600 ✓ – 1 200✓)	12 400 ✓	
	Advertising (123 000✓ – 1 250✓)	121 750 ✓	
	Sundry expenses	292 330 ✓	
	Bad debts (12 100 ✓ + 720 ✓)	12 820 ✓	
20	Depreciation	92 660 ✓	
	Operating profit	1 543 795. ✓	
	Interest income (9 300✓ + 27 000✓ + 15 075✓) OR 9 300 + 39 100 + 2 975	51 375 ✓	
	Operating profit before interest expense	1 595 170 ✓	
	Interest expense	(117 000) ✓✓	
	Net profit before taxation	1 478 170 ✓	
	Taxation	(443 451) ✓	44
11	Net profit after tax	1 034 719 ✓	44

For example: 100% of 1 478 170 = 1 478 170. If the calculation is correct, the answer is 1 034 719.

**1.2 RETAINED INCOME**

Balance at the beginning	700 000 ✓	
Net profit after tax	1 034 719 ✓	
Ordinary share dividends	(900 000) ✓	
Interim dividends	550 000 ✓	
Final dividends	350 000 ✓	6
Balance at the end	834 719 ✓	6

**TOTAL MARKS**

50

50



## QUESTION 2

2.1	NO.	CALCULATION	ANSWER
	(a)	4 522 800 – 3 452 000	1 070 800✓
	(b)		102 800✓
	(c)	116 800 – 102 800 = 14 000✓ Vehicle (3) Depreciation 15 000 - 1 = 14 999✓ vehicle (1) Depreciation 352 000 x 20/100 = 70 400 ✓✓ vehicle (2) Depreciation	99 399✓ Operation one part correct
	(d)	See (b) See (c) 413 400✓ – 102 800✓ – 99 399✓	211 201✓ Operation one part correct
	(e)	116 000 x 15/100 x 7/12 = 10 150✓✓ new equipment depreciation 83 200 x 15/100 = 12 480✓✓ old equipment depreciation	22 630✓ Operation one part correct

2.2

ROYAL LTD

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 APRIL 2022

<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>384 000</b> <input checked="" type="checkbox"/>
<b>Cash generated from operations</b>	<b>1 295 760</b>
<b>Interest paid</b>	<b>(86 760)</b>
<b>Dividends paid</b> 60 000 ✓ + 170 000 ✓ – 30 000 ✓ or – 170 000 – 60 000 + 30 000 140 000 two marks + 60 000 one mark	<b>(200 000)*</b> <input checked="" type="checkbox"/>
<b>Income tax paid</b>	<b>(625 000)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(1 084 000)</b> <input checked="" type="checkbox"/>
<b>Purchase of fixed asset</b> (1 070 800 <input checked="" type="checkbox"/> + 116 000 ✓)	<b>(1 186 800)</b> <input checked="" type="checkbox"/>
<b>Proceeds from sale of fixed assets</b>	<b>102 800</b> ✓
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(114 000)</b> <input checked="" type="checkbox"/>
<b>Repurchase of shares</b>	<b>(336 000)</b> ✓✓
<b>Proceeds of new loans</b> 920 000 ✓ + 86 760 ✓ – 164 760 ✓ – 1 142 000 ✓ Or 1 142 000 + 164 760 – 86 760 – 920 000	<b>300 000*</b> <input checked="" type="checkbox"/>
<b>Repayment of loan (164 760 ✓ – 86 760 ✓)</b>	<b>(78 000)*</b> <input checked="" type="checkbox"/>
<b>Net change in cash and cash equivalents</b>	<b>(814 000)</b> <input checked="" type="checkbox"/>
<b>Cash and cash equivalents beginning of year</b> (20 000 – 111 000)	<b>(91 000)</b> ✓✓
<b>Cash and cash equivalents at the end of year</b>	<b>(905 000)</b> <input checked="" type="checkbox"/>

25  
25

If workings are shown as a final answer, award working mark only if brackets correctly applied for that item.  
If item is correctly placed, award no marks for details of workings.

Signs may be reversed, apply consistently, mark one line only to prevent candidate.

Workings may be done as a separate answer, but award these workings.

If workings not shown but final answer correct without brackets, award marks to cover workings and penalise on answer.

Correct use of brackets to earn the mark on the final answer for each item in this column.

one part correct and correct use of brackets

2.3	<b>Calculate the following financial indicators on 30 April 2022</b>	
	<b>Calculate the percentage operating profit on sales</b>  $\frac{1\,410\,550 \checkmark}{5\,611\,000 \checkmark} \times 100$  $= 25,1 \% \checkmark$ <small>One part correct in %</small>	<div>3</div> <div>3</div>
	<b>Calculate the debt-equity ratio</b>  $= 1\,142\,000 \checkmark : 4\,607\,300 \checkmark$  $= 0,3 / 0,25 : 1 \checkmark$ <small>One part correct in ratio</small>	<div>3</div> <div>3</div>
	<b>Calculate the net asset value per share</b>  $\frac{4\,607\,300 \checkmark}{750\,000 \checkmark} \times 100$  $= 614,3 \text{ cents} \checkmark$ <small>One part correct in cents</small>	<div>3</div> <div>3</div>



TOTAL MARKS
50
50

**QUESTION 3**

Choose an accounting concept from Column B that best matches the analysis questions in Column A. Write only the letter (A – D) next to the number (3.1.1 – 3.1.3) in the ANSWER BOOK.

3.1.1	D ✓	
3.1.2	B ✓	3
3.1.3	A ✓	3

3.2.1	What type of audit opinion is provided by the independent auditor?	
	Disclaimer ✓✓	3
		2

3.2.2	To whom is the audit report addressed?	
	Shareholders ✓	1
		1

3.2.3	What is the responsibility of the directors with regards to the audit report?	
	Any relevant response ✓✓ Partial mark for incomplete response	
	The directors are responsible for:	
	<ul style="list-style-type: none"> <li>• sharing the report with the shareholders.</li> <li>• informing the shareholders of the report received from the auditors.</li> <li>• conducting the investigation based on the outcome of the report / take the necessary steps if necessary.</li> </ul>	2
		2

3.2.4	Other than the shareholders of MEVAS Limited, list TWO other interested parties that will be interested in the audit report of the company. Briefly explain why each would be interested.		
	<b>PARTY</b>	<b>REASON</b>	
	Any two ✓ ✓	Any two correctly corresponding ✓ ✓	
	Potential new investors	To determine whether they can rely on the information in the financial statements when making investments.	
	Banks	To determine whether they can rely on the information in the statements when making decisions relating to lending the company money.	
	SARS	To determine whether they can rely on the information in the financial statements when assessing the company's tax.	
	Competitors	To determine whether they can rely on the information in the financial statements when comparing their results with those of the company.	4
			4

## 3.3.1

**Ordinary share capital****Authorised 2 000 000 shares****Issue**

885 000✓	<b>Shares issued at the beginning</b>	6 073 000✓
500 000✓	shares issued during the year @ R15 ✓	7 500 000☑
(150 000)✓	Buy-back of shares at R9.8 ☑	(1 470 000) ✓
1 235 000☑	Shares issued at the end <b>Operation</b>	12 103 000✓

10

## 3.3.2 Liquidity

**Comment on the liquidity position of the company. Quote THREE financial indicators (with figures) in your answer and explain the change in each trend**

**Financial Indicator with trend** ✓ ✓ ✓ **explanation of each trend** ✓ ✓ ✓

Current ratio improved from 1.6 : 1 to 2.0 : 1 by 0.4 (25%)

Acid test ratio improved from 0.8 : 1 to 1.6 : 1 by 0.8 (100%)

The business is having 0.4 trading stock compared to 0.8 for last year (less cash tied up in trading stock good liquidity)

Stock turnover rate improved from 4 times to 6 times by 2 times (50%)

It means stock is sold very fast compared to last year

Debtors collection period improved from 35 days to 30 days by 5 days

(debtors are paying within a month – assists with cash inflow) Indicates good liquidity.

**Current ratio can be explained together with acid test ratio**

6

6

## 3.3.3 Dividends

- Do a calculation to show the change in the dividend pay-out policy. Provide ONE reason why the directors took this decision.

$$\frac{63 \checkmark}{63 \checkmark} \times \frac{100}{1}$$

$$100\% \checkmark$$

**Operation one part correct**

**One reason** ✓✓

**Partial mark for incomplete comment**

- Directors attempted to please the shareholders.
- No plans for growth
- To attract the potential investors

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

**Comment with figures** ✓✓

**Partial mark for incomplete comment**

DPS decreased from 81 cents to 63 cents by 22% ( decreased by 18 cents)

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**3.3.4 Returns and earnings**

**Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures.**

ROSHE decreased from 9% to 6.1% by 2.9%. ROSHE of 6.1% is below the interest rate on fixed deposit of 8.5% by 2.4% ✓✓✓

EPS decreased from 135 cents to 63 cents by 53% representing a drop in profitability ✓✓✓

**OR**

Earning yield decreased from 13,3% using NAV (13,1% using MP) to 5,1% using NAV (6,3% using MP)

~~If a candidate comment using a trend only award one mark~~

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**3.3.5 Shareholding**

**A shareholder is not satisfied with the dividend received, as it is less than that of last year. Explain why you agree with him. Quote figures.**

The drop in the market price from 1030 cents to 900 cents is reflected in dividend yield decreased from 7,9% to 7% by 0,9% using the MP/ and from 8% to 5,1% by 2,9% using the NAV ✓✓✓

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**3.3.6 Risk and gearing**

**Explain how the loan affected the risk and gearing and whether or not it was a good idea to increase the loan. Quote TWO financial indicators with figures.**

~~TWO financial indicators~~ ✓      ✓      ~~Figures~~      ✓      ✓

Debt/equity ratio increased from 0.3 : 1 to 0.4 : 1 by 0.1 : 1

ROTCE decreased from 8% to 7.5 % by 0.5%, 7.5%

~~Any valid comment on the above (can be included with financial indicator)~~ ✓✓

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Debt equity shows a low financial risk, the ROTCE is below the interest rate on loan of 11% by 3.5% that indicate a negative gearing

<b>TOTAL MARKS</b>
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50
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50
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