



education

Department of
Education
FREE STATE PROVINCE

WINTER CLASSES



2022

PAPER 1

FREE STATE SEPTEMBER 2020**QUESTION 1: INCOME STATEMENT AND NOTES (65 marks; 50 minutes)****1.1 GLOBAL TRADING LTD**

You are provided with information from the books of Global Trading Ltd. The financial year ended on 31 December 2019.

REQUIRED:

- 1.1.1 Refer to information C (H) and calculate the missing amounts denoted by **(a)** to **(c)** on the incomplete Fixed Asset note provided. (11)
- 1.1.2 Prepare the Income Statement for the year ended 31 December 2019. (50)
- 1.1.3 Refer to the disposal of the computer for R4 000 in Information C (H) of QUESTION 1.1.2. Another director, Joe Mathibi, has complained that Tim Louw has acted unethically in taking over the computer for R4 000. Tim disagrees.
- (a) Give ONE opinion to support Joe. (4)
(b) Give ONE opinion to support Tim.

INFORMATION:**A. Incomplete Fixed Asset Note**

	VEHICLES	EQUIPMENT
Carrying value at the beginning of the year	430 000	
Cost	600 000	280 000
Accumulated depreciation	(170 000)	(70 000)
Movements		
Addition at cost	(a)	
Disposal at carrying value	(0)	(b)
Depreciation	(138 000)	(c)
Carrying value at the end of the year	472 000	
Cost	780 000	262 000
Accumulated depreciation	(308 000)	

B. Extract from the Pre-Adjustment Trial Balance on 31 December 2019:

	R
Ordinary share capital	6 280 000
Retained income	1 458 000
Mortgage Loan: Best Bank	450 000
Equipment	280 000
Accumulated depreciation on equipment (01/01/2019)	70 000
Fixed deposit: Best Bank	55 000
Debtors Control	280 280
Creditors Control	184 000
Provision for bad debts	13 050
Trading stock	156 000
Stock on hand (Plastic bags) (01/01/2019)	5 900
SARS (Income tax)	280 000
Sales	3 345 000
Cost of sales	2 090 625
Rates and taxes	72 500
Bad debts	9 450
Insurance	26 500
Interest on loan	?
Rent income	126 224
Salaries and wages	175 000
Consumable goods	62 540
Interest on fixed deposit	2 200
Sundry expenses	124 500

C. Additional information and adjustments:

- A.** A credit note was issued on 31 December for R9 920. Goods were sold with a mark-up of 60%. No entry has been made of this transaction.
- B.** Rent was received up to January 2020. Take note: Rent was increased by 12% on 1 August 2019.
- C.**
- Consumable goods used during the year amounts to R54 368.
 - There was no trading stock surplus/deficit at the end of the year.
- D.** Bad debts of R8 360 must be written off. The provision for bad debts must be adjusted to R10 480.
- E.** Interest on fixed deposit was earned at 8% per year. Take into account that the fixed deposit was increased by R30 000 on 1 September 2019. This transaction was recorded.
- F.** Insurance included a policy with a yearly premium of R9 900. It was paid on 1 August 2019 and the policy expires on 31 July 2020.
- G.** The business sells plastic bags to its customers at 50 cents each. The Profit/loss on sale of plastic bags reflects the following:

- Cost of plastic bags purchased: R51 200
- Cash received from sale of plastic bags: R56 600

The business uses the periodic stock system for plastic bags. No entries have been made for:

- Reversal of the stock on hand at the beginning of the year, R5 700
- Bags bought on credit in December 2019, R12 800
- Stock on hand at the end of the year, R3 600

You are required to calculate the correct profit or loss on the sale of the bags.

- H.** Depreciation must be written off on equipment at 15% per year using the diminishing balance method. Take note that equipment with a cost price of R18 000 and a carrying value of R12 000 on the first day of the financial year, was sold to a director, Tim Louw, on 30 September 2019 for R4 000. No entry has been made of any of the transactions.
- I.** One employee was omitted from the Salaries Journal for December 2019. His salary details are:

Net salary	Employer's contribution	Deductions
R46 000	R9 800	R14 500

Employer's contribution is posted to Salaries and wages.

- J.** Income tax for the year amounted to R180 000. The income tax was calculated as 30% of the net profit before income tax.
- K.** Interest on loan is the balancing figure.

QUESTION 2: BALANCE SHEET AND NOTES**(40 marks; 30 minutes)****2.1 AUDIT CONCEPTS****REQUIRED**

Choose the audit opinion from COLUMN B that best describes the audit report in COLUMN A. Write the letter (A–C) next to the question numbers (2.1.1–2.1.3) in the ANSWER BOOK.

(3)

COLUMN A (Report)		COLUMN B (Opinion)	
2.1.1	Disclaimer report	A	In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Shabba Ltd as at 29 February 2020.
2.1.2	Qualified report	B	We have not been able to obtain sufficient audit evidence to provide for an audit opinion on the financial statements of Gabba Ltd for the year ended 29 February 2020.
2.1.3	Unqualified report	C	In our opinion, except for the effect of the unauthorised interest-free loan to the Chief Executive Officer, the annual statements present fairly, in all material respects, the financial position of Kansas Ltd.

2.2 SS LTD

You are provided with information from the books of SS Ltd. The financial year ended on 29 February 2020.

REQUIRED:

2.2.1 Complete the share capital note for the year ended 29 February 2020.

(8)

2.2.2 Complete the Currant liabilities part of the Balance Sheet on 29 February 2020.

(15)

INFORMATION

The following balances appeared in the books of SS Ltd at the end of the financial year, 29 February 2020:

Share capital (600 000 shares issued)	4 680 000
Retained income (29 February 2020)	1 230 000
Mortgage Loan: MP Bank	1 596 000
Creditors' Control	325 810
Debtors' Control	247 982
Bank (Credit balance)	126 000
Prepaid expenses	15 800
Deferred income	18 790
Accrued expenses	11 840
Accrued income	15 238
SARS: Income tax	?
Shareholders' for dividends	95 000

ADDITIONAL INFORMATION AND ADJUSTMENTS:**A. Shares:**

100 000 shares were issued at a price of R7,26 during the year. This transaction was recorded on 30 September 2019.

70 000 shares were bought back on the last day of the financial year and the transaction was recorded.

B. A debtor's account with a credit balance of R3 600 must be transferred to his account in the creditors' ledger.

C. The bank reconciliation on 29 February 2020 shows one post-dated cheque issued to a creditor for settlement of his account of R15 400.

D. Mortgage loan:

The mortgage loan was taken out on 1 September 2017. The agreement stipulated that the loan should be paid back over six years in equally monthly instalments from 30 September 2017.

These payments were all made. Interest was not capitalised and were paid up to date.

E. Income tax for the year amounted to R780 000. Payments made to SARS during the year amounted to R758 000.

2.3 PROGRESS LTD

You are provided with information from the financial statements of Progress Ltd. The financial year ended on 29 February 2020.

REQUIRED:

- 2.3.1 Calculate the net asset value per share on 29 February 2020. (3)
- 2.3.2 Calculate the return on total capital employed for the 2020 financial year. (8)
- 2.3.3 The directors of Progress Ltd want to take out a loan for R500 000. Would you advise them to take out the loan? Quote ONE financial indicators (actual figure/ratio/percentage) that are relevant to their decision. (3)

INFORMATION FROM FINANCIAL STATEMENTS AT THE END OF THE FINANCIAL YEARS

	2020	2019
Shareholders' equity	1 630 000	1 280 000
Shares issued	400 000	300 000
Loan: Direct Loans	380 000	520 000
Current assets	488 000	412 000
Current liabilities	621 000	578 000
Total assets	2 631 000	2 378 000
Net profit before income tax	620 000	388 000
Net profit after income tax	452 600	429 240
Interest expense	76 200	68 400

FINANCIAL INDICATORS AT THE END OF THE FINANCIAL YEARS

	2020	2019
Debt/Equity ratio	0,23 : 1	0,41 : 1
Current ratio	0,79 : 1	0,71 : 1
Asset test ratio	0,50 : 1	0,45 : 1
Return on total capital employed	?	25,4 %
Return on shareholders' equity	24,3 %	36,1 %
Solvency ratio	2,6 : 1	2,2 : 1

QUESTION 3: CASH FLOW STATEMENT, NOTES AND INTERPRETATION**(45 marks; 40 minutes)****3.1 CONCEPTS****REQUIRED:**

Choose a term in COLUMN B that matches the description in COLUMN A. Write the letter (A–E) next to the question numbers (2.1.1–2.1.5) in the ANSWER BOOK.

COLUMN A (Term)		COLUMN B (Description)	
3.1.1	The extent to which a company is financed by loan	A	Solvency
3.1.2	An increase in creditors indicates an ... of cash	B	Liquidity
3.1.3	A decrease in creditors indicates an ... of cash	C	Inflow
3.1.4	Ability of the business to pay of all its debts	D	Gearing
3.1.5	Ability of the business to pay off its short-term debts	E	Outflow

(5)**3.2 BOOTS & ALL LTD**

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

REQUIRED:

- 3.2.1 Calculate the amount for taxation paid for the Cash Flow Statement. **(4)**
- 3.2.2 Complete the following from the Cash Flow Statement:
• Cash flow from investing activities. **(9)**
- 3.2.3 Calculate the change in cash and cash equivalents according to the Cash Flow Statement. **(4)**

INFORMATION**A. SHARE CAPITAL**

- R1 120 000 was received for the issue of shares on 1 July 2019.
- 150 000 ordinary shares were repurchased on 31 December 2019 from a shareholder. The shares were repurchased at a price of R2,60.

B. Extract from Income Statement for the year ended 30 June 2020:

	R
Depreciation	186 000
Interest expense	32 000
Income tax	290 400
Net profit after tax	677 600

C. Extract from Balance Sheet on 30 June 2020:

	2020	2019
	R	R
Fixed assets (Carrying value)	5 720 000	4 600 000
Fixed deposit	700 000	350 000
Current assets	571 000	846 000
Inventories	345 000	320 000
Trade and other receivables	198 000	* 210 000
Cash and cash equivalents	28 000	316 000
Non-current liabilities	350 000	150 000
Current liabilities	1 076 000	752 000
Trade and other payables	** 468 000	447 000
Shareholders for dividends	420 000	305 000
Bank overdraft	188 000	-

* Trade and other receivables on 30 June 2019 include a balance of R25 000 owed by SARS.

** Trade and other payables on 30 June 2020 include a balance of R54 000 owed to SARS.

D. Dividends

A total amount of R685 000 was paid for dividends for the financial year.

E. Fixed assets

- Land and buildings to the value of R1 800 000 was purchased during the year.
- Some fixed assets were sold at carrying value during the financial year.

3.3 BENCO LTD

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

REQUIRED

- 3.3.1 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. (4)
- 3.3.2 If the balance on the loan at the end of 2020 is R680 000, calculate the shareholders' equity at the end of 2020. (2)
- 3.3.3 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. (5)

INFORMATION**C. Financial indicators**

	2020	2019
Earnings per share (EPS)	60 cent	56 cent
Dividends per share (DPS)	33 cent	56 cent
Net asset value per share (NAV)	364,7 cent	315,6 cent
Debt/Equity ratio	0,5 : 1	0,1 : 1
Current ratio	1,6 : 1	1,5 : 1
Acid test ratio	0,6 : 1	0,4 : 1
Market price per share	385 cent	310 cent

3.4 METSI LTD

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

REQUIRED:

3.4.1 The CEO, Nikola Pelsler, 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 Nikola must buy in July 2020 to gain control of the company. (4)
- Nikola 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. (4)

3.4.2 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. (4)

INFORMATION:

The following financial indicators were taken from the accounting records of Metsi Limited for the years ended:

	29 Feb. 2020	28 Feb. 2019
Shares issued	1 200 000	450 000
Net asset value per	1 600 cents	1 400 cents
Debt/equity ratio	0,1 : 1	1,3 : 1
Current ratio	1,4 : 1	0,9 : 1
Acid-test ratio	0,7 : 1	0,8 : 1
Rate of stock turnover	4 times p.a.	3 times p.a.
Debtors' collection period	28 days	35 days
Creditors' payment	20 days	40 days
Earnings per share	610 cents	590 cents
Dividends per share	125 cents	135 cents
Market price of shares	1 700 cents	1 600 cents

MPUMALANGA SEPTEMBER 2020

QUESTION 1: CONCEPTS, COMPANY TRANSACTIONS AND AUDIT REPORT

(20 marks; 15 minute)

1.1 CONCEPTS

Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (1.1.1-1.1.3) in the ANSWER BOOK.

1.1.1 In the event of bankruptcy, the shareholders are not responsible for the debts of the business. This is because of (limited/unlimited) liability.

1.1.2 The (independent/internal) auditors are responsible for setting up internal control measures of a company.

1.1.3 The (directors' report/audit report) gives an explanation of the operations of the company during a financial year.

(3 x 1) (3)

1.2 TRANSACTION ANALYSIS

REQUIRED:

Use the table provided to indicate the following for each transaction:

- Account debited and account credited in the General Ledger
- Effect on the accounting equation

The bank balance is favourable at all times.

TRANSACTIONS:

1.2.1 Received R250 000 for additional shares issued.

1.2.2 A final dividend of R40 000 was declared by the directors at the end of the current financial year.

(7)

1.3 AUDIT REPORT

You are provided with an extract of the independent auditor's report of Trojan Ltd for the financial year ended 31 August 2020.

REQUIRED:

- 1.3.1 What type of audit report did Trojan Ltd receive? Choose from the following: unqualified, qualified, disclaimer. Give a reason for your choice. (3)
- 1.3.2 To whom is an audit report addressed? Give a reason for your answer. (3)
- 1.3.3 Explain why the auditor mentioned the following in the audit report:
- IFRS (2)
 - Companies Act (Act 71 of 2008) (2)

INFORMATION:

Extract from the audit report:

In our opinion, the financial statements fairly present in all material respects the financial position of the company at 31 August 2020 as well as the financial results of its operations and the cash flows for the year then ended. This is in accordance with the International Financial Reporting Standards (IFRS) and the manner required by the Companies Act (Act 71 of 2008) in South Africa.

QUESTION 2: FINANCIAL STATEMENTS (60 marks; 48 minutes)

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

REQUIRED:

- 2.1 Complete the Income Statement for the year ended 29 February 2020. (45)
- 2.2 Complete the Note for Retained Income Note. (15)

INFORMATION:**EXTRACT FROM THE PRE-ADJUSTMENT TRIAL BALANCE ON 29 FEBRUARY 2020**

Balance Sheet Accounts Section	Debit	Credit
Ordinary share capital		6 650 000
Retained income (1 March 2019)		1 368 000
Loan: Borrow Bank		1 609 000
Trading stock	1 910 000	
Bank	626 200	
Petty cash	6 605	
Debtors' control	792 000	
Creditors' control		974 600
SARS (Income tax)	523 600	
Provision for bad debts		43 600
Fixed deposit: Money Bank (6%)	750 000	
Nominal Accounts Section		
Sales		?
Cost of sales	15 450 000	
Rent income		368 200
Interest on fixed deposit		30 000
Directors' fees	1 230 000	
Salaries and wages	1 315 150	
Bad debts	24 000	
Audit fees	147 600	
Advertising	975 000	
Consumable stores	80 800	
Sundry expenses	?	
Ordinary share dividends	560 000	

ADJUSTMENTS AND ADDITIONAL INFORMATION:

- A. Selling prices are determined by using a mark-up of 40% on cost.
Note: Trade discounts of R130 000 were allowed to special customers during the financial year.

- B.** The physical stocktaking on 29 February 2020 reflected the following stock on hand:
- Trading stock R1 890 000
 - Consumable stores R8 500
- C.** A further R5 300 is still owed to the auditors in respect of their fees.
- D.** The provision for bad debts must be adjusted to R39 200.
- E.** Advertising includes a yearly contract of R60 000 which was paid on 1 June 2019.
- F.** The fixed deposit was invested on 2 January 2019 for three years. Interest is not capitalised.
- G.** The rent income includes rent received for March 2020. The rent income increased by R1 400 on 1 January 2020.
- H.** Fixed assets and depreciation:

(i) Vehicles:

- Details for the only two vehicles are as follows:

	Cost price	Accumulated depreciation on 28 February 2019	Date purchased
1	300 000	280 000	1 July 2014
2	750 000		1 November 2019

- Vehicles are depreciated at 20% p.a. on cost.

(ii) Equipment:

- Equipment was sold on 31 August 2019 for R11 000. The details from the fixed asset register were:

Cost price	25 000
Accumulated depreciation at the beginning of the financial year	12 800
Pro-rata depreciation for the year	915
Accumulated depreciation on 31 August 2019	13 715

- Depreciation on the remaining equipment is calculated at R21 630 after taking all of the above into account.

- I. The loan statement received from Borrow Bank on 29 February 2020 indicated the following:

	R
Balance at beginning of financial year	2 509 000
Repayments during financial year	900 000
Interest capitalised	?
Balance at end of financial year	1 984 000

- J. Income tax for the financial year was calculated as R520 800. This is 28% of the net profit before tax.
- K. The figure for sundry expenses is the balancing figure in the Income Statement.
- L. Shares and dividends:
- 700 000 ordinary shares were in issue on 1 March 2019.
 - Interim dividends was declared and paid on 1 September 2019.
 - After considering the financial implications a buyback of shares entails, it was decided by the directors on 1 December 2019 to repurchase 4% of the shares currently in issue. These shares were repurchased at R12 per share. No entries have been made for this transaction.
 - The final dividend per share recommended by the directors on 29 February 2020 was 65 cents per share.

60

**QUESTION 3: CASH FLOW STATEMENT, NOTES TO FINANCIAL STATEMENTS
AND INTERPRETATION (40 marks; 32 minutes)**

You are provided with information relating to Gugu Limited for the year ended 30 June 2020. Gugu Limited is a public company listed on the JSE Securities Exchange. They are based in Pretoria and they sell office stationery.

The directors of Gugu Limited decided to open new branches in Brakpan and Emalahleni halfway through the year.

REQUIRED:

- 3.1 Complete the note for Ordinary share capital to the Balance Sheet on 30 June 2020. (8)
- 3.2 Calculate the missing figures indicated by (a) to (g) in the Cash Flow Statement. **NOTE:** The answer must indicate the correct sign. (13)
- 3.3 The Cash Flow Statement highlights some significant (important) decisions taken by the directors over the past year. Explain TWO of these significant decisions. Quote figures to support your answer. Also explain how these decisions would benefit the company and the shareholders. (6)

- 3.4 At the AGM, the directors announce that the company will:
- Conduct training of all employees in terms of morals and ethics
 - Donate funds towards cleaning up the environment

Explain why this is necessary although this will cost the company a lot of money each year. State THREE points. (6)

- 3.5 Calculate the following financial indicators for 2020:

- Acid-test ratio (4)
- Net asset value per share (3)

INFORMATION:

A. EXTRACT FROM INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

Income tax	426 000
Net profit after tax	904 000

B. EXTRACT FROM BALANCE SHEET AT 30 JUNE 2020

	2020	2019
ASSETS		
Non-current assets	5 492 000	3 493 000
Fixed assets	5 192 000	2 773 000
Financial assets	300 000	720 000
Current assets	2 557 000	2 508 000
Inventories	1 640 000	1 510 000
Trade and other receivables	810 000	960 000
SARS (Income tax)	0	18 000
Cash and cash equivalents	107 000	20 000
TOTAL ASSETS	8 049 000	6 001 000
EQUITY AND LIABILITIES		
Ordinary shareholders' equity	4 989 000	3 924 000
Ordinary share capital	3 776 000	3 084 000
Retained income	1 213 000	840 000
Non-current liabilities	1 980 000	700 000
Mortgage loan: Jozi Bank	1 980 000	700 000
Current liabilities	1 080 000	1 377 000
Trade and other payables	705 000	819 000
SARS (Income tax)	32 000	0
Shareholders for dividends	275 000	240 000
Bank overdraft	0	250 000
Current portion of loan	68 000	68 000
TOTAL EQUITY AND LIABILITIES	8 049 000	6 001 000

C. CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

CASH FLOW FROM OPERATING ACTIVITIES	?
Cash generated from operations	?
Interest paid	(134 000)
Dividends paid	(496 000)
Income tax paid	(a)
CASH FLOW FROM INVESTING ACTIVITIES	?
Purchase of fixed assets	(3 357 000)
Proceeds from sale of fixed assets	140 000
Proceeds from financial assets matured	420 000
CASH FLOW FROM FINANCING ACTIVITIES	?
Repurchase of shares	(b)
Proceeds with issue of shares	(c)
Change in loan	(d)
Net change in cash and cash equivalents	(e)
Cash and cash equivalents beginning of year	(f)
Cash and cash equivalents at the end of year	(g)

D. Shareholding for the 2020 financial year

- Authorised share capital: 1 200 000 ordinary shares
- On 1 July 2019 there were 1 020 000 shares in issue.
- On 1 January 2020 all the unissued shares were issued.
- On 31 May 2020, 20 000 shares were repurchased at R4,20 per share, which is R1 above the average issue price.

QUESTION 4: INTERPRETATION OF FINANCIAL INFORMATION (30 marks; 25 minutes)**4.1 CONCEPTS****REQUIRED:**

Concepts relating to companies are given in COLUMN A and descriptions in COLUMN B. Choose a description from COLUMN B that matches a concept in COLUMN A. Write only the letter (A – D) next to the question number (4.1.1 – 4.1.4) in the ANSWER BOOK.

COLUMN A (CONCEPT)	COLUMN B (EXPLANATION)
4.1.1 Liquidity	A indicates the benefit that the owners receive from their investment in the business
4.1.2 Solvency	B indicates the extent to which a business is financed by borrowed capital
4.1.3 Gearing	C indicates whether the business can pay off immediate debts
4.1.4 Return on equity	D indicates whether the business will be able to pay off all its debts

(4 x 1) (4)

4.2 MIRIAM LTD

The information presented relates to the financial year ended 30 April 2020.

REQUIRED:

- 4.2.1 Comment on the overall liquidity position of the company. Quote THREE relevant financial indicators (with figures). (8)
- 4.2.2 The directors decided to change the dividend pay-out policy in 2020.
- Provide calculations that indicate the policy change. (4)
 - Explain the effect of this change of policy on the company. State TWO points. (4)
- 4.2.3 One of the directors feels that the company should pay back the loan as soon as possible. What are your views about this? Quote and explain TWO relevant financial indicators with figures. (6)
- 4.2.4 Explain why the shareholders are satisfied with:
- The market price of the shares on the JSE (2)
 - The price at which the 75 000 shares were repurchased on 25 April 2020. (2)

In EACH case, quote figures/financial indicators.

INFORMATION:

The following financial indicators were calculated on 30 April:

	2020	2019
Current ratio	1,8 : 1	1,7 : 1
Acid-test ratio	0,9 : 1	1,3 : 1
Stock-holding period	52 days	68 days
Debtors' collection period	47 days	30 days
Debt-Equity ratio	0,3 : 1	0,4 : 1
Return on average capital employed	11%	13%
Return on average shareholders' equity	13,5%	14,5%
Earnings per share	107 cents	112 cents
Dividends per share	105 cents	40 cents
Net asset value per share	775 cents	768 cents
Market price per share (JSE)	960 cents	777 cents
Repurchase price per share	800 cents	-
Interest rate on loan	14%	13%

30**TOTAL: 150**

DBE EXAMPLER PAPER**QUESTION 1: AUDIT REPORT****(15 marks; 10 minutes)**

Swinton & Partners are the independent auditors of Shivaz Limited. You are provided with extracts from the published financial statements and independent audit report for the year ended 30 June 2019.

INFORMATION:**A. Extract from the financial statements for year ended 30 June 2015:**

	R
Current assets	2 600 000
Current liabilities	7 800 000
Trade & other receivables	750 000
Trade & other payables	5 800 000
Inventories	1 700 000
Cash & cash equivalents	150 000
Bank overdraft	2 300 000

B. Extracts from the independent audit report:**Basis for audit report**

Point 1 We were unable to obtain sufficient audit evidence to support the amounts provided for certain income and expense items ...

Point 2 Furthermore, the repurchase of shares on 31 May 2018 is not in accordance with provisions of the Companies Act as the liquidity of the company has been compromised ...

Opinion

Point 3 Because of the significance of the matters described above, we do not express an opinion ...

REQUIRED:

- 1.1 Why it is important for the independent auditors to be members of a professional accounting body, in this case SAICA? Provide TWO points. (2)
- 1.2 Why is it necessary for the published financial statements of Shivas Ltd to be audited by an auditor who is 'independent'? Provide TWO points. (2)
- 1.3 **Refer to Point 3 in the Audit Report.**
- What type of audit report did the company receive? (1)
 - Explain why the auditors decided to present this type of report. (2)
- 1.4 **Refer to Point 1 in the Audit Report.**
Give TWO examples of audit evidence that the auditors would have required regarding this problem. (2)
- 1.5 **Refer to Point 2 in the Audit Report.**
- Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion. (4)
 - Explain what the directors could have done to prevent this comment by the auditors. Provide TWO points. (2)

QUESTION 3: FINANCIAL INDICATORS & CASH FLOW STATEMENT**(30 marks; 25 minutes)**

- 3.1 Three financial statements are provided as options in which each of the following items would appear. Choose the financial statement and write only the letter (A–C) next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK, e.g. 3.1.4 D.

A	Statement of Financial Position (Balance Sheet)
B	Statement of Comprehensive Income (Income Statement)
C	Cash Flow Statement

3.1.1 Profit on sale of a fixed asset

3.1.2 Amount due to shareholders for final dividends payable

3.1.3 Total amount spent on the repurchase of shares (3 x 1) (3)

3.2 SUNSET LTD

The financial year ended on 28 February 2019.

REQUIRED:

3.2.1 Calculate the following figures for the 2019 Cash Flow Statement:

- Income tax paid (4)
- Dividends paid (4)
- Proceeds of shares issued (5)
- Fixed assets purchased (5)

3.2.2 Calculate financial indicators for the year ended 28 February 2019:

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

INFORMATION FOR SUNSET LTD:**A. Information from Income Statement on 28 February 2019:**

Sales	R8 725 000
Gross profit	3 525 000
Depreciation	408 000
Operating profit	2 033 900
Interest expense	441 000
Income tax	477 900
Net profit after tax	1 138 000

B. Information from Balance Sheet on 28 February:

	2019	2018
Fixed assets (carrying value)*	R11 835 100	R10 658 000
SARS: Income tax	18 000 Cr	63 000 Dr
Shareholders' equity	8 625 000	10 065 000
Ordinary share capital	7 724 000	9 300 000
Loan: Funza Bank	3 500 000	2 800 000
Shareholders for dividends	372 000	195 000

*NOTE: Fixed assets were sold at carrying value, R490 000.

C. Share capital and dividends:

SHARE CAPITAL		NUMBER OF SHARES	DETAILS OF SHARES
2018	1 March	1 500 000	In issue at R6,20 per share
	30 April	300 000	Repurchased at R6,90 per share
2019	1 January	40 000	New shares issued
	28 February	1 240 000	In issue

DIVIDENDS			DIVIDENDS PER SHARE
Final	2 March 2018	Paid	13 cents
Interim	31 August 2018	Paid	35 cents
Final	28 February 2019	Declared	30 cents

QUESTION 4: INTERPRETATION OF COMPANY INFORMATION**(40 marks; 30 minutes)**

You are provided with information relating to **HORIZON LTD** and **OPTIMA LTD**.

Mike Mbele owns shares and is a director in both these companies.

He recently invested another R420 000 in each company by buying shares on the JSE at market value as follows:

HORIZON LTD	OPTIMA LTD
R8,40	R4,00

REQUIRED:

NOTE: Provide figures, financial indicators or calculations in EACH case to support your comments and explanations.

4.1 Purchase of shares:

- Explain why directors should be interested in the price of their companies' shares on the JSE.
- Calculate the number of additional shares in Horizon Ltd that Mike was able to buy on the JSE in 2019. (2)
- Comment on the price that Mike paid for these additional shares in Horizon Ltd and give TWO reasons why he might have been satisfied to pay this price. (3)
- (6)

4.2 Dividends and earnings:

- Explain your opinion on which company has the better dividend pay-out policy. (6)
- Compare and comment on the % return on equity earned by EACH company. (4)
- Mike feels that the earnings per share (EPS) of Optima Ltd is much better than that of Horizon Ltd. Explain why he feels this way. (5)

4.3 Refer to the Cash Flow Statements.

The poor economy has negatively affected Horizon Ltd more than Optima Ltd.

- Explain TWO decisions taken by the directors of **Horizon Ltd** in response to the state of the economy, and how these decisions will affect the company in future. (6)
- Explain TWO decisions taken by the directors of **Optima Ltd** that affect risk and gearing. Quote and comment on TWO financial indicators. (8)

INFORMATION:**A. Shareholding of Mike Mbele in two companies:**

	HORIZON LTD	OPTIMA LTD
Number of shares bought in 2017	580 000 shares	1 430 000 shares
Total shares issued by each company	1 240 000 shares	2 600 000 shares
Additional shares bought by Mike	?	105 000 shares
Mike's % shareholding before buying additional shares	46,8%	55,0%

B. Financial indicators and additional information on 28 February 2019:

	HORIZON LTD	OPTIMA LTD
Earnings per share (EPS)	97 cents	83 cents
Dividends per share (DPS)	65 cents	80 cents
Debt-equity ratio	0,1 : 1	0,7 : 1
% return on average equity	6,2%	18,2%
% return on average capital employed	9,4%	15,1%
Net asset value (NAV)	750 cents	445 cents
Additional information:		
Interest rate on loans	12,0%	12,0%
Interest on investments	6,5%	6,5%

C. Extracts from Cash Flow Statements for year ended 28 February 2019:

	HORIZON LTD	OPTIMA LTD
Cash flows from investing activities	R2 700 000	(R2 730 000)
Purchase of fixed assets	0	(1 580 000)
Sale of fixed assets	1 800 000	0
Change in investments	900 000	(1 150 000)
Cash flows from financing activities	(2 670 000)	4 000 000
Proceeds of new shares issued	0	200 000
Shares repurchased	(1 070 000)	0
Cash effects of long-term loan	(1 600 000)	3 800 000

NOVEMBER 2015**QUESTION 3: COMPANY FINANCIAL STATEMENTS AND AUDIT REPORT****(60 marks; 35 minutes)****3.1 PRIDONA LIMITED**

The following information relates to Pridona Limited. The financial year ended on 30 June 2015. The business uses the perpetual (continuous) inventory system.

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

Calculate the correct net profit after tax for the year ended 30 June 2015. Indicate a + for increase and a – for decrease. (13)

3.1.2 Prepare the Retained Income Note on 30 June 2015. (11)

3.1.3 Prepare the Balance Sheet on 30 June 2015. Where notes are NOT required, workings must be shown. (30)

INFORMATION:**A.** List of balances/totals on 30 June 2015:

BALANCE SHEET ACCOUNTS SECTION	
Ordinary share capital	R5 600 000
Retained income (1 July 2014)	2 700 000
Mortgage loan: Custom Bank	262 200
Fixed assets	8 950 000
Trading stock	203 200
Debtors' control	316 000
Provision for bad debts (1 July 2014)	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 2015 was valued at R191 900.
- (ii) Provision for bad debts must be adjusted to R9 000.
- (iii) Rent for July 2015, R2 800, had been received in advance.
- (iv) An annual insurance premium of R6 000 was paid for the period 1 April 2015 to 31 March 2016.
- (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 2014.

(ii) The directors declared a final dividend of 22 cents per share on 30 June 2015 on all shares issued to date. Shares repurchased on 31 May 2015 do not qualify for final dividends.

(iii) Share capital:

1 July 2014	3 000 000 shares were in issue (R3 900 000)
15 August 2014	1 000 000 new shares were issued at R1,70 each (R1 700 000). This has been recorded.
31 May 2015	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 Custom Bank was obtained on 1 April 2014. 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 2014. All other loan repayments have been made. Interest is not capitalised and has been correctly recorded.

**3.2 AUDIT REPORT
REQUIRED:**

3.2.1 Choose the correct word from those given in brackets. Give a reason.

Trimex Ltd received a/an (qualified/unqualified/disclaimer) audit report. (2)

3.2.2 Explain TWO consequences of this audit report for the company and/or the CEO. (4)

INFORMATION:**EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS****Basis for our opinion**

The company's procurement policy states that purchases over R100 000 must be approved by the board of directors and supported by three quotations from independent suppliers.

During the year under review the company purchased two vehicles at a cost of R900 000. This was approved by the CEO without reference to the board. Only one quotation was received.

Audit opinion

Because of the significance of this matter, we have not been able to obtain sufficient audit evidence to provide a basis for an opinion. Accordingly, we do not express an opinion on the financial statements of Trimex Ltd for the year ended 30 June 2015.

Devi & Meyiwa Associates, CA (SA)

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QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION**(65 marks; 40 minutes)****4.1 CONCEPTS**

Give ONE term for each of the following descriptions by choosing a term from the list below. Write only the term next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

directors'report; Balance Sheet; shareholder; director;
internal auditor; Cash Flow Statement; independent auditor

- 4.1.1 A person employed by a company to check and advise management on the financial control systems (1)
- 4.1.2 The person appointed by the shareholders who expresses an unbiased opinion on the financial statements of a company (1)
- 4.1.3 A person appointed to manage a company and make decisions to ensure its smooth running (1)
- 4.1.4 The financial statement that shows the financial position of a business on a certain date (1)

4.2 SENZO LTD

The information below relates to Senzo Ltd.

REQUIRED:

- 4.2.1 Calculate the following figures that will appear on the Cash Flow Statement:
- Income tax paid (5)
 - Proceeds from disposal of fixed assets (carrying value) (5)
 - Net change in cash and cash equivalents. Indicate whether this is a net inflow or net outflow of cash. (5)
- 4.2.2 Complete the section of the Cash Flow Statement for cash effects of financing activities. (12)
- 4.2.3 Calculate the following for the financial year ended 28 February 2015.
- Acid-test ratio (4)
 - Return on shareholders' equity (ROSHE)
(Use average equity in your calculation.) (5)
 - Net asset value (NAV) per share (3)

INFORMATION:**A.** Figures from the Balance Sheet and notes:

	28 FEBRUARY 2015	28 FEBRUARY 2014
Fixed assets (carrying value)	R4 137 700	R2 598 300
Financial assets (fixed deposit)	350 000	600 000
Current assets	662 300	575 500
Inventories	322 000	345 000
Trade and other receivables	245 000	228 000
SARS: Income tax	6 400	–
Cash and cash equivalents	88 900	2 500
Shareholders' equity	3 439 500	2 718 000
Ordinary share capital	2 967 000	2 520 000
Retained income	472 500	198 000
Non-current liabilities	1 200 000	500 000
Current liabilities	510 500	555 800
Trade and other payables	323 000	285 000
Shareholders for dividends	187 500	108 000
SARS: Income tax	–	9 800
Bank overdraft	–	153 000

B. Extract from the Income Statement for the year ended 28 February 2015:

Gross profit	R2 040 000
Depreciation	215 100
Operating profit	1 300 000
Interest expense	132 000
Net profit before tax	1 175 000
Net profit after tax	846 000

C. Share capital:

- Authorised share capital consists of 800 000 ordinary shares.
- 150 000 new ordinary shares were issued on 1 October 2014.
- 60 000 ordinary shares were repurchased on 1 January 2015 at 90 cents above the average issue price of R4,30.
- On 28 February 2015 the share register reflected that a total of 690 000 shares had been issued to date.

D. Fixed assets:

- Additional property was purchased for R2 100 000. No other fixed assets were purchased.
- Equipment was sold at carrying value.

4.3 DON LTD AND KEY LTD

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

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

REQUIRED:

- 4.3.1 Comment on the value of the shares of the two companies on the Johannesburg Securities Exchange (JSE). Explain how this will influence your choice of company. (6)
- 4.3.2 Compare and comment on the dividend pay-out policies of the two companies. (6)
- 4.3.3 Comment on the degree of risk and gearing. Explain how this will influence your choice of company. (6)
- 4.3.4 Apart from the points mentioned above, what other factors would you consider before deciding in which company you are going to invest? Explain TWO points. (4)

INFORMATION:

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

NOVEMBER 2017

QUESTION 3: FIXED ASSETS, BALANCE SHEET AND AUDIT REPORT

(65 marks; 40 minutes)

The following information relates to Odette Ltd. The financial year ended on 28 February 2017.

REQUIRED:

- 3.1 **Refer to Information B.**
Calculate the missing amounts denoted by (a) to (e). (22)
- 3.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2017. Show workings. (37)

INFORMATION:

A. Amounts extracted from the records on 28 February 2017:

Balance Sheet accounts section	R
Ordinary share capital	?
Retained income (28 February 2017)	520 000
Fixed assets (carrying value)	?
Loan from Beque Bank	284 000
Trading stock	408 880
Net trade debtors	67 200
Fixed deposit: Elze Bank	?
Bank (favourable)	?
SARS: Income tax (provisional payments)	209 000
Creditors' control	184 000
Nominal accounts section (pre-adjustment amounts)	
Insurance	30 200
Rent income	108 450
Electricity	42 000

B. Fixed assets:

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT	TOTAL
Cost		350 000	460 000	
Accumulated depreciation		(315 000)		
Carrying value (01/03/2016)	(a)	35 000		
Movements:				
Additions	325 000	422 550	0	
Disposals	0	0	(d)	
Depreciation		(b)	(13 766)	
Carrying value (28/02/2017)	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 2017. One of these vehicles was purchased on 1 September 2016.
- Extract from the Fixed Assets Register in respect of equipment sold:

Fridge (Model X3) Date purchased: 1 March 2014 Date sold: 31 December 2016 Sold for: R81 250			
Depreciation rate: 10% p.a. (diminishing-balance method)			
	COST	DEPRECIATION	BOOK VALUE
28 February 2015	R120 000	R12 000	R108 000
29 February 2016		?	?
31 December 2016		?	?

- C. The electricity account for February 2017, R5 600, was still outstanding.
- D. The provision for bad debts must be increased by R270.
- E. An additional insurance policy was taken out on 1 November 2016. The annual premium of R10 200 was paid and recorded.
- F. The rent for February 2017 has not been received yet. The rent increased by 15% on 1 July 2016.
- G. Net profit after tax, R518 000, was calculated after taking into account all the adjustments above. Income tax is 30% of the net profit.
- H. 75% of the authorised share capital of 900 000 shares was in issue. The directors declared a final dividend of 24 cents per share on 28 February 2017.
- I. Extract from Beque Bank loan statement:

Balance on 1 March 2016	R376 000
Instalments (including interest)	R92 000
Interest capitalised	R48 000
Balance on 28 February 2017	?

NOTE:

- Interest has not been entered in the books.
 - R50 000 of the loan balance will be settled in the next financial year.
- J. The net asset value per share on 28 February 2017 is 620 cents.
- K. The current ratio is 2,1 : 1 on 28 February 2017.

3.3 AUDIT REPORT

An extract of the independent audit report of Karin Ltd for the financial year ended on 28 February 2017 is provided.

REQUIRED:

As a shareholder, what concerns would you have regarding this audit report? Explain THREE points.

(6)

INFORMATION:

EXTRACT FROM THE AUDIT REPORT OF KARIN LTD

We have audited the annual financial statements of Karin Ltd for the year ended 28 February 2017. These financial statements are the responsibility of the company's directors.

Basis for Disclaimer of Opinion

In the course of our audit we established that bonuses paid to directors, amounting to R9,8 million, had not been authorised by the Remunerations Committee.

Audit Opinion

Because of the significance of the matters described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Karin Ltd for the year ended 28 February 2017.

Bongani and Botha, Chartered Accountants (SA)

QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION
(85 marks; 50 minutes)

4.1 Choose a term to complete each of the following statements. Write only the term next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

shareholder(s); external auditor(s); director(s); internal auditor(s)

4.1.1 ... are appointed by the shareholders to manage the company.

4.1.2 The ... is employed by the company to set up functional internal control processes.

4.1.3 A ... is a person who invests in a company by buying shares.

4.1.4 ... are appointed by shareholders to give an unbiased opinion on the financial statements. (4 x 1) (4)

4.2 **SO-FINE LTD**

The given information relates to So-Fine Ltd for the financial year ended 31 August 2017.

REQUIRED:

4.2.1 Prepare the following notes to the Balance Sheet on 31 August 2017:

- Ordinary share capital (7)
- Retained income (9)

4.2.2 Complete the Cash Flow Statement by inserting only the details and figures indicated by a question mark (?). (19)

4.2.3 Calculate the following financial indicators on 31 August 2017:

- Percentage operating profit on sales (3)
- Debt-equity ratio (4)

4.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period. (4)

INFORMATION:**A. Information from the Income Statement for the financial year ended 31 August 2017:**

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 Balance Sheet on 31 August:

	2017 (R)	2016 (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 2016.
- The company issued 150 000 ordinary shares at R6,30 per share on 1 May 2017.
- 70 000 ordinary shares were repurchased from shareholders on 30 August 2017. 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 2017.
- A final dividend was declared on 30 August 2017.

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.

4.3 CASTRO LTD AND RONKI LTD

You are provided with information relating to two companies.

BACKGROUND INFORMATION:

- Henry Harries owns 300 000 shares in each company.
- **Castro Ltd** issued 200 000 new shares only to existing shareholders at the average issue price (R9,10). These funds were used to establish a new branch. No new loans were raised.
- **Ronki Ltd** paid R4 800 000 to repurchase 320 000 shares.

REQUIRED:

NOTE: Where comments or explanations are required, quote financial indicators and figures to support your answer.

CASTRO LTD

- 4.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued. (3)
- 4.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators. (6)
- 4.3.3 Henry had the option to buy some of the new shares issued by Castro Ltd. He had saved sufficient funds (interest rate 5% p.a.) for this purpose.
- If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy and how much would he have had to pay? (5)
 - Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option. (6)

RONKI LTD

- 4.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators. (6)
- 4.3.5 Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares. (3)
- 4.3.6 Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd. (6)

ADDITIONAL INFORMATION:**Financial indicators and additional information from annual reports:**

	CASTRO LTD		RONKI LTD	
	2017	2016	2017	2016
Debt-equity ratio	0,5 : 1	0,8 : 1		
Current ratio			1,9 : 1	3,5 : 1
Acid-test ratio			1,1 : 1	1,7 : 1
Stock-holding period			54 days	54 days
Number of shares in issue	700 000	500 000	580 000	900 000
Average share issue price	R9,10		R10,20	
Price paid for share repurchase			R15,00	
Price of share on JSE	R12,00		R15,00	
Net asset value per share	R10,73	R11,38	R13,30	R13,22
% return on shareholders' equity	23%	17%	16%	13%
% return on total capital employed	20%	15%		
Earnings per share	140 cents	196 cents	266 cents	171 cents
Total dividends	R357 000	R325 000	R928 000	R928 000
Dividends per share	51 cents	65 cents	160 cents	103 cents

NOVEMBER 2019**QUESTION 4: BALANCE SHEET AND AUDIT REPORT (70 marks; 45 minutes)**

- 4.1 Choose an explanation in COLUMN B that matches the term in COLUMN A. Write only the letters (A–E) next to the question numbers (4.1.1 to 4.1.5) in the ANSWER BOOK.

COLUMN A	COLUMN B
4.1.1 Internal auditor	A appointed by shareholders to manage a company
4.1.2 Memorandum of incorporation (MOI)	B the body responsible for registration of all companies
4.1.3 Limited liability	C employed by a company to ensure good internal control procedures
4.1.4 Director	D indicates that a company has a legal personality of its own
4.1.5 Companies and Intellectual Property Commission (CIPC)	E the document that establishes the rules and procedures of a company

(5 x 1) (5)

4.2 VISIV LTD

The financial year ended on 28 February 2019.

REQUIRED:

4.2.1 Calculate:

- Amounts for **(i)** and **(ii)** in the Fixed Assets Register (5)
- Profit/Loss on sale of asset (2)
- Fixed assets carrying value on 28 February 2019 (4)

4.2.2 Calculate the correct net profit **after tax** for the year ended 28 February 2019. Indicate (+) for increase and (–) for decrease. (9)

4.2.3 Refer to Information A–H. Prepare the following on 28 February 2019:

- Retained Income Note (9)
- Statement of Financial Position (Balance Sheet).

NOTE: Show workings. Certain figures are provided in the ANSWER BOOK. (27)

INFORMATION:**A. Fixed assets:**

A delivery vehicle was sold on 31 October 2018 but no entries were made to record this transaction.

Details of vehicle sold:

Delivery Vehicle X43			
Date purchased: 1 March 2016		Sold for: R195 000 (cash)	
Date sold: 31 October 2018			
Depreciation rate: 25% p.a. (diminishing-balance method)			
	COST	DEPRECIATION	CARRYING VALUE
28 February 2017	R400 000	R100 000	R300 000
28 February 2018		75 000	225 000
31 October 2018		(i)	(ii)

B. List of balances/totals on 28 February 2019 (before taking into account all adjustments below):

Ordinary share capital	R8 152 000
Retained income (1 March 2018)	865 300
Mortgage loan: Prati Bank	1 758 000
Fixed assets (carrying value)	10 190 000
Fixed deposit: Prati Bank (balancing figure)	?
Trading stock	1 102 000
Net trade debtors	1 090 000
Bank (favourable)	?
SARS: Income tax (provisional tax payments)	155 000
Creditors' control	1 906 800

C. Net profit before tax, R822 700, was calculated **before correcting the following:**

- Provision for bad debts must be increased by R65 000.
- R9 800 of an advertising contract applies to the next financial year.
- A tenant paid rent of R334 000 for the period 1 March 2018 to 31 March 2019. Rent was increased by R3 000 per month from 1 January 2019.
- Depreciation and profit/loss on the vehicle sold must be recorded.
- A further R43 000 is owed for income tax.

D. Ordinary shares:

DATE	DETAILS
1 March 2018	2 000 000 shares in issue; total book value R7 600 000
31 May 2018	360 000 shares repurchased at R4,10 each
1 October 2018	800 000 new shares issued
28 February 2019	2 440 000 shares in issue

E. Dividends:

- Interim dividends were paid in September 2018, R295 200.
- Final dividends of 20c per share were declared on 28 February 2019.

F. A creditor with a debit balance of R7 600 must be transferred to the Debtors' Ledger.

G. A cheque for R75 000, dated 30 April 2019, was issued to a supplier in February.

H. After processing all adjustments:

- The current ratio is 0,8 : 1.
- The current liabilities totalled R2 900 000.
- The current portion of the loan is the balancing figure.

4.3 AUDIT REPORT FOR YEAR-END 28 FEBRUARY 2019

The financial statements of Visiv Ltd (see QUESTION 4.2.3) were audited. You are provided with extracts from the audit report.

Extracts from the audit report:**Basis for audit report****Point 1**

We were unable to obtain sufficient audit evidence to support the amounts provided for certain income and expense items ...

Point 2

Furthermore, the repurchase of shares on 31 May 2018 is not in accordance with provisions of the Companies Act, 1973 (Act 61 of 1973), as the liquidity of the company has been compromised ...

Opinion**Point 3**

Because of the significance of the matters described above, we do not express an opinion ...

REQUIRED:

4.3.1 Refer to Point 3.

What type of audit report did the company receive? (1)

4.3.2 Refer to Point 1.

Give TWO examples of audit evidence that the auditors would have required regarding this problem. (2)

4.3.3 Refer to Point 2.

- Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion. (4)
- Explain what the directors could have done to prevent this comment by the auditors. Provide TWO points. (2)

QUESTION 5: CASH FLOW STATEMENT AND INTERPRETATION**(75 marks; 45 minutes)**

- 5.1 Three financial statements are provided as options in which each of the following items would appear. Choose the financial statement and write only the letter (A–C) next to the question numbers (5.1.1 to 5.1.4) in the ANSWER BOOK, e.g. 5.1.5 D.

A	Statement of Financial Position (Balance Sheet)
B	Statement of Comprehensive Income (Income Statement)
C	Cash Flow Statement

- 5.1.1 Profit on sale of a fixed asset
- 5.1.2 Amount due to shareholders for final dividends payable
- 5.1.3 Total amount spent on the repurchase of shares
- 5.1.4 Total income tax amount for the current financial year (4 x 1) (4)

5.2 SUNSET LTD

The financial year ended on 28 February 2019.

REQUIRED:

- 5.2.1 Calculate the following figures for the 2019 Cash Flow Statement:
- Income tax paid (4)
 - Dividends paid (4)
 - Proceeds of shares issued (6)
 - Fixed assets purchased (5)
- 5.2.2 Calculate financial indicators for the year ended 28 February 2019:
- % operating profit on sales (4)
 - Net asset value per share (4)
 - Debt-equity ratio (4)

INFORMATION FOR SUNSET LTD:**A. Information from Income Statement on 28 February 2019:**

Sales	R8 725 000
Gross profit	3 525 000
Depreciation	408 000
Operating profit	2 033 900
Interest expense	441 000
Income tax	477 900
Net profit after tax	1 138 000

B. Information from Balance Sheet on 28 February:

	2019	2018
Fixed assets (carrying value)*	R11 835 100	R10 658 000
SARS: Income tax	18 000 Cr	63 000 Dr
Shareholders' equity	8 625 000	10 065 000
Ordinary share capital	7 724 000	9 300 000
Loan: Funza Bank	3 500 000	2 800 000
Shareholders for dividends	372 000	195 000
*NOTE: Fixed assets were sold at carrying value, R490 000.		

C. Share capital and dividends:

SHARE CAPITAL		NUMBER OF SHARES	DETAILS OF SHARES
2018	1 March	1 500 000	In issue at R6,20 per share
	30 April	300 000	Repurchased at R6,90 per share
2019	1 January	40 000	New shares issued
	28 February	1 240 000	In issue

DIVIDENDS			DIVIDENDS PER SHARE
Final	2 March 2018	Paid	13 cents
Interim	31 August 2018	Paid	35 cents
Final	28 February 2019	Declared	30 cents

5.3 HORIZON LTD and OPTIMA LTD

Refer to Information D to F.

Mike Mbele owns shares and is a director in both these companies.

He recently invested another R420 000 in each company by buying shares on the JSE at market value as follows:

HORIZON LTD	OPTIMA LTD
R8,40	R4,00

REQUIRED:

NOTE: Provide figures, financial indicators or calculations in EACH case to support your comments and explanations.

5.3.1 Purchase of shares:

- Explain why directors should be interested in the price of their companies' shares on the JSE. (2)
- Calculate the number of additional shares in Horizon Ltd that Mike was able to buy on the JSE in 2019. (3)
- Comment on the price that Mike paid for these shares and give TWO reasons why he might have been satisfied to pay this price. (6)

5.3.2 Dividends and earnings:

- Explain your opinion on which company has the better dividend pay-out policy. (6)
- Compare and comment on the % return on equity earned by EACH company. (6)
- Mike feels that the earnings per share (EPS) of Optima Ltd is much better than that of Horizon Ltd. Explain why he feels this way. (5)

5.3.3 Refer to the Cash Flow Statements.

The poor economy has negatively affected Horizon Ltd more than Optima Ltd.

- Explain TWO decisions taken by the directors of **Horizon Ltd** in response to the state of the economy, and how these decisions will affect the company in future. (6)
- Explain TWO decisions taken by the directors of **Optima Ltd** that affect risk and gearing. Quote and comment on TWO financial indicators. (8)

D. Shareholding of Mike Mbele in two companies:

	HORIZON LTD	OPTIMA LTD
Number of shares bought in 2017	580 000 shares	1 430 000 shares
Total shares issued by each company	1 240 000 shares	2 600 000 shares
Additional shares bought by Mike	?	105 000 shares
Mike's % shareholding before buying additional shares	46,8%	55,0%

E. Financial indicators and additional information on 28 February 2019:

	HORIZON LTD	OPTIMA LTD
Earnings per share (EPS)	97 cents	83 cents
Dividends per share (DPS)	65 cents	80 cents
Debt-equity ratio	0,1 : 1	0,7 : 1
% return on average equity	6,2%	18,2%
% return on average capital employed	9,4%	15,1%
Net asset value (NAV)	750 cents	445 cents
Additional information:		
Interest rate on loans	12,0%	12,0%
Interest on investments	6,5%	6,5%

F. Extracts from Cash Flow Statements for year ended 28 February 2019:

	HORIZON LTD	OPTIMA LTD
Cash flows from investing activities	R2 700 000	(R2 730 000)
Purchase of fixed assets	0	(1 580 000)
Sale of fixed assets	1 800 000	0
Change in investments	900 000	(1 150 000)
Cash flows from financing activities	(2 670 000)	4 000 000
Proceeds of new shares issued	0	200 000
Shares repurchased	(1 070 000)	0
Cash effects of long-term loan	(1 600 000)	3 800 000

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QUESTION 2: FINANCIAL INDICATORS AND CASH FLOW STATEMENT

(40 marks; 35 minutes)

2.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.

2.1.1 The (directors' report/audit report) gives an explanation of the operations of the company during a financial year.

2.1.2 The (independent/internal) auditors are responsible for monitoring the financial control measures of a company on a regular basis.

2.1.3 In the event of bankruptcy, the shareholders are normally not responsible for the debts of the business. This is because of (limited/unlimited) liability.
(3)

2.2. USANDA LIMITED

The financial year ended on 28 February 2021.

REQUIRED:

2.1.1 Calculate the following figures for the 2021 Cash Flow Statement:

Income tax paid (4)

Dividends paid (4)

2.1.2 Prepare the following sections of the Cash Flow Statement:

Cash effects for financing activities (11)

Net change in cash and cash equivalents (4)

2.1.3 Calculate the following financial indicators for the year ended 28 February 2021:

• % operating profit on sales (2)

• Acid-test ratio (4)

• % return on the average shareholders' equity (ROSHE) (4)

• Dividend pay-out rate (%) (4)

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

Sales	R17 800 000
Operating profit	2 262 100
Interest on loan (capitalised)	270 000
Net profit before tax	1 777 000
Net profit after tax	1 243 900

B. Extract: Statement of Financial Position:

	28 February 2021	29 February 2020
Fixed assets (carrying value)	R13 650 600	R13 590 000
Current assets	659 500	1 067 500
Inventories	276 500	373 200
Trade and other receivables	262 300	539 600
Cash and cash equivalents	120 700	154 700
Shareholders' equity	9 891 400	11 985 000
Ordinary share capital	9 555 000	11 220 000
Retained income	336 400	765 000
Loan: VBC Bank (see E)	?	2 080 000
Current liabilities	611 900	592 500
Trade and other payables	252 100	185 700
Bank overdraft	0	90 000
SARS: Income tax	19 800	69 300
Shareholders for dividends	340 000	247 500

C. Share capital:

DATES	NUMBER OF SHARES	DETAILS OF SHARES
1 March 2020	1 650 000	In issue
30 October 2020	50 000	Additional shares issued
27 February 2021	335 000	Shares repurchased at R9,50 each
28 February 2021	1 365 000	In issue

D. Dividends and earnings:

- An interim dividend was paid on 31 August 2020.
- A final dividend of 20 cents per share was declared on 28 February 2021.
- Total dividends for the year amounted to R835 000.
- Earnings per share (EPS) on 28 February 2021 was 74 cents.

E. Loan: VBC Bank

- The balance on 1 March 2020 was R2 080 000.
- Monthly instalments of R35 000, including interest, were paid.
- Interest capitalised amounted to R270 000.

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

Choose the question from COLUMN B that matches a category of financial indicators in COLUMN A. Write only the letter (A–E) next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

COLUMN A			COLUMN B
3.1.1	Liquidity	A	Is the business managing expenses effectively to increase profitability?
3.1.2	Risk and gearing	B	Is the investment in the company better than investing in a fixed deposit?
3.1.3	Return to shareholders	C	Will the company be able to pay off its current debts?
3.1.4		D	Will the company be able to pay off all its debts using existing funds?
		E	How is the company managing loans or borrowing capital?

(4)

3.2 SCI-FI GEEKS LTD

The business trades in electronic equipment purchased from China. The information relates to the past two financial years, ended 31 March. The COVID-19 lockdown has negatively affected sales over the current financial year.

REQUIRED:**3.2.1 Liquidity:**

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response.

(6)

3.2.2 Dividends:

The directors changed the dividend policy for the current financial year.

- Comment on the dividend per share over the two years. Quote figures. (2)
- Explain the change in the dividend pay-out rate and give a reason for this change. Quote figures. (4)
- A shareholder felt that they should be satisfied with the dividends they received, as it is better than last year. Explain why you agree with him. Quote figures. (3)

3.2.3 Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures).

(6)

- 3.2.4 Existing shareholders are dissatisfied that the new shares issued on April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures (6)
- 3.2.5 The Cash Flow Statement reflected a positive change of R980 000. Provide TWO points why this should still be a concern to directors. Quote figures. (6)

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

	2021	2020
Mark-up % achieved	60%	60%
% net profit before tax on sales	13,9%	20,3%
Current ratio	2,4 : 1	1,1 : 1
Acid-test ratio	1,0 : 1	0,4 : 1
Stockholding period	102 days	32 days
Average debtors' collection period	46 days	31 days
Average creditors' payment period	60 days	60 days
Earnings per share	58 cents	130 cents
Dividends per share	72 cents	90 cents
Dividend payout rate	136,5%	69%
Debt-equity ratio	0,4 : 1	0,3 : 1
Return on average shareholders' equity	17,7%	31,6%
Return on total capital employed	23,2%	39%
Net asset value per share	332 cents	409 cents
Market price of shares on stock exchange	410 cents	540 cents
Interest rate on loans	13,5%	13,5%
Interest rate on fixed deposits	6,8%	7,8%

B. Share capital:

- On 1 April 2020 the company issued an additional 250 000 shares.
- On 31 March 2021 there were 1 250 000 shares in issue.

C. Extract from the Cash Flow Statement on 31 March:

	2021	2020
Cash flows from operating activities	(148 080)	910 000
Cash generated from operations	1 281 620	
Interest paid	(232 000)	
Taxation paid	(272 700)	
Dividends paid	(925 000)	
Cash flows from investing activities	101 580	(300 000)
Cash flows from financing activities	1 026 500	(100 000)
Sale of shares	375 000	0
Change in loan	651 500	(100 000)
Cash and cash equivalents: Net change	980 000	510 000
Opening	(330 000)	(840 000)
Closing	650 000	(330 000)

DBE NOVEMBER 2021

QUESTION 1: STATEMENT OF FINANCIAL POSITION (55 marks; 45 minutes)

JIMO LIMITED

The information relates to the financial year ended 30 June 2021. The business sells formal clothing for men and women.

REQUIRED:

1.1 Refer to Information B.

Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021. (5)

1.2 Refer to Information C.

Use the table provided to calculate the correct **net profit after tax** for the year ended 30 June 2021. Indicate '+' for increase and '-' for decrease. (12)

1.3 Refer to Information A–H.

Complete the following on 30 June 2021:

- Retained Income Note (5)
- Statement of Financial Position (Balance Sheet) (33)

NOTE:

- Adjustments from Information C also affect the Statement of Financial Position (Balance Sheet).
- Show workings. Certain figures are provided in the ANSWER BOOK.
- Figures are NOT required in the shaded areas.

INFORMATION:

A. List of balances, before taking into account all adjustments below:

	30 June 2021 (R)	30 June 2020 (R)
Ordinary share capital	?	?
Retained income	3 240 000	
Mortgage loan: Best Bank	3 755 000	4 175 000
Trading stock	4 198 500	
SARS: Income tax (provisional tax)	1 200 000	
Net trade debtors	3 668 810	
Bank overdraft	?	
Petty cash and cash float	?	
Creditors' control	1 253 000	
Accrued income/Income receivable	8 000	
Shareholders for dividends	1 170 000	821 700

B. The accountant omitted the closing stock figure of formal suits in the trading stock balance provided in Information A.

NOTE:

- The first-in-first-out (FIFO) method is used to value the stock of the formal suits.
- All other relevant entries have been recorded correctly.

The information relating to the stock of formal suits is as follows:

Balances:	QUANTITY	UNIT PRICE	TOTAL VALUE
1 July 2020	110	R1 900	R209 000
30 June 2021	240	?	?
Purchases:	760		R1 943 500
14 Nov. 2020	360	R2 350	R846 000
10 Feb. 2021	170	R2 600	R442 000
18 May 2021	230	R2 850	R655 500
Returns:			
25 May 2021	24	R2 850	R68 400

C. The net profit before tax, R4 918 950, was calculated before taking into account/ correcting the following:

- (i) Audit fees include R123 600 which was paid in advance for the next financial year.
- (ii) The repayments on the loan are fixed at R35 000 per month (including capitalised interest).

The balances as per loan statement were:

- 1 July 2020, R4 175 000
- 30 June 2021, R4 028 000

Provide for interest on loan.

(iii) Rent income:

Rent of R74 000 was received from a tenant for the period 1 July 2020 to 31 August 2021. This has been recorded. This amount takes into account a reduction of R750 per month from 1 May 2021. The year-end adjustment has not yet been made.

(iv) After taking into account the corrections above, it was determined that an additional R85 250 is still owed to SARS in respect of income tax for the year.

D. Shares and dividends:

- 26 000 shares were repurchased on 1 July 2020 at R3,00 above the average share price.
- The business did not pay interim dividends during the 2021 financial year.
- A final dividend of 65 cents per share was declared on 30 June 2021.
- 1 800 000 shares were in issue on 30 June 2021.

E. Debtors with credit balances totaling R11 000 must be transferred to the Creditors' Ledger.

F. On 30 June 2021, Jimo Ltd returned 10 ladies' coats to the supplier, Bargain Wholesalers. The selling price was R1 750 each. The mark-up was 25% on cost. No entry has been made.

G. A fixed monthly instalment of R35 000 (to cover loan repayments and interest) has to be paid over the full period of the loan. Interest will decline over the life of the loan. The interest on the loan budgeted for the next financial year is R234 000.

H. The following financial indicators were calculated on 30 June 2021:

Acid-test ratio	1,2 : 1
Net asset value per share (NAV)	540 cents

QUESTION 2: SHARE CAPITAL, FINANCIAL INDICATORS AND CASH FLOW STATEMENT (35 marks; 25 minutes)

The information relates to Brewer Ltd for the financial year ended 28 February 2021.

REQUIRED:

- 2.1 Prepare the Ordinary Share Capital Note on 28 February 2021. (6)
- 2.2 Calculate the following financial indicators on 28 February 2021:
 - % operating expenses on sales (2)
 - Dividend per share (4)
 - % return on average shareholders' equity (5)
- 2.3 Complete the Cash Flow Statement for the year ended 28 February 2021. Certain figures are provided in the ANSWER BOOK. (18)

INFORMATION:

A. Shares and dividends:

DATE	DETAILS OF SHARES
1 March 2020	800 000 in issue
30 June 2020	100 000 new shares issued
1 January 2021	30 000 shares repurchased at R1,20 more than the average share price
28 February 2021	? shares in issue

- Interim dividend of R162 000 was paid on 30 September 2020.
- A final dividend of 22 cents per share was declared on 28 February 2021.

B. Extract from the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2021:

Sales	R7 293 000
Cost of sales	4 862 000
Operating expenses	1 458 600
Net profit before tax	1 350 000
Net profit after tax	985 500

C. Extract from the Statement of Financial Position (Balance Sheet) on:

	28 Feb. 2021 R	29 Feb. 2020 R
Petty cash and cash float	?	20 000
Ordinary shareholders' equity	8 038 100	6 450 000
Ordinary share capital	7 395 000	6 400 000
Retained income	643 100	50 000
Loan: Sharks Bank	1 650 000	2 200 000
SARS: Income tax	29 100 Dr	35 900 Cr
Shareholders for dividends	191 400	115 300
Bank overdraft	0	95 200

QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION

(40 marks; 30 minutes)

3.1 Choose a category of indicators from COLUMN B that matches the description in COLUMN A. Write only the letter (A–D) next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
3.1.1	The benefit that shareholders receive for investing in a company	A	liquidity
3.1.2	The ability of a business to pay off its short-term debts	B	gearing
3.1.3	The extent to which a company is financed on borrowed capital (loans)	C	solvency
3.1.4	The ability of a business to settle all its debts using existing assets	D	return on equity

(4 x 1) (4)

3.2 **FLEXI LTD AND BROOM LTD**

The information relates to two companies.

BACKGROUND INFORMATION:

- Both companies operate in the fashion clothing industry. The financial year ends on the last day of February each year.
- Bob Yates owns shares in both companies. On 1 November 2020, he convinced the board of directors of Flexi Ltd to repurchase 150 000 of his shares. He used the money received to purchase additional shares in Broom Ltd.

NOTE: Where comments or explanations are required, quote financial indicators, figures and trends to support your answer.

REQUIRED:

3.2.1 **Profitability:**

Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently, and is thereby more profitable. (4)

3.2.2 **Dividends, earnings and returns:**

- Comment on the dividend pay-out policy of **Flexi Ltd**. Explain why this is an irresponsible change in policy. Provide TWO points. (4)
- Comment on the % return on shareholders' equity of EACH company. (4)
- A shareholder feels that earnings per share (EPS) in **Broom Ltd** are better than that in **Flexi Ltd**. Explain why you agree with him. (4)

3.2.3 Shareholding of Bob Yates in both companies:

- Comment on the price paid for the shares repurchased by **Flexi Ltd**. Provide TWO points. (4)
- Calculate the number of shares that Bob purchased in **Broom Ltd** with the money he received from the share buyback at **Flexi Ltd**. (2)
- Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. (4)

3.2.4 Financing strategies and gearing:

The directors of each company have taken deliberate decisions that are reflected in their Cash Flow Statements.

- Explain the decisions taken by the directors of **Broom Ltd** and how these will benefit the company. (4)
- Explain how the decisions taken by **Flexi Ltd** affected the risk and gearing of the business. Quote TWO financial indicators. (6)

INFORMATION:

A. Extracts from the accounting records at the end of each year:

	FLEXI LTD		BROOM LTD	
	Feb. 2021	Feb. 2020	Feb. 2021	Feb. 2020
Number of shares in issue	700 000	850 000	1 500 000	1 100 000
Funds used to repurchase shares	R1 980 000			
Repurchase price	R13,20			
Increase in share capital	0		R2 640 000	
Issue price of additional shares			R6,60	
Fixed assets purchased	R1 000 000		R2 200 000	
Increase (decrease) in loan	R4 500 000		(R400 000)	

B. Financial indicators, interest rate and market price of shares:

	FLEXI LTD		BROOM LTD	
	Feb. 2021	Feb. 2020	Feb. 2021	Feb. 2020
% operating expenses on sales	17,5%	14,6%	13,6%	17,0%
% operating profit on sales	18,2%	21,9%	24,2%	20,5%
% net profit on sales	13,8%	18,0%	19,6%	16,0%
Debt-equity ratio	1,1 : 1	0,4 : 1	0,2 : 1	0,4 : 1
% return on capital employed	10,2%	16,1%	17,2%	14,7%
% return on shareholders' equity	7,6%	12,2%	14,1%	10,7%
Net asset value per share	1 081 cents	1 128 cents	632 cents	609 cents
Market price of shares	990 cents	1 130 cents	660 cents	615 cents
Interest rate on loans	13%	13%	13%	13%
Earnings per share	80 cents	138 cents	72 cents	65 cents
Dividends per share	92 cents	82 cents	48 cents	70 cents
Dividend pay-out rate	115%	59%	67%	108%

C. Shareholding of Bob Yates in both companies

	FLEXI LTD		BROOM LTD	
	2021	2020	2021	2020
Shares in each company	283 500	433 500	?	460 000
% shareholding in each company	?	51,0%	?	41,8%

QUESTION 4: CORPORATE GOVERNANCE (20 marks; 20 minutes)

4.1 Explain why a disclaimer audit report would be bad for a company's reputation. Provide TWO points. (4)

4.2 One of the most important decisions that shareholders have to make at the annual general meeting (AGM) is to appoint directors to serve on the board.

- Explain why the shareholders have been given this responsibility. (2)
- If you were a shareholder, what factors or characteristics would you want to find out about the directors who would get your vote? Explain TWO points and give a reason for EACH. (6)

4.3 A recent news report stated that a major company, Baxco Ltd, had been awarded a tender to supply equipment worth R20 m to a chain of private hospitals. The report accuses the CFO (chief financial officer) of that company of paying R2 m in cash to the CEO of the hospital group.

As a shareholder, explain what you would say at the AGM. Provide TWO points. (4)

4.4 A major South African company has stated the following on its website and in its Directors' Report.

We have set up ways for employees and external stakeholders to report unethical conduct and incidents of individuals not complying with the company's ethical policies.

We have set up a tip-off phone line (call centre) controlled by an independent service provider.

All information will be treated confidentially. Whistle-blowers (informants) who submit genuine information will be protected and will remain anonymous.

In your opinion, explain why this major company found it necessary to implement this policy. Provide TWO points. (4)

20

OWN QUESTION**QUESTION 1: COMPANY FINANCIAL STATEMENTS****(75 marks; 55 minutes)**

- 1.1 Choose the correct word(s) provided in brackets, that correctly completes each statement. Write only the word(s) next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.
- 1.1.1 A decrease in the provision for bad debts is an (expense/income).
- 1.1.2 Rent received in advance for the next financial period will be reflected as a (current liability/current asset)
- 1.1.3 A fixed deposit that will matures after five years' time will be recorded as a (non-current asset/equity). (3)

1.2 ZWANI LTD

The information relate to the financial year ended 29 February 2020.

REQUIRED:

- 1.2.1 Calculate the missing amounts denoted by (i) to (iii) on the Fixed Assets note provided. (13)
- 1.2.2 Complete the following notes to the Balance Sheet (Statement of Financial Position) for the financial year ended 29 February 2020:
- Ordinary share capital (7)
 - Retained income (9)
- 1.2.3 Prepare the Income Statement (Statement of Comprehensive Income) (26)
- 1.2.4 Prepare the Equity and Liabilities section of the Balance Sheet. (17)

INFORMATION:**A. Balances/Totals on 29 February:**

	2020	2019
Ordinary share capital	10 200 000	8 400 000
Retained income	?	244 400
Trading stock	445 600	
Loan from director	615 000	
Fixed assets at carrying value	?	
Trade creditors	158 900	
SARS: Income tax (provisional payments)	375 800	
Sales	5 600 000	
Cost of sales	3 500 000	
Rent income	149 600	
Sundry expenses	45 200	
Salaries and wages	212 000	
Audit fees	200 000	
Directors' fees	333 500	
Interest on fixed deposit (balancing figure)	?	
Interest on loan	126 000	

B. Adjustments and additional information:**(a) Information relating to fixed assets:****• Incomplete Fixed Assets note:**

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT
Carrying value (1/03/2019)		319 600	230 000
Cost	1 760 000	560 000	430 000
Accumulated depreciation		(240 400)	(200 000)
Movements:			
Additions	600 000	180 000	0
Disposals	0	0	(ii)
Depreciation		(i)	(iii)
Carrying value (29/02/2020)	2 360 000		
Cost	2 360 000		
Accumulated depreciation			

- The new vehicle was purchased on 1 February 2020. The transaction was not recorded.
- Old equipment was sold for cash in on 1 November 2019. Details of the equipment sold is as follows:

Cost price	R120 000
Selling price	72 000
Accumulated depreciation on 1 March 2019	42 000

- Depreciation must be provided for as follows:
 - Vehicles 20% on the diminishing cost method
 - Equipment at 10% on the cost price method
- (b) The following adjustments must be taken into account to prepare the financial statements:**
- A debtor returned goods, selling price, R15 000 (mark-up: 60% on cost) on 29 February 2020. The goods were placed back in stock.
 - R40 000 of the audit fees was paid for the next accounting period.
 - The company has two directors who earn the same fee. One director was not paid for February 2020.
 - Part of the building is rented out since 2017. Note that the rent increased by 12% p.a. with effect from 1 November 2019. The rent for March 2020 rent was received and deposited.
 - Trading stock on hand on 29 February 2020 amounts to R450 000.
- (c) Net profit and Income Tax:**

After taking into account all adjustments, the correct net profit after tax amounted to R958 500. Income tax is 29% of the net profit.

(d) Transfer a debit balance of R1 000 from the Debtors' Ledger to the Creditors' Ledger.

(e) **Loan from Director:**

The loan from a director was received on 1 August 2017. This is to be repaid over 6 years. A fixed instalment (excluding interest) is made at the end of each month. The first instalment was made on 31 August 2017, and all payments are up to date. Interest is not capitalised.

(f) **Share capital and dividends:**

Authorised share capital: 2 000 000 ordinary shares

1 March 2019	70% of the shares were in issue.
1 June 2019	300 000 shares repurchased at R7,20 each.
31 August 2019	Interim dividends of R220 000 was paid.
1 December 2019	Additional 400 000 shares were issued.
29 February 2020	Final dividend at 35 cent per share were declared. All shares on share register qualify for final dividends.

FREE STATE MARCH 2018

QUESTION 2: COMPANY FINANCIAL STATEMENTS AND NOTES

(75 marks; 45 minutes)

2.1 MATCHING ITEMS

REQUIRED:

Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–D) next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B
2.1.1	Income Statement	A This shows the owners' equity (net worth) of a company, its assets and liabilities, at the end of the financial year. B This shows an opinion expressed on the fair presentation of the figures in the financial statements. C This shows the net profit or loss of a company for a financial year. D This shows the effect of the operating, financing and investing activities on the money processed by the business.
2.1.2	Balance Sheet	
2.1.3	Cash Flow Statement	
2.1.4	Independent Auditor's Report	

(4)

MORGAN LTD

2.2 Complete the Income Statement for the year ended 28 February 2018. Note that some information is included in the ANSWER BOOK. (32)

2.3 Prepare the following notes to the Balance Sheet:

2.3.1 Ordinary share capital (10)

2.3.2 Retained income (10)

2.4 Complete the EQUITY AND LIABILITIES section of the Balance Sheet. Show workings in brackets. (19)

INFORMATION:

- A.** The following balances/totals, amongst others, appeared in the books on 28 February 2018:

	2018	2017
	R	R
Ordinary share capital	?	4 500 000
Retained income	814 500	750 500
Loan: Rian Bank	?	
Shareholders for dividends	355 500	
Trading stock (before stock take)	225 950	
Debtors' control	840 230	
Provision for bad debts (1 March 2017)	19 600	
Bank	11 850	
Cr.		
Creditors' control	412 200	
SARS: Income tax (provisional tax payments)	444 750	
Sales	10 800 000	
Rent income	92 800	
Commission income	12 000	
Salaries and wages	1 529 150	
Depreciation	199 750	
Interest income	?	
Interest expense	57 500	
Sundry expenses	875 000	
Directors' fees	630 000	
Audit fees	36 000	
Ordinary share dividends (interim)	?	

- B.** The business maintains a mark-up of 80% on cost.
- C.** The following adjustments must still be brought into account:
- Stocktaking on 28 February 2018 reflected trading stock of R213 750 on hand.
 - Provision for bad debts must be increased with R1 500 on 28 February 2018.
 - 25% of the audit fees was still due on 28 February 2018.
 - One of the three directors is still owed his fee for February 2018. All three directors received the same monthly fee.
 - A storeroom was rented out from 1 May 2017. On 1 December 2017 the rent was increased with 15%. The rent for March 2018 was received.
 - Interest income is the balancing figure.

D. Loan: Rian Bank

The loan statement showed a closing balance of R520 000. The company plans to increase their loan repayments in order to settle 20% of the loan balance in the next financial year.

E. Income tax is calculated at 30% of the net profit before tax.

F. Share capital and dividends:

- The company is registered with an authorised share capital of 2 000 000 ordinary shares.
- 75% of the authorised shares were in issue on 1 March 2017.
- On 30 November 2017, the company repurchased 250 000 shares at R0,90 more than the average price.
- On 15 January 2018 another 400 000 shares at R5 were sold.
- An interim dividend was paid on 1 October 2017.
- A final dividend was declared on 28 February 2017.

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET	
$\frac{\text{Gross profit} \times 100}{\text{Sales}} \quad 1$	$\frac{\text{Gross profit} \times 100}{\text{Cost of sales}} \quad 1$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses} \times 100}{\text{Sales}} \quad 1$	$\frac{\text{Operating profit} \times 100}{\text{Sales}} \quad 1$
Total assets : Total liabilities	Current assets : Current liabilities
(Current assets – Inventories) : Current liabilities	Non-current liabilities : Shareholders' equity
(Trade & other receivables + Cash & cash equivalents) : Current liabilities	
$\frac{\text{Average trading stock} \times 365}{\text{Cost of sales}} \quad 1$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors} \times 365}{\text{Credit sales}} \quad 1$	$\frac{\text{Average creditors} \times 365}{\text{Cost of sales}} \quad 1$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share} \times 100}{\text{Earnings per share}} \quad 1$	$\frac{\text{Dividends for the year} \times 100}{\text{Net income after tax}} \quad 1$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
NOTE:	
* In this case, if there is a change in the number of issued shares during a financial year, the weighted-average number of shares is used in practice.	

WINTER CLASSES

2022

PAPER 1

ANSWER BOOK



education

Department of
Education
FREE STATE PROVINCE

FREE STATE 2020

QUESTION 1

1.1.1

		ANSWER
(a)		
(b)		
(c)		

11

1.1.2 GLOBAL TRADING LIMITED
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

Sales (3 345 000)	
Cost of sales (2 090 625)	
Gross profit	
Other operating income	
Rent-income	
Gross operating income	
Operating expenses	
Rates and taxes	72 500
Bad debts	
Insurance	
Salaries and wages	
Consumable goods	
Sundry expenses	124 500
Operating profit	
Profit before interest expenses/Finance cost	
Profit before tax	
Income tax	(180 000)
Net profit after tax	

50

1.1.3

Refer to the disposal of the computer for R4 000 in Information C (H) of QUESTION 1.1.2. Another director, Joe Mathibi, has complained that Tim Louw has acted unethically in taking over the computer for R4 000. Tim disagrees.

(a) Give ONE opinion to support Joe.

(b) Give ONE opinion to support Tim.

4

65

QUESTION 2

2.1

2.1.1	
2.1.2	
2.1.3	

3

2.2.1

SHARE CAPITAL		
600 000	Shares issued at the end of the year	4 680 000

8

2.2.2

Current Liabilities	
Trade and other payables	

15

2.3.1 Calculate the net asset value per share on 29 February 2020.

3

2.3.2 Calculate the return on total capital employed for the 2020 financial year.

8

2.3.3 The directors of Progress Ltd want to take out a loan for R500 000. Quote ONE financial indicator (actual figure/ratio/ percentage) that are relevant to their decision. Would you advise them to take out the loan?

3

40

QUESTION 3

3.1

3.1.1		3.1.4	
3.1.2		3.1.5	
3.1.3			

5

3.2.1

Calculate the amount for taxation paid in the Cash Flow Statement.

4

3.2.2

Cash flow from investing activities.	

9

3.2.3

Calculate the change in cash and cash equivalents according to the Cash Flow Statement.	

4

3.3.1 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.

4

3.3.2 If the balance on the loan at the end of 2020 is R680 000, calculate the shareholders' equity at the end of 2020.

2

3.3.3 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.

5

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

4

Nikola 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.

4

3.4.2 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.

4

45

TOTAL: 150

MPUMALANGA SEPTEMBER 2020

QUESTION 1

1.1 CONCEPTS

1.1.1	
1.1.2	
1.1.3	

3

1.2 TRANSACTION ANALYSIS

	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT	A	E	L
1.2.1	Bank		250 000			
1.2.2			40 000			

7

1.3 AUDIT REPORT

1.3.1 What type of audit report did Trojan Ltd receive? Choose from the following: unqualified, qualified, disclaimer.

Reason:

3

1.3.2 To whom is an audit report addressed?

Reason:

3

1.3.3

Explain why the auditor mentioned IFRS in the audit report.

2

Explain why the auditor mentioned the Companies Act (Act 71 of 2008) in the audit report.

2

TOTAL MARKS
20

QUESTION 2

2.1 PEABODY LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2020

Sales	
Cost of sales	(15 450 000)
Gross profit	
Other Operating income	
Gross operating income	
Operating expenses	
Directors' fees	1 230 000
Salaries and wages	1 315 150
Bad debts	24 000
Operating profit	
Income tax	(520 800)

2.2 RETAINED INCOME

Balance at the beginning of the year	
Dividends on ordinary shares	
Balance at the end of the year	

15

TOTAL MARKS
60

QUESTION 3

3.1 ORDINARY SHARE CAPITAL

AUTHORISED		
1 200 000 ordinary shares		
ISSUED		
1 020 000	Ordinary shares at the beginning of the year	3 084 000
	Ordinary shares at the end of the year	3 776 000

8

3.2 Calculate the missing figures indicated by (a) to (g) in the Cash Flow Statement.

NOTE: The answer must indicate the correct sign.

	Calculation	Answer
(a)		
(b)		
(c)		
(d)		
(e)		
(f)		
(g)		

13

3.3

The Cash Flow Statement highlights some significant (important) decisions taken by the directors over the past year. Explain TWO of these significant decisions. Quote figures to support your answer.

Explain how these decisions would benefit the company and the shareholders.

6

3.4

At the AGM, the directors announce that the company will:

- **Conduct training of all employees in terms of morals and ethics**
- **Donate funds towards cleaning up the environment**

Explain why this is necessary although this will cost the company a lot of money each year. State THREE points.

6

3.5

Calculate the acid test ratio

--

4

Calculate the net asset value per share

--

3

TOTAL MARKS

40

QUESTION 4

4.1 CONCEPTS

4.1.1	
4.1.2	
4.1.3	
4.1.4	

4

4.2 MIRIAM LTD

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

8

4.2.2 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.

4

4

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

6

4.2.4 Explain why the shareholders are satisfied with the market price of the shares on the JSE. Quote figures/financial indicators.

Explain why the shareholders are satisfied with the price at which the shares were repurchased. Quote figures/financial indicators.

2

2

TOTAL MARKS
30

TOTAL: 150

DBE EXAMPLAR PAPER

QUESTION 1:

1.1

Why it is important for the independent auditors to be members of a professional accounting body, in this case SAICA? Provide TWO points.	
Point 1	
Point 2	

2

1.2

Why is it necessary for the published financial statements of Shivas Ltd to be audited by an auditor who is ‘independent’? Provide TWO points.	
Point 1	
Point 2	

2

1.3

What type of audit report did the company receive?	
Explain why the auditors decided to present this type of report.	

1

2

1.4

Give TWO examples of audit evidence that the auditors would have required regarding this problem.	
Example 1	
Example 2	

2

1.5

Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion.

Identify ONE other financial indicator:

Calculate the financial indicator:

4

Explain what the directors could have done to prevent this comment by the auditors. Provide TWO points.

Point 1	
Point 2	

2

TOTAL MARKS
15

QUESTION 3

3.1

3.1.1	
3.1.2	
3.1.3	

3

3.2.1

Calculate: Income tax paid	
Workings	Answer
Calculate: Dividends paid	
Workings	Answer
Calculate: Proceeds of shares issued	
Workings	Answer
Calculate: Fixed assets purchased	
Workings	Answer

4

4

6

5

3.2.2 Calculate financial indicators for the year ended 28 February 2019:

% Operating profit on sales		
Workings	Answer	
		<input type="text"/>
		3
Net asset value per share		
Workings	Answer	
		<input type="text"/>
		3
Debt-equity ratio		
Workings	Answer	
		<input type="text"/>
		3

TOTAL MARKS
30

QUESTION 4

4.1

Explain why directors should be interested in the price of their companies' shares on the JSE.	
Calculate the number of additional shares in Horizon Ltd that Mike was able to buy on the JSE in 2019.	
Workings	Answer
Comment on the price that Mike paid for these additional shares in Horizon Ltd and provide TWO reasons why he might have been satisfied to pay this price.	
Comment (with figures):	
Reason 1:	
Reason 2:	

2

3

6

4.2

Explain your opinion on which company has the better dividend pay-out policy. Quote figures.
Compare and comment on the % return on equity earned by EACH company. Quote figures.

6

4

Mike feels that the earnings per share (EPS) of Optima Ltd is much better than that of Horizon Ltd. Explain why he feels this way. Quote figures or calculations.

[Empty answer box for question 4.2]

5

4.3

Explain TWO decisions taken by the directors of Horizon Ltd in response to the state of the economy, and how these decisions will affect the company in future.

Decision 1 (with figures):

Decision 2 (with figures):

Effect on Horizon Ltd in future:

6

Explain TWO decisions taken by the directors of Optima Ltd that affect risk and gearing. Quote and comment on TWO financial indicators.

Decision 1 (with figures):

Decision 2 (with figures):

Quote and comment on TWO financial indicators that affect risk and gearing.

8

TOTAL MARKS

40

**NOVEMBER 2015
 QUESTION 3**

3.1 PRIDONA LIMITED

3.1.1

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	

13

3.1.2 RETAINED INCOME NOTE ON 30 JUNE 2015

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

11

**3.1.3 PRIDONA LIMITED
BALANCE SHEET AS AT 30 JUNE 2015**

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	

3.2 AUDIT REPORT

3.2.1 Choose the correct word from those given in brackets.

Give a reason.

2

3.2.2 Explain TWO consequences of this audit report for the company and/or the CEO.

4

TOTAL MARKS
60

QUESTION 4

4.1

4.1.1		
4.1.2		
4.1.3		
4.1.4		

4

4.2 **SENZO LTD**

4.2.1

Calculate income tax paid.

5

Calculate proceeds from disposal of fixed assets (carrying value).

5

Calculate net change in cash and cash equivalents. Indicate whether this is a net inflow or net outflow of cash.

5

4.2.2

CASH EFFECTS OF FINANCING ACTIVITIES	

12

4.2.3 Calculate the acid-test ratio for 2015.

4

Calculate the return on shareholders' equity (ROSHE) for 2015.
(Use average equity in your calculation.)

5

Calculate the net asset value (NAV) per share for 2015.

3

4.3 DON LTD AND KEY LTD

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

Don Bpk		
Key Bpk.		

6

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

Don Bpk	
Key Bpk	

6

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

Don Bpk	
Key Bpk	

6

4.3.4 Apart from the points mentioned above, what other factors would you consider before deciding in which company you are going to invest? Explain TWO points.

4

TOTAL MARKS
65

**NOVEMBER 2017
QUESTION 3**

3.1

(a)	Calculate the carrying value of Land and Buildings on 1 March 2016.	<input type="text"/> 2
(b)	Calculate the total depreciation on vehicles on 28 February 2017.	<input type="text"/> 6
(c)	Calculate the carrying value of Vehicles on 28 February 2017.	<input type="text"/> 4
(d)	Calculate the carrying value of Equipment sold on 31 December 2016.	<input type="text"/> 6
(e)	Calculate the total carrying value of fixed assets on 28 February 2017.	<input type="text"/> 4

3.2 BALANCE SHEET OF ODETTE LTD ON 28 FEBRUARY 2017

	ASSETS		
	NON CURRENT ASSETS		
	Fixed assets		
3	Financial assets (Fixed Deposit)		
	CURRENT ASSETS		
	Inventory	408 880	
	Trade and other receivables		
	Cash and cash equivalents		
12	TOTAL ASSETS		
	EQUITY AND LIABILITIES		
	SHAREHOLDERS EQUITY		
	Ordinary share capital		
4	Retained income	520 000	
	NON-CURRENT LIABILITIES		
4			
	CURRENT LIABILITIES		
	TOTAL EQUITY AND LIABILITIES		

3.3 AUDIT REPORT

As a shareholder, what concerns would you have regarding this audit report? Explain THREE points.

Point 1:

Point 2:

Point 3:

6

TOTAL MARKS
65

QUESTION 4

4.1

4.1.1	
4.1.2	
4.1.3	
4.1.4	

4

4.2 SO-FINE LTD

4.2.1 ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL

1 200 000 ordinary shares

ISSUED SHARE CAPITAL

900 000	Ordinary shares on 1 September 2016	
	Ordinary shares on 31 August 2017	5 292 000

7

RETAINED INCOME

Balance on 1 September 2016	147 370
Net profit after income tax	438 130
Ordinary share dividends	
Balance on 31 August 2017	

9

4.2.2 SO-FINE LTD: CASH FLOW STATEMENT FOR YEAR ENDED 31 AUGUST 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations		
Interest paid		
Dividends paid		
Income tax paid		?
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets		?
?		?
Change in investments		
CASH FLOWS FROM FINANCING ACTIVITIES		
?		?
?		?
Change in non-current liabilities		
Net change in cash and cash equivalents		?
Cash and cash equivalents – opening balance		?
Cash and cash equivalents – closing balance		?
		19

4.2.3 Calculate the percentage operating profit on sales.

3

Calculate the debt-equity ratio.

4

4.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period.

4

4.3 CASTRO LTD

4.3.1

Comment on the price of R9,10 charged by Castro Ltd for the new shares issued.

3

4.3.2

Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators.

6

4.3.3

If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy?

3

How much would he have had to pay?

2

Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option.

Reason 1

Reason 2

6

RONKI LTD

4.3.4

Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators.

6

4.3.5

Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares.

3

4.3.6

Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd.

Reason 1:

Reason 2:

Reason 3:

6

TOTAL MARKS
85

**NOVEMBER 2019
 QUESTION 4**

4.1

4.1.1	
4.1.2	
4.1.3	
4.1.4	
4.1.5	



5

4.2 **VISIV LTD**

4.2.1

(i) Calculate: Depreciation for the current year	
Workings	Answer
(ii) Calculate: Carrying value of vehicle sold	
Workings	Answer
Calculate: Profit/Loss on sale of asset	
Workings	Answer
Calculate: Fixed assets carrying value on 28 February 2019	
Workings	Answer

5

2

4

4.2.2

Calculate the correct net profit after tax for the year ended 28 February 2019. Indicate (+) for increase and (-) for decrease.	
Workings	Answer
Incorrect net profit before tax	822 700
Correct net profit after tax	

9

4.2.3

RETAINED INCOME NOTE:	
Balance at beginning	865 300
Ordinary share dividends	
Balance at end	

9

VISIV LTD STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ON 28 FEBRUARY 2019	
ASSETS	
Non-current assets	
Fixed assets	
Fixed deposit	
Current assets	
Inventories	1 102 000
Cash and cash equivalents	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
Ordinary shareholders' equity	
Ordinary share capital	8 152 000
Non-current liabilities	
Current liabilities	2 900 000
Current portion of loan	
TOTAL EQUITY AND LIABILITIES	

4.3 AUDIT REPORT

4.3.1

What type of audit report did the company receive?	

1

4.3.2

Give TWO examples of audit evidence that the auditors would have required regarding this problem.	
Example 1	
Example 2	

2

4.3.3

Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion.	
Identify ONE other financial indicator:	
Calculate the financial indicator:	
Explain what the directors could have done to prevent this comment by the auditors. Provide TWO points.	
Point 1	
Point 2	

4

2

TOTAL MARKS
70

QUESTION 5

5.1

5.1.1	
5.1.2	
5.1.3	
5.1.4	

4

5.2

SUNSET LTD

5.2.1

Calculate: Income tax paid	
Workings	Answer
Calculate: Dividends paid	
Workings	Answer
Calculate: Proceeds of shares issued	
Workings	Answer
Calculate: Fixed assets purchased	
Workings	Answer

4

4

6

5

5.2.2

Calculate financial indicators for the year ended 28 February 2019:

% operating profit on sales	
Workings	Answer
Net asset value per share	
Workings	Answer
Debt-equity ratio	
Workings	Answer

4

4

4

5.3 HORIZON LTD and OPTIMA LTD

5.3.1

Explain why directors should be interested in the price of their companies' shares on the JSE.		<div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto; text-align: center;">2</div>
Calculate the number of additional shares in Horizon Ltd that Mike was able to buy on the JSE in 2019.		
Workings	Answer	
		<div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto; text-align: center;">3</div>
Comment on the price that Mike paid for these shares and provide TWO reasons why he might have been satisfied to pay this price.		
Comment (with figures):		
Reason 1 :		
Reason 2:		<div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto; text-align: center;">6</div>

5.3.2

Explain your opinion on which company has the better dividend pay-out policy. Quote figures.		<div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto; text-align: center;">6</div>
Compare and comment on the % return on equity earned by EACH company. Quote figures.		
		<div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto; text-align: center;">4</div>

Mike feels that the earnings per share (EPS) of Optima Ltd is much better than that of Horizon Ltd. Explain why he feels this way. Quote figures or calculations.

--

5

5.3.3

Explain TWO decisions taken by the directors of Horizon Ltd in response to the state of the economy, and how these decisions will affect the company in future.

<p>Decision 1 (with figures):</p> <p>Decision 2 (with figures):</p> <p>Effect on Horizon Ltd in future:</p>
--

6

Explain TWO decisions taken by the directors of Optima Ltd that affect risk and gearing. Quote and comment on TWO financial indicators.

<p>Decision 1 (with figures):</p> <p>Decision 2 (with figures):</p> <p>Quote and comment on TWO financial indicators that affect risk and gearing.</p>

8

TOTAL MARKS
75

**DBE 2020
 QUESTION 2**

2.1

2.1.1		
2.1.2		
2.1.3		

3

2.2 **USANDA LIMITED**

2.2.1

Calculate: Income tax paid	
Workings	Answer
Calculate: Dividends paid	
Workings	Answer

4

4

2.2.2

CASH EFFECTS OF FINANCING ACTIVITIES	

11

NET CHANGE IN CASH AND CASH EQUIVALENTS	
Cash (opening balance)	
Cash (closing balance)	

4

2.2.3 Calculate financial indicators for the year ended 28 February 2021:

% operating profit on sales		
Workings	Answer	
		<input type="text"/>
		2
Acid-test ratio		
Workings	Answer	
		<input type="text"/>
		4
% return on average shareholders' equity (ROSHE)		
Workings	Answer	
		<input type="text"/>
		4
Dividend payout rate (%)		
Workings	Answer	
		<input type="text"/>
		4

TOTAL MARKS
40

QUESTION 3

3.1

3.1.1	
3.1.2	
3.1.3	
3.1.4	

4

3.2

SCI-FI GEEKS LTD

3.2.1

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response.

6

3.2.2

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

2

Explain the change in the dividend payout rate. Quote figures.

Give a reason for this change.

4

A shareholder felt that they should be satisfied with the dividends they received as it is better than last year. Explain why you agree with him. Quote figures.

3

3.2.3

Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures).

6

3.2.4

Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures.

6

3.2.5

The Cash Flow Statement reflected a positive change in R980 000. Provide TWO points why this should still be a concern to directors. Quote figures.

4

TOTAL MARKS
35

**DBE 2021 NOVEMBER
QUESTION 1**

1.1 Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021.

WORKINGS	ANSWER

5

1.2 Calculate: Correct net profit after tax for the year ended 30 June 2021. Indicate '+' for increase and '-' for decrease.

NO.	WORKINGS	AMOUNT
	Incorrect net profit before tax	4 918 950
(i)	Audit fees	
(ii)	Interest on loan	
(iii)	Rent income	
(iv)	Income tax	
	Net profit after tax	

12

1.3 Retained Income Note on 30 June 2021

Balance at beginning	
Balance at end	3 240 000

5

JIMO LTD

STATEMENT OF FINANCIAL POSITION ON 30 JUNE 2021

Figures are NOT required in shaded areas.

ASSETS	
NON-CURRENT ASSETS	
Fixed assets	
Financial assets	
CURRENT ASSETS	8 700 000
TOTAL ASSETS	
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY	
Retained income	3 240 000
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
Bank overdraft	
TOTAL EQUITY AND LIABILITIES	

33

TOTAL MARKS	55
--------------------	-----------

QUESTION 2

2.1 Ordinary Share Capital Note on 28 February 2021

800 000	Ordinary shares at the beginning	
100 000	New shares issued	
	Shares at the end of the year	7 395 000

6

2.2 Calculate the following financial indicators on 28 February 2021:

% operating expenses on sales	
WORKINGS	ANSWER
Dividend per share	
WORKINGS	ANSWER
% return on average shareholders' equity	
WORKINGS	ANSWER

2

4

5

2.3 CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2021

Figures are NOT required in shaded areas.

CASH FLOW FROM OPERATING ACTIVITIES	1 180 000
Cash generated from operations	
Interest paid	
CASH FLOW FROM INVESTING ACTIVITIES	(1 320 000)
CASH FLOW FROM FINANCING ACTIVITIES	
NET CHANGE IN CASH AND CASH EQUIVALENTS	
CASH AND CASH EQUIVALENTS AT BEGINNING	
CASH AND CASH EQUIVALENTS AT END	

18

TOTAL MARKS	35
--------------------	-----------

QUESTION 3

3.1

3.1.1		
3.1.2		
3.1.3		
3.1.4		

4

3.2

FLEXI LTD AND BROOM LTD

3.2.1

Profitability:

Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently, and is thereby more profitable. Quote figures and trends.

4

3.2.2

Dividends, earnings & returns:

Comment on the dividend pay-out policy of Flexi Ltd. Explain why this is an irresponsible change in policy. Provide TWO points. Quote figures and trends.

4

Comment on the % return on shareholders' equity of EACH company. Quote figures and trends.

4

A shareholder feels that the earnings per share (EPS) in Broom Ltd are better than that in Flexi Ltd. Explain why you agree with him. Quote figures or calculations.

4

3.2.3 Shareholding of Bob Yates in both companies:

Comment on the price paid for the shares repurchased by Flexi Ltd. Provide TWO points. Quote figures.

4

Calculate the number of shares that Bob purchased in Broom Ltd with the money he received from the share buyback at Flexi Ltd.

WORKINGS	ANSWER

2

Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. Quote figures and trends.

4

3.2.4 Financing strategies and gearing:

Explanation of decisions taken by the directors of Broom Ltd (two marks):

4

Explain how the decisions taken by Flexi Ltd on its capital employed has affected the risk and gearing of the business. Quote TWO financial indicators (with figures and trends).

6

TOTAL MARKS	40
--------------------	-----------

QUESTION 4

4.1

Explain why a disclaimer audit report would be bad for a company's reputation. Provide TWO points.	
POINT 1	
POINT 2	

4

4.2

One of the most important decisions that shareholders have to make at the annual general meeting (AGM) is to appoint directors to serve on the board.

Explain why the shareholders have been given this responsibility.

2

If you were a shareholder, what factors or characteristics would you want to find out about the directors who would get your vote? Explain TWO points and give a reason for EACH.

EXPLANATION	REASONS

6

4.3

A recent news report stated that a major company, Baxco Ltd, had been awarded a tender to supply equipment worth R20 m to a chain of private hospitals. The report accuses the CFO (chief financial officer) of that company of paying R2 m in cash to the CEO of the hospital group.

As a shareholder, explain what you would say at the AGM. Provide TWO points.

4

4.4

Refer to the question paper for an extract from the website and Directors' Report of a major South African company.

In your opinion, explain why this major company found it necessary to implement this policy. Provide TWO points.

4

TOTAL MARKS

20

OWN QUESTION

QUESTION 1

1.1

1.1.1	
1.1.3	
1.1.4	

3

1.2.1

Calculate the missing figures indicated by (i) to (iii) on the Fixed asset note. Show workings to earn part-marks.

	Calculation	Answer
(i)		
(ii)		
(iii)		

13

1.2.2

Ordinary Share capital

	Balance on 1 March 2019	
	Balance on 28 February 2020	10 200 000

7

Retained Income

Balance on 1 March 2019	244 400
Ordinary share dividends	

9

1.2.3 ZWANI LIMITED	
INCOME STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2020	
Sales	
Cost of sales	
Gross profit	
Other operating income	
Gross operating income	
Operating expenses	
Sundry expenses	45 200
Salaries and wages	212 000
Operating profit	
Interest income	
Profit before interest expenses/Finance cost	
Interest expenses	(126 000)
Profit before tax	
Income tax	
Net profit after tax	958 500

1.2.3 ZWANI LIMITED	
BALANCE SHEET ON 29 FEBRUARY 2020	
EQUITY & LIABILITIES	
Ordinary shareholders' equity	
Ordinary share capital	10 200 000
Non-current liabilities	
Current liabilities	
TOTAL EQUITY & LIABILITIES	

17

TOTAL MARKS
75

**FREE STATE 2018
QUESTION 2**

2.1

Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–D) next to the question number (2.1.1–2.1.4).

2.1.1	
2.1.2	
2.1.3	
2.1.4	

4

2.2

**MORGAN LTD
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018**

Sales	10 800 000	
Cost of sales		
Gross profit		
Other income		
Commission income	12 000	
Gross income		
Operating expenses		
Salaries and wages	1 529 150	
Depreciation	199 750	
Sundry expenses		
Directors fees		
Audit fees		
Operating profit		
Interest income		
Net profit before interest expense		
Interest expense		
Net profit before tax		
Income tax		
Net profit after tax	1 120 000	

32

2.3.1 ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL

2 000 000 ordinary shares

ISSUED SHARE CAPITAL

	Ordinary shares on 1 March 2017		
			10

2.3.2 RETAINED INCOME

Balance on 1 March 2017		
Ordinary share dividends		
Balance on 28 February 2018		10

2.4 EQUITY AND LIABILITIES SECTION OF THE BALANCE SHEET

SHAREHOLDERS' EQUITY		
NON-CURRENT LIABILITIES		
CURRENT LIABILITIES		
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		

19

TOTAL MARKS
75

WINTER CLASSES

2022



education

Department of
Education
FREE STATE PROVINCE

PAPER 1 TOPICS

FREE STATE SEPTEMBER 2020

QUESTION 1

1.1.1

		ANSWER
(a)	780 000 – 600 000	180 000 ✓
(b)	$18\ 000 \checkmark - (6\ 000 \checkmark + 1\ 350 \checkmark \checkmark)$ <small>18 000 – 12 000 12 000 x 15% x 9/12</small>	<input checked="" type="checkbox"/> one part correct 10 650
(c)	<p>Old/ Remaining:</p> $(280\ 000 - 18\ 000) - (70\ 000 + 1\ 350 - 7\ 350)$ $= 262\ 000 - 64\ 000$ $= 198\ 000 \checkmark \checkmark \times 15\%$ $= 29\ 700 \checkmark$ <p>Sold: 1 350 <input checked="" type="checkbox"/> (see b)</p>	<input checked="" type="checkbox"/> one part correct 31 050

1.1.2 GLOBAL TRADING LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

Sales (3 345 000 – 9 920)	✓✓	3 335 080
Cost of sales (2 090 625 – 6 200✓✓)	✓	(2 084 425)
Gross profit 6	✓*	1 250 655
Other operating income	✓*	118 490
Rent-income (126 224✓ – 10 304✓✓)	✓*	115 920
Provision for bad debts adjustment (13 050 – 10 480)	✓✓	2 570
Gross operating income 8	✓*	1 369 145
Operating expenses	✓*	(720 403)
Rates and taxes		72 500
Bad debts (9 450 + 8 360)	✓✓	17 810
Insurance (26 500✓ – 5 775✓✓)	✓*	20 725
Salaries and wages (175 000✓ + 46 000✓ + 14 500✓ + 9 800✓)	✓*	245 300
Consumable goods	✓✓	54 368
Sundry expenses		124 500
Loss on sales of bags (5 700✓ + 51 200✓ + 12 800✓ – 56 600✓ – 3 600✓)	✓*	9 500
Depreciation (138 000✓ + 31 050✓)	✓*	169 050
Loss on asset disposal (10 650✓ see 1.1.1(b) – 4 000✓)	✓*	6 650
Operating profit 27	✓*	648 742
Interest income (2 200✓ + 600✓✓) 1 333,33 + 1 466,67 one mark each	✓*	2 800
Profit before interest expenses/Finance cost	✓*	651 542
Interest expense	✓*	(51 542)
Profit before tax (Income tax ÷ 30%)	✓✓	600 000
Income tax		(180 000)
Net profit after tax 9	✓*	420 000

50

1.1.3 Refer to the disposal of the computer for R4 000 in Information C (H) of QUESTION 1.1.2. Another director, Joe Mathibi, has complained that Tim Louw has acted unethically in taking over the computer for R4 000. Tim disagrees.

(a) Give ONE opinion to support Joe.

Any one valid opinion ✓✓

Part-marks can be awarded for unclear or incomplete answer

- Tim is benefiting from a very low charge on an asset that is worth a lot more to the company and hence the shareholders are losing as a result of this transaction (a large loss was made on this disposal).
- This sets a bad precedent for the company/misuse of his position as director; other employees might feel entitled to similar benefits.
- The directors do not own the company; the shareholders are the owners of the company.
- There are also tax implications – the director should be paying tax on this 'perk'.
- The transaction was not transparent – no discussion/disclosure on the disposal in advance.
- The asset was still of use to the company; the director had no right to take it.

(b) Give ONE opinion to support Tim.

Any one valid opinion ✓✓

Part-marks can be awarded for unclear or incomplete answer

- The computer is already more than three years old, and computers have a relatively short life span.
- The computer is outdated; it will probably not be upgradeable.
- The depreciation at 15% on carrying value for computers is unrealistic and should therefore have had a lower carrying value.

NB: Do not accept that directors are owners.

4

QUESTION 2

2.1

2.1.1	B ✓	
2.1.2	C ✓	
2.1.3	A ✓	

3

2.2.1

SHARE CAPITAL		
✓ 570 000	Shares at the beginning of the year	✓* 4 500 000
✓ 100 000	Shares issued at R7,26 during the year	✓ 726 000
✓ (70 000)	Shares bought back at R7,80 ✓✓	✓* (546 000)
600 000	Shares issued at the end of the year	4 680 000

8

*operation, one part correct

2.2.2

Current Liabilities	1 059 040 ✓*
Trade and other payables (325 810✓+18 790✓+11 840✓+3 600✓+15 400✓)	✓* 375 440
Bank overdraft (126 000✓ – 15 400✓)	✓* 110 600
SARS – Income tax (780 000 – 758 000)	✓ 22 000
Short term loan	#✓✓✓ 456 000
Shareholders' for dividends	✓ 95 000

15

any figure

*operation, one part correct

2.3.1 Calculate the net asset value per share on 29 February 2020.

$$\frac{1\,630\,000 \checkmark \times 100}{400\,000 \checkmark}$$

= 407,5 c/share one part correct Accept R4,08

3

2.3.2 Calculate the return on total capital employed for the 2020 financial year.

$$\frac{620\,000 \checkmark + 76\,200 \checkmark}{\frac{1}{2}(1\,280\,000 \checkmark + 520\,000 \checkmark + 1\,630\,000 \checkmark + 380\,000 \checkmark)} \times 100$$

(3 810 000 three marks)

two marks
 = $\frac{696\,200}{1\,905\,000} \times 100$
 four marks

= 36,6% one part correct Accept 36,5%

8

2.3.3 The directors of Progress Ltd want to take out a loan for R500 000. Quote ONE financial indicator (actual figure/ ratio/percentage) that are relevant to their decision. Would you advise them to take out the loan?

Yes, the debt/equity ratio improved from 0,41 : 1 to 0,23 : 1.
 The company is low geared.

OR

Yes, the return on total capital employed (ROTCE) improved

from 25,4% to 36,6%/36,5% . See 2.3.2 It is more than the interest on a loan.

3

40

QUESTION 3

3.1

3.1.1	D ✓	3.1.4	A ✓
3.1.2	C ✓	3.1.5	B ✓
3.1.3	E ✓		

5

3.2.1 Calculate the amount for taxation paid in the Cash Flow Statement.

$25\,000 \checkmark - 290\,400 \checkmark + 54\,000 \checkmark = (211\,400) \checkmark$ one part correct $-25\,000 + 290\,400 - 54\,000 = 211\,400$ $25\,000 (290\,400) 54\,000 = (211\,400)$

4

3.2.2 Cash flow from investing activities.

Purchase of fixed assets	(1 800 000) ✓
Proceeds from sale of fixed assets (5 720 000 ✓ + 186 000 ✓ - 1 800 000 ✓ - 4 600 000 ✓)	494 000 ✓ one part correct
Increase in fixed deposit (350 000 - 700 000)	(350 000) ✓
	(1 656 000) ✓

9

3.2.3 Calculate the change in cash and cash equivalents according to the Cash Flow Statement.

$316\,000 \checkmark - (28\,000 \checkmark - 188\,000 \checkmark)$ 160 000 twee marks	(476 000) ✓ one part correct
--	---------------------------------

4

3.3.1 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.

$$2019: \frac{56}{56} \times 100 = 100\% \quad \checkmark$$

$$2020: \frac{33}{60} \times 100 = 55\% \quad \checkmark$$

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

4

3.3.2 If the balance on the loan at the end of 2020 is R680 000, calculate the shareholders' equity at the end of 2020.

$$680\,000 \div 0,5 = 1\,360\,000 \quad \checkmark\checkmark$$

2

3.3.3 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

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

40% x 1 200 000 = 480 000
 1 200 000 + 400 000 = 1 600 000 ✓ x 50% ✓ = 800 000
 800 000 – 480 000 ✓ = 320 000 + 1 / 100
 = 320 001 or 320 100 ✓ **one part correct**

OR

1 600 000 x 51% = 816 000 – 480 000 = 336 000
 one mark one mark one mark one part mark

4

Nikola 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.

4

3.4.2 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.

Quoting of indicator ✓ ✓ **Figures** ✓ ✓

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

4

45

1.1 CONCEPTS

1.1.1	limited	✓
1.1.2	Internal	✓
1.1.3	directors' report	✓

3

1.2 TRANSACTION ANALYSIS

If blank assume 0; -1 per line for foreign entry; Mark sign + or – independent of the details

	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT	A	E	L
1.2.1	Bank	Share capital ✓	250 000	+ ✓	+ ✓	0
1.2.2	Dividends on ordinary shares ✓	Shareholders for dividends ✓	40 000	0	- ✓	+ ✓

7

1.3 AUDIT REPORT

1.3.1 What type of audit report did Trojan Ltd receive? Choose from the following: unqualified, qualified, disclaimer.

Unqualified ✓

Reason: Any relevant reason ✓✓

- The financial statements fairly present the financial position
- The external auditor has not stated any irregularities in the audit report.
- The audit report indicates that there were no issues that were found to be irregular.

3

1.3.2 To whom is an audit report addressed?

Shareholders ✓

Reason: Any relevant reason ✓✓

- The shareholders are the owners of the company (contributed the capital).
- The independent auditors are appointed by the shareholders at the AGM.

3

1.3.3

Explain why the auditor mentioned IFRS in the audit report.

Any valid explanation ✓✓

- The financial statements can be compared to international standards.
- The company operates in a global economy.
- Shareholders may be from various parts of the world.

2

Explain why the auditor mentioned the Companies Act (Act 71 of 2008) in the audit report.

Any valid explanation ✓✓

- This assures the shareholders that the company is abiding by the law.
- Standards are maintained.
- This satisfies the shareholders that their investment is safe.
- This creates investor confidence in the company.

2

TOTAL MARKS
20

QUESTION 2

**2.1 PEABODY LIMITED
INCOME STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2020**

*operation one part correct

21 630 000 2 punte Sales (15 450 000 ✓ x 140/100 ✓ – 130 000 ✓)	*☑	21 500 000
Cost of sales		(15 450 000)
Gross profit	*☑	6 050 000
Other Operating income	*☑	343 200
Rent income (368 200 ✓ – 29 400 ✓✓)	*☑	338 800
Provision for bad debts adjustment (43 600 ✓ – 39 200 ✓)	*☑	4 400
Gross operating income 14	*☑	6 393 200
Operating expenses GOI - OP	☑	(4 203 200)
Directors' fees		1 230 000
Salaries and wages		1 315 150
Bad debts		24 000
Audit fees (147 600 + 5 300)	✓✓	152 900
Advertising (975 000 ✓ – 15 000 ✓) 60 000 x 3/12	*☑	960 000
Consumable stores (80 800 ✓ – 8 500 ✓)	✓	72 300
Sundry expenses balancing figure	☑	336 021
Trading stock deficit (1 910 000 – 1 890 000)	✓✓	20 000
Loss on sale of asset (11 000 ✓ – 25 000 ✓ + 13 715 ✓)	*☑	285
Depreciation (50 000 ✓✓ + 19 999 ✓✓ + 915 ✓ + 21 630 ✓) 23	*☑	92 544
Operating profit Subtotal - Interest	☑	2 190 000
Interest income (750 000 x 6%) / (30 000 + 15 000)	✓✓	45 000
Profit before interest expense		2 235 000
Interest expense (2 509 000 – 900 000 – 1 984 000)	✓✓	(375 000)
Net profit before tax NP + Tax	☑	1 860 000
Income tax		(520 800)
Net profit after tax 8	✓✓	1 339 200

Foreign items -1 (max -2)

2.2 **RETAINED INCOME**

Balance at the beginning of the year	✓	1 368 000
Net profit after tax see IS	☑	1 339 200
Shares repurchased $(28\ 000 \times 4\% \times 2,50)$ $(28\ 000 \checkmark \checkmark \times (12 \checkmark - 9,50 \checkmark \checkmark))$	☑	Ignore brackets one part correct (70 000)
Dividends on ordinary shares	☑	Ignore brackets one part correct (996 800)
Interim dividends paid	✓	560 000
Final dividends declared 672 000 $(700\ 000 \checkmark - 28\ 000 \checkmark \times \text{see above} \times 0,65 \checkmark)$	☑	one part correct 436 800
Balance at the end of the year Operation: must –div and sh rep, one part correct	☑	1 640 400

15

TOTAL MARKS
60

QUESTION 3

3.1 ORDINARY SHARE CAPITAL

AUTHORISED		
1 200 000 ordinary shares		
ISSUED		
1 020 000	Ordinary shares at the beginning of the year	3 084 000
✓✓ 180 000	shares issued during the year	756 000 <input checked="" type="checkbox"/> <small>Balancing amount</small>
✓ (20 000)	shares repurchased during the year (x 3,20 ✓✓)	(64 000) <input checked="" type="checkbox"/> <small>Ignore brackets one part correct</small>
✓ 1 180 000 <small>Operation; one part correct</small>	Ordinary shares at the end of the year	3 776 000

8

3.2 Calculate the missing figures indicated by (a) to (g) in the Cash Flow Statement.

NOTE: The answer must indicate the correct sign.

	Calculation	Answer
(a)	426 000 ✓ – 18 000 ✓ – 32 000 ✓	(376 000) <input checked="" type="checkbox"/> <small>One part correct</small>
(b)	20 000 x 4,20	(84 000) ✓✓ <small>One part correct</small>
(c)		756 000 <input checked="" type="checkbox"/> <small>See 3.1</small>
(d)	1 980 000 – 700 000	1 280 000 ✓✓
(e)	107 000 + 230 000	337 000 ✓
(f)	(25 000) + 20 000	(230 000) ✓✓
(g)		107 000 ✓

13

3.3

The Cash Flow Statement highlights some significant (important) decisions taken by the directors over the past year. Explain TWO of these significant decisions. Quote figures to support your answer.

Any TWO decisions ✓ ✓
Quoting of figures ✓ ✓

- Investment in fixed assets for new branches R3 357 000
- Acquisition of loan: R1 280 000
- Fixed deposit matured: R420 000
- Issue of new share: R756 000

Do not accept repurchase of shares and sale of assets – not significant decisions

Explain how these decisions would benefit the company and the shareholders.

Any valid explanation on benefits to the company ✓✓

- Expanding the company leads to more profits in the future/ Improves operating efficiency – business can earn greater profits
- Payment of loan will lead to savings on interest expense
- Financial asset matured resulted to eradication of bank overdraft, R230 000
- Issue of new shares will enable the business to use funds for expansion to generate more profits/improves cash flow- business can take advantage of investment opportunities

6

3.4

At the AGM, the directors announce that the company will:

- **Conduct training of all employees in terms of morals and ethics**
- **Donate funds towards cleaning up the environment**

Explain why this is necessary although this will cost the company a lot of money each year. State THREE points.

Any THREE valid points ✓✓ ✓✓ ✓✓ Part-marks for unclear / incomplete answers

- Will create better working environment
- Corporate responsibility towards the community – increase goodwill
- Published financial statements will look good
- Encourages new shareholders – favourable effect on share price
- Company gives to the community
- Improves company's image / profitability
- This is a form of publicity
- King Code advises this.
- Tax deductible

6



3.5

Calculate the acid test ratio

$$\begin{aligned} & \frac{917\ 000}{2\ 557\ 000} \checkmark - \frac{1\ 640\ 000}{810\ 000 + 107\ 000} \checkmark \text{ OR } 810\ 000 + 107\ 000 : 1\ 080\ 000 \checkmark \\ & = 0,8 \text{ (0,85/0,9) : 1 } \checkmark \text{ One part correct; show as x : 1} \end{aligned}$$

4

Calculate the net asset value per share

$$\begin{aligned} & \frac{4\ 989\ 000}{1\ 180\ 000} \checkmark \times 100 \text{ see 3.1} \\ & = 422,8 \text{ (423) cents } \checkmark \text{ One part correct} \end{aligned}$$

3

TOTAL MARKS
40

QUESTION 4

4.1 CONCEPTS

4.1.1	C	✓
4.1.2	D	✓
4.1.3	B	✓
4.1.4	A	✓

4

4.2 MIRIAM LTD

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

Quoting of financial indicators ✓ ✓ ✓ Quoting of figures ✓ ✓ ✓

Any THREE valid indicators:

The current ratio increased from 1,7 : 1 to 1,8 : 1

The acid-test ratio decreased from 1,3 : 1 to 0,9 : 1.

The stock-holding decreased from 68 to 52 days.

The debtors' collection period increased from 30 to 47 days.

Any valid comment ✓✓ Part-marks for unclear / incomplete answers

Expected responses, e.g.:

- The business is liquid/should have no problem in paying off its short-term debts.
- Although the liquidity is good, the debtors are taking too long to pay.

8

4.2.2 The directors decided to change the dividend pay-out policy in 2020. Provide calculations that indicate the policy change.

In 2019, the company paid 40 cents of 112 cents – 36% ✓✓
In 2020, the company paid 105 cents of 107 cent – 98% ✓✓
OR pay out increased from 36% to 98% four marks

For one mark each:
DPS increased from 40 to 105 cents (by 65 cents) per share
EPS decreased from 112 to 107 cents (by 5 cents) per share

Explain the effect of this change of policy on the company. State TWO points.

TWO valid points ✓✓ ✓✓ Part-marks for unclear / incomplete answers

- Retained income decreased and this could affect future growth (expansion) of the business.
- It would influence the share price / increase demand for the shares
- It could motivate shareholders to vote for the directors at the AGM
- Cash flow problem (one mark)

4

4

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

Quoting of financial indicators ✓ ✓ Quoting of figures ✓ ✓ Explanation ✓ ✓

The debt/equity ratio is 0,3 : 1 / decreased from 0,4 : 1 to 0,3 : 1.
The business is lowly geared. Low risk. They are not making much use of loans compared to own capital.

The ROTCE dropped from 13% to 11%.
The company is receiving a return (11%) that is less than the interest rate (14%) (negatively geared). They are not using the loans effectively to generate a profit.
It was a good decision to pay back the loan.

6

4.2.4

Explain why the shareholders are satisfied with the market price of the shares on the JSE. Quote figures/financial indicators.

Explanation ✓ Figures ✓

- Increased from 777 cents to 960 cents./ increased by 183 cents
- The market price is higher than the NAV of 775 cents
- There is a demand for shares in this company.
- Investors are interested in buying shares.

2

Explain why the shareholders are satisfied with the price at which the shares were repurchased. Quote figures/financial indicators.

Explanation ✓ Figures ✓

The company paid 800 cents per share although the market value at the end of the year was 960 cents. / The company paid 160 cents less than the market value

Do not accept comparison to NAV

2

TOTAL MARKS
30

DBE EXEMPLAR PAPER
QUESTION 1

1.1

Why it is important for the independent auditors to be members of a professional accounting body, in this case SAICA? Provide TWO points.

Point 1	To ensure that that they are well qualified / ensure confidence in their ability ✓
Point 2	To ensure that disciplinary action will be taken if they are negligent ✓

2

1.2

Why is it necessary for the published financial statements of Shivas Ltd to be audited by an auditor who is ‘independent’? Provide TWO points.

Point 1	An independent person would be unbiased ✓
Point 2	Shareholders and other readers will feel they can rely on the information ✓

2

1.3

What type of audit report did the company receive?

Disclaimer ✓

1

Explain why the auditors decided to present this type of report.

The readers of the financial statements would not be able to rely on the financial statements. ✓✓ one mark for unclear or incomplete explanation

2

1.4

Give TWO examples of audit evidence that the auditors would require.

✓ ✓ TWO valid & different examples	asset registers debtors' statements physical inspections contracts (signed)	source documents e.g. invoice creditors' statements bank statements EFT voucher (proof of payment)
---------------------------------------	--	---

2

1.5

Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion.

Acid test ratio ✓
 $(2\,600\,000 - 1\,700\,000) \checkmark : 7\,800\,000 \checkmark = 0,2 : 1 \checkmark$ one part correct; must be x:1
 OR: $750\,000 + 150\,000$ OR $900\,000$

4

Explain what the directors could have done to prevent this comment by the auditors. Provide TWO points.

✓ ✓ TWO valid & different explanations	Cash in the investments / Renegotiate loan repayments or credit terms
	Postpone repurchase of shares (to another time when liquidity improves)
	Issue more shares to the public or existing shareholders
	Offer rights issue to shareholders rather (than pay more dividends)
	Offer higher dividends to shareholders rather than repurchasing of shares
	Reduce the dividends paid to improve liquidity
	Promote more cash sales / off-load stock

2

TOTAL MARKS	15
--------------------	-----------

QUESTION 3

3.1	3.1.1	B ✓	3
	3.1.2	A ✓	
	3.1.3	C or A ✓	

3.2.1	Calculate: Income tax paid		4
	Workings	Answer	
	$ \begin{array}{r} 477\ 900 \quad - \quad 63\ 000 \quad - \quad 18\ 000 \\ \checkmark \qquad \qquad \checkmark \qquad \qquad \checkmark \\ - \quad 477\ 900 \quad + \quad 63\ 000 \quad + \quad 18\ 000 \\ \text{one mark} \quad \text{one mark} \quad \text{one mark} \end{array} $ mark one line / accept brackets	<input checked="" type="checkbox"/> one part correct R396 900	

Calculate: Dividends paid		4
Workings	Answer	
$ \begin{array}{r} 195\ 000 \quad + \quad 420\ 000 \quad 1200\ 000 \times 0,35 \\ \checkmark \qquad \qquad \checkmark \quad \checkmark \\ \text{OR: } 195\ 000 + 792\ 000 - 372\ 000 \\ - 195\ 000 - 792\ 000 + 372\ 000 \\ \text{one mark} \quad \text{one mark} \quad \text{one mark} \end{array} $ mark one line / accept brackets	<input checked="" type="checkbox"/> one part correct R615 000	

Calculate: Proceeds of shares issued		5				
Workings	Answer					
$ \begin{array}{r} 9\ 300\ 000 \quad - \quad 300\ 000 \times R6,20 \quad - \quad 7\ 724\ 000 \\ \checkmark \qquad \qquad \checkmark \quad \checkmark \quad \checkmark \\ \qquad \qquad \qquad \checkmark \quad \checkmark \quad 2 \text{ marks or } 0 \end{array} $ <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: right;">1 860 000</td> <td style="text-align: left;">9 300 000</td> </tr> <tr> <td style="text-align: right;">7 724 000</td> <td style="text-align: left;">284 000</td> </tr> </table>	1 860 000	9 300 000	7 724 000	284 000	<input checked="" type="checkbox"/> one part correct R284 000	
1 860 000	9 300 000					
7 724 000	284 000					

Calculate: Fixed assets purchased		5
Workings	Answer	
$ \begin{array}{r} 10\ 658\ 000 \quad - \quad 490\ 000 \quad - \quad 408\ 000 \quad - \quad 11\ 835\ 100 \\ \checkmark \qquad \qquad \checkmark \qquad \qquad \checkmark \qquad \qquad \checkmark \\ \text{OR } 11\ 835\ 100 + 490\ 000 + 408\ 000 - 10\ 658\ 000 \\ \qquad \qquad \checkmark \qquad \checkmark \qquad \checkmark \qquad \checkmark \end{array} $ Choose one line only	one part correct R2 075 100 <input checked="" type="checkbox"/>	

3.2.2 Calculate financial indicators for the year ended 28 February 2019:

% operating profit on sales		
Workings	Answer	
$\frac{2\,033\,900}{8\,725\,000} \times 100$ all correct incl. 100 or %	23,3% Accept 23%	3
Net asset value per share		
Workings	Answer	
$\frac{8\,625\,000}{1\,240\,000}$ all correct incl. R or c	695,6 cents Accept 696 cents or R6,96	3
Debt-equity ratio		
Workings	Answer	
$3\,500\,000 : 8\,625\,000$ all correct incl. x: 1	0,4 : 1	3

TOTAL MARKS	30
--------------------	-----------

QUESTION 4

4.1

Explain why directors should be interested in the price of their companies' shares on the JSE.		
Any ONE valid comment ✓✓ one mark for partial or incomplete answer		
Responses for 2 marks:		
<ul style="list-style-type: none"> • It shows public confidence in the company. • It can be compared to other companies / an external indicator. • Shareholders will want to have capital growth on their investment. • Directors will be judged on the performance of the shares as this reflects the performance of the company. 		<div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto;"></div> 2
Calculate the number of additional shares in Horizon Ltd that Mike was able to buy on the JSE in 2019.		
Workings	Answer	
✓ ✓ $R420\ 000 \div R8,40$	<input checked="" type="checkbox"/> one part correct 50 000 shares	<div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto;"></div> 3
Comment on the price that Mike paid for these additional shares in Horizon Ltd and provide TWO reasons why he might have been satisfied to pay this price.		
Compare price paid to NAV ✓ Figures ✓ Reasons ✓✓ ✓✓		
HORIZON Ltd: JSE Price exceeds NAV by 90 cents (R8,40 – R7,50) Valid reasons for HORIZON:		
<ul style="list-style-type: none"> • He wants to be the majority shareholder • More influence over decisions by board of directors • JSE price reflects public demand for the shares • Potential for high returns in future 		<div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto;"></div> 6

4.2

Explain your opinion on which company has the better dividend pay-out policy. Quote figures.		
Choice of company: Either Horizon Ltd OR Optima Ltd ✓		
Reason: Either retaining funds OR rewarding shareholders ✓		
Figures: Horizon Ltd pays out 67% (65c of 97c earned) ✓✓ quote two figures or % While Optima Ltd pays out 96% (80c of 83c earned) ✓✓ quote two figures or % Be aware of alternative ways of explanation and calculation e.g. amount or % retained		<div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto;"></div> 6
Compare and comment on the % return on equity earned by EACH company. Quote figures.		
Horizon Ltd earns 6,2% ✓ Award two marks for the difference 12% Optima earns 18,2% ✓ Comparison (may be implied) ✓ Compare to interest rate (6,5%) ✓		<div style="border: 1px solid black; width: 30px; height: 20px; margin: 0 auto;"></div> 4

Mike feels that the earnings per share (EPS) of Optima Ltd is much better than that of Horizon Ltd. Explain why he feels this way. Quote figures or calculations.

Quote EPS of Horizon Ltd 97 cents ✓
 Quote EPS of Optima Ltd 83 cents ✓
 Compare EPS of both companies to:
 Share value **OR** to number of shares owned **OR** % ROSHE **OR** Net Profit ✓
 Identify figures for any one comparison below ✓✓

	Horizon Ltd	Optima Ltd
•	Cost of shares is high 750c or 840c (Earnings yield is 12,9% or 11,5%)	Cost of shares is low 445c or 400c (Earnings yield is 18,7% or 20,8%)
•	EPS is earned on 580 000 shares	EPS is earned on 1 430 000 shares
•	% ROSHE is 6,2%	% ROSHE is 18,2%
•	NP after tax is R1 202 800 (97c x 1 240 000 shares)	NP after tax is R2 158 000 (83c x 2 600 000 shares)

5

4.3

Explain TWO decisions taken by the directors of Horizon Ltd in response to the state of the economy, and how these decisions will affect the company in future.

Decisions: TWO valid decisions ✓ ✓ Figures ✓ ✓

- Sold fixed assets R1 800 000 / No new fixed assets bought (R0)
- Investments reduced R900 000
- Loan repaid R1 600 000

Effect on Horizon Ltd in future:

Any one valid comment: ✓✓ one mark for partial or incomplete answer

- The infrastructure / size of the company is decreasing which will affect future profit
- The reduced infrastructure / size of the company could lead to cost savings (or increased profit)

Response for 1 mark:

- Saving on interest / less risk

6

Explain TWO decisions taken by the directors of Optima Ltd that affect risk and gearing. Quote and comment on TWO financial indicators.

Decisions: Two valid decisions ✓ ✓ Figures ✓ ✓

- Loan increased R3 800 000
- Shares issued R200 000

Quote and comment on TWO financial indicators that affect risk and gearing.

Quote indicators with figures: Debt-equity ratio: 0,7 : 1; ROTCE 15,1%;

Comments on: increased risk / positive gearing (ROTCE exceeds interest rate)

8

TOTAL MARKS

40

NOVEMBER 2015

QUESTION 3

3.1 PRIDONA LIMITED

3.1.1

Calculation of the correct net profit after tax	
Accept brackets instead of –If no sign, assume +Positive/negative effect & figure must be correct Foreign entries -1 (max -2)	
Incorrect net profit	2 493 600
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 ✓✓
Correct net profit before tax	2 500 000 ✓
Operation, one part correct, reasonable, must be approx. R2m	
Income tax	-750 000 ✓
Accept if no sign	
Net profit after tax	1 750 000 ✓
Check operation, NP – tax	

13

3.1.2 RETAINED-INCOME NOTE ON 30 JUNE 2015

Balance at beginning of year	2 700 000
Net profit after tax	1 750 000 ✓ see 3.1.1
Repurchase of shares (20 000 ✓ x 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	
Dividends	(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	
Balance at end of year	2 952 400 ✓
Operation, one part correct	

11

**3.1.3 PRIDONA LIMITED
BALANCE SHEET AS AT 30 JUNE 2015**

ASSETS	
NON-CURRENT ASSETS	8 950 000
Fixed assets at carrying value	8 950 000
CURRENT ASSETS TA-NCA	<input checked="" type="checkbox"/> 1 000 000
Inventories Must be in final column as 191 900 to get 2 marks	✓✓ 191 900
Trade and other receivables 316 000 ✓ – 1 000 ✓ + 5 200 ✓ – 9 000 ✓ + 4 500 <input checked="" type="checkbox"/> See 3.1.1 315 000 / 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
TOTAL ASSETS Transfer OE + L	<input checked="" type="checkbox"/> 9 950 000
	11
EQUITY AND LIABILITIES	
ORDINARY SHAREHOLDERS' EQUITY Operation	<input checked="" type="checkbox"/> 8 524 400
Ordinary share capital	5 572 000
Retained income see 3.1.2	<input checked="" type="checkbox"/> 2 952 400
	2
NON-CURRENT LIABILITIES	207 000
Mortgage loan: Custom Bank 262 200 ✓ – 55 200 ✓ ✓ <input checked="" type="checkbox"/> Any figure if subtracted 4 600 x 12 2 marks	<input checked="" type="checkbox"/> 207 000 one part correct
	5
CURRENT LIABILITIES Operation	<input checked="" type="checkbox"/> 1 218 600
Trade and other payable see 3.1.1 Operation, one part correct (261 000 ✓ – 1 000 ✓ + 2 800 <input checked="" type="checkbox"/> 260 000 2 marks	<input checked="" type="checkbox"/> 262 800
Current portion of loan See NCL	* <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 see 3.1.2	* <input checked="" type="checkbox"/> 875 600
TOTAL EQUITY AND LIABILITIES Operation	<input checked="" type="checkbox"/> 9 950 000
*Items under CL may be combined	12

30

Foreign entries -1 (max -2)
Presentation / Incorrect or incomplete details -1 (max -2)
SARS R725 000 may not be shown as a current asset; final balance must be under CL
Other misplaced BS items are not foreign – simply mark as wrong

3.2 AUDIT REPORT

3.2.1

Choose the correct word from those given in brackets.

Disclaimer ✓

Give a reason. ✓

Must explain that no opinion was expressed / must explain a reason why no opinion was expressed. Mark the reason independent of word chosen above.

The external auditors did not express an opinion on the financial statements of Trimex Ltd

Auditors were unable to express an opinion because they were not able to verify a significant part of the company's transaction

Auditors were unable to express an opinion because there was insufficient evidence

2

3.2.2

Explain TWO consequences of this audit report for the company and/or the CEO.

Any two consequences ✓✓✓✓ Award part-marks for incomplete answers

Responses for 2 marks:

- The directors will be held accountable.
- This is a bad publicity / negative point against the image of the company and CEO
- It could affect the share price and demand for shares
- The CEO/Directors might not be re-elected at the next AGM
- Shareholders / investors will lose faith in the directors / company
- Inquiry / investigation into the company or its directors
- The company could be de-listed on the JSE
- The auditors will be more vigilant in future / could increase audit fees if they spend more time on the audits in future.

Responses for 1 mark:

The CEO will be fired / Written warning / Investigation / Suspension.

4

TOTAL MARKS
60

60

QUESTION 4

4.1

4.1.1	Internal Auditor
-------	------------------

✓ Mark wrong if more than one response for each

4.1.2	Independent Auditor	✓
4.1.3	Director	✓
4.1.4	Balance Sheet	✓

4

4.2 SENZO LTD

4.2.1 Calculate income tax paid.

1 175 000 – 846 000 Must be both
 9 800 ✓ + 329 000 ✓✓ + 6 400 ✓ = 345 200 ✓ **one part correct**
 –9 800 – 329 000 – 6 400 = –345 200

Mark one line only. Signs may be reversed but must be consistent.
 Ledger T-account may be drafted. Figures could be in brackets.

5

Calculate proceeds from disposal of fixed assets (carrying value).

4 698 300 4 352 800
 ✓✓✓✓ ✓ **one part correct**

(2 598 300 + 2 100 000) – (4 137 700 + 215 100) = 345 500
 2 598 300 + 2 100 000 – 4 137 700 – 215 100 = 345 500
 –2 598 300 – 2 100 000 + 4 137 700 + 215 100 = –345 500

Mark one line only. Signs may be reversed but must be consistent.
 Ledger T-account may be drafted. Figures could be in brackets.

5

Calculate net change in cash and cash equivalents.

(153 000 ✓ – 2 500 ✓) + 88 900 ✓ = 239 400 ✓
 150 500

OR

1 mark 1 mark 1 mark 1 mark
 (88 900 – 2 500) + 153 000 = 239 400
 86 400

Indicate whether this is a net inflow or net outflow of cash.

Net inflow ✓ **Depends on calculation above**

5

4.2.2 CASH EFFECTS OF FINANCING ACTIVITIES	1 093 000 ✓ Operation, one part correct
Proceeds from shares issued 2 967 000 ✓ + 258 000 ✓✓ – 2 520 000 ✓	705 000 ✓* One part correct, must be inflow 4 marks if amount correct but in brackets
Re-purchase of shares 2 marks 60 000 ✓ x R5,20 ✓✓ 4,30 + 0,90 both figures together	(312 000) ✓* One part correct must be outflow
Increase in non-current liabilities (Loans)	700 000 ✓✓ Must be inflow for 2 marks

12

Ledger account formats may be used to show calculations.
 *If answer is combined as a net inflow, award only 1 method mark on final answer, not 2.
 *If net effect has been shown with workings, mark as follows:
 2 967 000 – 2520 000 – 54 000 = 393 000
 1 mark 1 mark 2 marks 1 method mark

4.2.3

Calculate the acid-test ratio for 2015.

340 300
 (662 300 ✓ – 322 000 ✓) : 510 500 ✓
 OR 245 000 + 6 400 + 88 900
 2 marks

= 0,7 : 1 one part correct in the form x : 1 OR 0,67:1 OR 0,66:1 NOT 0,6:1

4

Calculate the return on shareholders' equity (ROSHE) for 2015. (Use average equity in your calculation.)

$\frac{846\,000 \checkmark \times 100}{\frac{1}{2} \checkmark (2\,718\,000 \checkmark + 3\,439\,500 \checkmark)} \times 1$

3 078 750 (3 marks)

= 27,5% one part correct – must be %
 OR 27,47% OR 27,48%

5

Calculate the net asset value per share (NAV).

Must be Rands or cents

3 439 500 ✓ ÷ 690 000 ✓ x 100 = 498,5 cents OR R4,99 one part correct
 OR 499 cents OR 498,47 cents OR 498,48 cents

3

4.3 DON LTD AND KEY LTD

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

	Financial indicators or explanations thereof; with figures	Explanation, must involve a choice Do not accept comparison of JSE prices only ✓✓ 2 marks or nothing
Don Ltd	✓✓ JSE price 400c > NAV 310c	I would invest in Don Ltd as the shares seem to be in good demand OR I would not invest in Don Ltd as the shares might be overpriced OR
Key Ltd	✓✓ JSE price 645c < NAV 750c	I would invest in Key Ltd as the shares seem to be under-valued OR I would not invest in Key Ltd as the shares might be in low demand

6

4.3.2 Compare and comment on the dividend pay-out policies of the two companies. Award part-marks for incomplete answers

	Financial indicators or explanations thereof; with figures	Comparison and comment Do not accept comparison of the DPS only Must mention both companies ✓✓ Can get 1 mark
Don Ltd	DPS 360 cents ✓ EPS 420 cents ✓ OR 2 marks Distributes 86% of earnings	Don Ltd is distributing a higher percentage of income earned; Key Ltd has decided to retain half of EPS. OR Don Ltd appears to keep shareholders satisfied by giving them good dividends; Key Ltd appears to have plans for growth (better long term benefits) / equalisation of dividends over time.
Key Ltd	DPS 490 cents ✓ EPS 980 cents ✓ OR 2 marks Distributes 50% of earnings	

6

4.3.3 Comment on the degree of risk and gearing. Explain how this will influence your choice of company. Award part-marks for incomplete answers

	Financial indicators or explanations thereof with figures Must use D/E and ROTCE	Comparison, must involve a choice Accept valid alternative terminology ✓✓ Can get 1 mark
Don Ltd	D/E ratio 0,3 : 1 ✓ ROTCE 15,6% ✓ OR ROTCE >11,5%	I choose Don Ltd as financial risk is low and gearing is positive (ROTCE exceeds interest) OR I choose Don Ltd for its positive gearing (ROTCE exceeds interest) but they are not making effective use of loans OR I do not choose Key Ltd as there is high financial risk and negative gearing/ too much money borrowed and not able to use the funds effectively OR I choose Key Ltd as there is high use of loans and, and if they can improve efficiency (ROTCE), profit would improve significantly.
Key Ltd	D/E ratio 1,6 : 1 ✓ ROTCE 10,2% ✓ OR ROTCE < 11,5%	

6

4.3.4 Apart from the points mentioned above, what other factors would you consider before deciding in which company you are going to invest? Explain TWO points.

- Any two valid factors with explanation / figures as explanation ✓✓✓✓
Figures not essential
- **ROSHE:** Don Ltd's return (17,2%) is much higher than that of Key Ltd (9,1%)
 - **Liquidity:** Key Ltd has a better current ratio(1,5:1) / acid-test ratio (0,8:1).
 - **Stock turnover:** Key Ltd is managing stock more efficiently (62 days)
 - **Debtors' collection:** Key Ltd's collection period is good (26 days)
 - **Corporate social responsibility:** indicates good reputation of company (King Code)
 - **Directors:** good professionalism will benefit the company and shareholders
 - **Audit report:** indicates if the auditors have detected any problems or not.

4

TOTAL MARKS
65

NOVEMBER 2017
QUESTION 3
3.1

(a) Calculate the carrying value of Land and Buildings on 1 March 2016.

$$2\,550\,000 - 325\,000 = 2\,225\,000 \checkmark\checkmark \text{ no part marks}$$

2

(b) Calculate the total depreciation on vehicles on 28 February 2017.

Allocate the marks to correct workings even if subtotals not shown.

New:

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

Old:

one mark

$$350\,000 \times 20/100 = 70\,000 \text{ but can only write off R}34\,999 \checkmark\checkmark\checkmark$$

$$(350\,000 - 315\,000) = 35\,000 - 1 = 34\,999$$

$$42\,255 + 34\,999 = 77\,254 \checkmark \text{ one part correct}$$

6

(c) Calculate the carrying value of Vehicles on 28 February 2017.

Note: Apply Marking Principle 10

Mark one line only – choose line to benefit candidate

$$35\,000 \checkmark + 422\,550 \checkmark - \overset{\text{see (b) above}}{77\,254} \checkmark = \overset{\text{one part correct}}{380\,296} \checkmark$$

OR

$$\overset{\text{one mark}}{772\,550} - (\overset{\text{one mark}}{315\,000} + \overset{\text{one method mark}}{77\,254} \overset{\text{one method mark}}{\text{see (b) above}}) = 380\,296$$

392 254 two marks

4

(d) Calculate the carrying value of Equipment sold on 31 December 2016.

Note: Apply Marking Principle 10

Mark one line only – choose line to benefit candidate

$$120\,000 \checkmark - (\overset{30\,900 \text{ four marks}}{12\,000} \checkmark + \overset{22\,800 \text{ two marks}}{10\,800} \checkmark + \overset{18\,900 \text{ three marks}}{8\,100} \checkmark\checkmark) = 89\,100 \checkmark \text{ one part correct}$$

108 000 two marks

OR

$$\overset{\text{one mark}}{120\,000} - \overset{\text{one mark}}{12\,000} - \overset{\text{one mark}}{10\,800} - \overset{\text{two marks}}{8\,100} = \overset{\text{one method mark}}{89\,100}$$

6

(e) Calculate the total carrying value of fixed assets on 28 February 2017.

Note: Apply Marking Principle 10

$$2\,550\,000 \checkmark + \overset{\text{see (c) above}}{380\,296} \checkmark + \overset{\text{one part correct}}{50\,994} \checkmark = 2\,981\,290 \checkmark$$

4

3.3 AUDIT REPORT

As a shareholder, what concerns would you have regarding this audit report? Explain THREE points.

Any three different valid points ✓✓ ✓✓ ✓✓

Part-marks for unclear/incomplete explanation

Note: Candidates should not restrict responses to the commenting on the two specific points in the audit report as there would be several concerns arising from those two points.

Expected responses:

- This is a disclaimer report (no audit opinion).
- It will have a negative effect on the company e.g. reputation / share price / demand for shares / bad publicity / potential investors lose confidence in the company.
- The corporate governance of the company is compromised /not in line with King Code.
- The correct procedure of approving directors' fees / bonuses was not followed.
- The directors have abused their position.
- The huge amount paid to directors could negatively affect the financial results/liquidity and solvency/profitability of the company.
- Insufficient audit evidence.

6

TOTAL MARKS
65

QUESTION 4

4.1

4.1.1	Directors	✓
4.1.2	Internal auditor	✓
4.1.3	Shareholder	✓
4.1.4	External auditors	✓

4

4.2 SO-FINE LTD

4.2.1 ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL

1 200 000 ordinary shares

ISSUED SHARE CAPITAL

900 000	Ordinary shares on 1 September 2016 Balancing figure; check that repurchase added back and issue deducted back	4 725 000	✓
150 000	Issued on 1 May 2016 at R6,30 each	945 000	✓ ✓
(70 000)	Re-purchased 30 August 2017 (ASP: R5,40 ✓✓) 5 292 000/980 000 no part marks	(378 000) ignore brackets one part correct i.e. 70 000 or R5,40; do not accept 437 500 as final answer	✓
980 000 ✓	Ordinary shares on 31 August 2017	5 292 000	

7

RETAINED INCOME

Balance on 1 September 2016	147 370
Net profit after income tax	438 130
Shares repurchased (437 500 ✓ – 378 000 ✓) 70 000 x 0,85 Or 70 000 x (6,25 – ASP) OSC above 437 500/70 000	(59 500) ✓* ignore brackets
Ordinary share dividends one part correct	(276 000) ✓* ignore brackets
• Interim dividends (900 000 ✓ x 0,12) one part correct	108 000 ✓
• Final dividends	168 000 ✓ ✓
Balance on 31 August 2017 one part correct; both figures must be subtracted	250 000 ✓*

9

4.2.2 SO-FINE LTD: CASH FLOW STATEMENT FOR YEAR ENDED 31 AUGUST 2017

	CASH FLOWS FROM OPERATING ACTIVITIES	Correct use of brackets to earn the mark on the final answer for each item in this column	
	Cash generated from operations	*one part correct and correct use of brackets	
	Interest paid		
	Dividends paid		
4	Income tax paid # -2 400 ✓ + 187 770 ✓ - 11 800 ✓ OR 2 400 - 187 770 + 11 800	? ## (173 570) ✓*	
	CASH FLOWS FROM INVESTING ACTIVITIES		
	Purchases of fixed assets # 6 177 000 ✓ + 320 000 ✓ + 324 000 ✓ - 4 975 000 ✓ -6 177 000 - 320 000 - 324 000 + 4 975 000	? ## (1 846 000) ✓*	
	? ✓ Proceeds from <u>sale of fixed assets</u>	? 324 000 ✓	
7	Change in investments		
	CASH FLOWS FROM FINANCING ACTIVITIES		
	? ✓ Proceeds from <u>issue of share capital</u> see 4.2.1	? 945 000 ✓	
	? ✓ Repurchase of shares	? (437 500) ✓	
4	Change in non-current liabilities		
	Net change in cash and cash equivalents	? 86 000 ✓*	
	Cash and cash equivalents – opening balance (2 500 – 65 100)	? (62 600) ✓✓	
4	Cash and cash equivalents – closing balance	? 23 400 ✓	19

4.2.3 Calculate the percentage operating profit on sales.
 $\frac{697\,000 \checkmark}{8\,652\,000 \checkmark} \times 100 = 8,1\% \checkmark$ one part correct Accept 8,06 or 8 % sign not necessary

3

Calculate the debt-equity ratio.
 $985\,000 \checkmark : (5\,292\,000 \checkmark + 250\,000 \checkmark) = 0,2 : 1 \checkmark$ one part correct (accept 0,18 : 1)
 5 542 000 two marks See 4.2.1
 if superfluous items added in workings, but answer is still the same, penalise on answer

4

4.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period.
 $(\frac{900\,000 + 150\,000}{168\,000 \checkmark / 1\,050\,000 \checkmark} \times 100) + 12 \text{ cents } \checkmark = 28 \text{ cents } \checkmark$ one part correct
 16 cents two marks

4

4.3 CASTRO LTD

4.3.1

Comment on the price of R9,10 charged by Castro Ltd for the new shares issued.

Compare issue price to market price or NAV ✓✓ Part-marks for partial or incomplete explanation
 Figures R12,00 or R10,73 ✓ Could quote differences e.g. R2,90 or R1,63

Expected responses:

- The shares were issued at the average share issue price. The existing shareholders are being rewarded as the price is lower than the R12,00 charged on the JSE and the NAV of R10,73.
- The shares could have been issued at the market price of R12,00 or the NAV of R10,73 (they have diluted the value of the shares).

3

4.3.2

Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators.

Explanation ✓ ✓ Financial indicators ✓ ✓ Figures ✓ ✓

Expected responses:

one mark

- Gearing has improved – less risk (as there was an issue of new shares)
- debt-equity ratio decreased from 0,8 : 1 to 0,5 : 1 (by 0,3 : 1)
- ROTCE improved (due to increased efficiency / profits on new branch) from 15 % to 20 % (by 5% or 33,3%)

6

4.3.3

If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy?

$$\begin{matrix} \checkmark & & \checkmark & & \checkmark \\ (700\,000 \times 60\%) - (500\,000 \times 60\%) = 120\,000 \\ \text{420\,000} & & \text{300\,000} & & \end{matrix}$$

OR

$$\begin{matrix} \text{two marks} & & \text{one method mark (if x 60\%)} \\ 200\,000 \times 60\% = 120\,000 \end{matrix}$$

3

How much would he have had to pay?

120 000 shares at R9,10 each = R1 092 000 ✓✓ If = no.shares (above) x R9,10

2

Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option.

Explanation ✓✓ ✓✓ Figures ✓ ✓
 Part-marks for partial or incomplete explanation

Expected responses: Any two

- His dividends would have increased by R61 200 (51c x 120 000 shares). This is more than the interest he earned on the savings account R54 600 (1 092 000 see above x 5%)
- He could buy the shares for capital growth - bought the shares for R9,10 and then could sell them on the JSE for R12,00 / total profit could have been R348 000 / would be a good buy as R12,00 exceeds NAV R10,73
- He would have earned more dividends on bigger investment (51c/910c = 5,6%)
- ROSHE would be 23% on a bigger investment.
- He would lose 120 000 votes at the AGM.

6

RONKI LTD

4.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators.

Explanation: ✓✓ Superfluous indicators (i.e. more than two indicators) -1 max
 The liquidity situation has improved / is able to meet current debts / liquidity ratios have decreased / liquidity ratios are more efficient

Financial indicators any two ✓ ✓ Figures ✓ ✓

- Current ratio has improved/decreased (from 3,5 : 1) to 1,9 : 1
- Acid-test ratio has improved/decreased (from 1,7 : 1) to 1,1 : 1
- Stock-holding period appears to be efficient at 54 days (less than 2 months)

6

4.3.5 Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares.

Expected response: ✓✓ Part-marks for partial or incomplete explanation
 The company is paying a premium above the average share price in order to entice shareholders to give up their shares / they wanted to increase returns by decreasing equity / this is a fair value same as the price on the JSE.

Compare price paid (R15,00) to Any one figure ✓

- market value R15,00
- net asset value R13,30
- average issue price of shares R10,20

3

4.3.6 Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd.

Explanation ✓ ✓ ✓ Figures ✓ ✓ ✓

Expected responses: Three different responses

- He has now become a majority shareholder. His 300 000 shares are 51,7% of the total shares (33,3% before the share buy-back)
- Due to the reduced number of shares, his return has improved i.e. EPS has increased by 95c / from 171c to 266c / ROSHE increased from 13% to 16%. **(NOTE: EPS and ROSHE reinforce the same point).**
- The reduced number of shares could have contributed to an increase in the DPS by 57c / by 55,3% / from 103c to 160c (Directors may have maintained the dividend pay-out policy).

6

TOTAL MARKS
85

**NOVEMBER 2019
QUESTION 4**

4.1

4.1.1	C ✓
4.1.2	E ✓
4.1.3	D ✓
4.1.4	A ✓
4.1.5	B ✓

5

4.2 VISIV LTD

4.2.1 Calculate:

(i) Depreciation for the current year							
Workings	Answer						
225 000 ✓ x 25% x 8/12 ✓	one part correct 37 500 ✓						
(ii) Carrying value of vehicle sold							
Workings	Answer						
✓ ✓ 225 000 – 37 500 see (i) above 100 000 + 75 000 + 37 500 OR: 400 000 – 212 500	Two marks 187 500 If wrong, mark workings Cannot get full marks if superfluous workings						
Calculate: Profit/Loss on sale of asset							
Workings	Answer						
✓ ✓ 195 000 – 187 500 see (ii) above	Two marks 7 500 If wrong, mark workings Cannot get full marks if superfluous workings						
Calculate: Fixed assets carrying value on 28 February 2019							
Workings	Answer						
✓ ✓ see (i) above ✓ see (ii) above 10 190 000 – 37 500 – 187 500 225 000 two method marks OR: 10 190 000 – (400 000 – 212 500 + 37 500) one mark one method mark one method mark Also accept ledger account format <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>10 190 000</td> <td>37 500</td> </tr> <tr> <td></td> <td>187 500</td> </tr> <tr> <td></td> <td>9 965 000</td> </tr> </table>	10 190 000	37 500		187 500		9 965 000	one part correct 9 965 000 ✓
10 190 000	37 500						
	187 500						
	9 965 000						

5

2

4

4.2.2

Calculate the correct net profit after tax for the year ended 28 February 2019. Indicate (+) for increase and (-) for decrease.	
Workings	Answer
Incorrect net profit before tax	822 700
Provision for bad debts adjustment	(65 000) ✓
Advertising	9 800 ✓
Rent income $[(334\ 000 - 9000) / 13] + 3\ 000$	(28 000) ✓✓*
Additional depreciation see 4.2.1 (i)	(37 500) ✓
Profit on sale of asset see 4.2.1	7 500 ✓
Income tax (155 000 + 43 000)	(198 000) ✓✓*
Correct net profit after tax	511 500 ✓✓* *One part correct

9

4.2.3

RETAINED INCOME NOTE:	
Balance at beginning	865 300
Net profit after tax see 4.2.2	511 500 ✓
Shares repurchased $360\ 000 \times R0,30$ <small>4,10 – 3,80</small> ignore brackets	(108 000) ✓
Ordinary share dividends ignore brackets	(783 200) ✓✓*
Interim	295 200 ✓
Final $2\ 440\ 000 \times R0,20$	488 000 ✓✓*
Balance at end ignore brackets and check operation; shares repurchased and share dividends must be subtracted	485 600 ✓✓*

9

*one part correct

4.2.4

VISIV LTD STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ON 28 FEBRUARY 2019		
ASSETS		
Non-current assets	(TA – CA)	10 624 000 ✓
Fixed assets	see 4.2.1	9 965 000 ✓
Fixed deposit	Balancing figure 3	659 000 ✓
Current assets	CL x 0,8 accuracy marks	2 320 000 ✓✓
Inventories		1 102 000
Trade and other receivables # (1 090 000 ✓ – 65 000 ✓ + 9 800 ✓ + 7 600 ✓)	Advertising	1 042 400 ✓*
Cash and cash equivalents	Balancing figure	175 600 ✓
TOTAL ASSETS	see total equity and liabilities 9	12 944 000 ✓
EQUITY AND LIABILITIES		
Ordinary shareholders' equity	Operation	8 637 600 ✓
Ordinary share capital		8 152 000
Retained income	See 4.2.3 2	485 600 ✓
Non-current liabilities		1 406 400
Mortgage loan (1 758 000 ✓ – 351 600 ✓)	See CL below 3	1 406 400 ✓*
Current liabilities		2 900 000
Trade and other payables # (1 906 800 ✓ + 28 000 ✓ + 7 600 ✓ + 75 000 ✓)	Rent income see 4.2.2	2 017 400 ✓*
SARS: Income tax	may be part of T&OP	43 000 ✓✓
Shareholders for dividends	may be part of T&OP see 4.2.3	488 000 ✓
Current portion of loan	Balancing figure 10	351 600 ✓
TOTAL EQUITY AND LIABILITIES		12 944 000 ✓*

27

* One part correct

If T&OR or T&OP shown in the wrong places, award marks for workings and final answer, and penalise -1 for presentation in each case (i.e. max -2)

Foreign items -1 max -1

4.3 AUDIT REPORT

4.3.1

What type of audit report did the company receive?
Disclaimer ✓ Accept 'withheld' or a valid description.

1

4.3.2

Give TWO examples of audit evidence that the auditors would require.

✓ ✓ TWO valid & different examples Be aware of other valid examples that are related to income or expenses	asset registers source documents (any two may be marked separately e.g. invoice) journals debtors' statements physical inspections contracts (signed)	ledgers creditors' statements bank statements EFT voucher (proof of payment)
--	--	---

2

4.3.3

Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion.

Acid test ratio ✓

$2\,320\,000 - 1\,102\,000$ / or T&OR + C&CE
see 4.2.4

$1\,218\,000$ ✓ : $2\,900\,000$ ✓ = 0,4 : 1 ✓ one part correct; must be x:1

4

Explain what the directors could have done to prevent this comment by the auditors. Provide TWO points.

✓ ✓ TWO valid & different explanations	Cash in the investments
	Postpone repurchase of shares (to another time when liquidity improves)
	Ensure that the auditors and directors comply with the latest Companies Act
	Try to convince auditors that solvency ratio is good
	Issue more shares to the public or existing shareholders
	Offer rights issue to shareholders rather (than pay more dividends)
	Company offers higher dividends to shareholders rather than repurchasing of shares
	Reduce the dividends paid to improve liquidity
	Re-negotiate loan repayments / credit terms
	Promote more cash sales / off-load stock

2

TOTAL MARKS
70

QUESTION 5

5.1	5.1.1	B ✓	Income Statement
	5.1.2	A ✓	Balance Sheet
	5.1.3	C or A ✓	Cash Flow Statement / Balance Sheet (notes)
	5.1.4	B ✓	Income Statement

4

5.2 SUNSET LTD

5.2.1

Calculate: Income tax paid	
Workings	Answer
$ \begin{array}{r} 477\,900 - 63\,000 - 18\,000 \\ \checkmark \quad \quad \checkmark \quad \quad \checkmark \\ - 477\,900 + 63\,000 + 18\,000 \\ \text{one mark} \quad \text{one mark} \quad \text{one mark} \end{array} $ <p>mark one line / accept brackets</p>	<input checked="" type="checkbox"/> one part correct R396 900
Calculate: Dividends paid	
Workings	Answer
$ \begin{array}{r} 195\,000 + 420\,000 \quad 1200\,000 \times 0,35 \\ \checkmark \quad \quad \checkmark \quad \checkmark \\ \text{OR: } 195\,000 + 792\,000 - 372\,000 \\ - 195\,000 - 792\,000 + 372\,000 \\ \text{one mark} \quad \text{one mark} \quad \text{one mark} \end{array} $ <p>mark one line / accept brackets</p>	<input checked="" type="checkbox"/> one part correct R615 000
Calculate: Proceeds of shares issued	
Workings	Answer
$ \begin{array}{r} 300\,000 \text{ one mark} \times R6,20 \text{ two marks} \\ 9\,300\,000 - 1\,860\,000 - 7\,724\,000 \\ \checkmark \quad \quad \checkmark \quad \checkmark \quad \checkmark \\ \begin{array}{ l l } \hline 1\,860\,000 & 9\,300\,000 \\ \hline 7\,724\,000 & 284\,000 \\ \hline \end{array} \end{array} $	<input checked="" type="checkbox"/> one part correct R284 000
Calculate: Fixed assets purchased	
Workings	Answer
$ \begin{array}{r} 10\,658\,000 - 490\,000 - 408\,000 - 11\,835\,100 \\ \checkmark \quad \quad \checkmark \quad \quad \checkmark \quad \quad \checkmark \\ \text{OR } 11\,835\,100 + 490\,000 + 408\,000 - 10\,658\,000 \\ \begin{array}{ l l } \hline 10\,658\,000 & 408\,000 \\ \hline 2\,075\,100 & 490\,000 \\ \hline & 11\,835\,100 \\ \hline \end{array} \end{array} $ <p>Choose one line only</p>	<input checked="" type="checkbox"/> one part correct R2 075 100

4

4

6

5

5.2.2 Calculate financial indicators for the year ended 28 February 2019:

% operating profit on sales		
Workings	Answer	
$\frac{2\,033\,900}{8\,725\,000} \times 100$ check operation; one part correct	23,3% Accept 23%	4
Net asset value per share		
Workings	Answer	
$\frac{8\,625\,000}{1\,240\,000}$ check operation; one part correct	695,6 cents Accept 696 cents or R6,96	4
Debt-equity ratio		
Workings	Answer	
$\frac{3\,500\,000}{8\,625\,000}$ check operation; one part correct must be x: 1	0,4 : 1	4

5.3 HORIZON LTD and OPTIMA LTD

5.3.1 Explain why directors should be interested in the price of their companies' shares on the JSE.

Any ONE valid comment Responses for 2 marks: <ul style="list-style-type: none"> It shows public confidence in the company. It can be compared to other companies / an external indicator. Shareholders will want to have capital growth on their investment. Directors will be judged on the performance of the shares as this reflects the performance of the company. 	one mark for partial or incomplete answer	2
---	---	---

Calculate the number of additional shares in Horizon Ltd that Mike was able to buy on the JSE in 2019.

Workings	Answer	
$R420\,000 \div R8,40$	50 000 shares one part correct	3

Comment on the price that Mike paid for these shares and provide TWO reasons why he might have been satisfied to pay this price.

<p>Accept two different comments for Horizon Ltd OR Optima Ltd Compare price paid to NAV ✓ Figures ✓ Reasons ✓ ✓ ✓ ✓</p> <p>HORIZON: JSE Price exceeds NAV by 90 cents (R8,40 – R7,50) Valid reasons for HORIZON: <ul style="list-style-type: none"> He wants to be the majority shareholder More influence over decisions by board of directors JSE price reflects public demand for the shares Potential for high returns in future </p> <p>OPTIMA: JSE Price is lower than NAV by 45 cents (R4,45 – R4,00) Valid reasons for OPTIMA Ltd: <ul style="list-style-type: none"> The JSE price is a good deal compared to NAV Optima is earning higher returns for him </p>	6
---	---

5.3.2

Explain your opinion on which company has the better dividend pay-out policy. Quote figures.

Choice of company: Either Horizon Ltd OR Optima Ltd ✓
Reason: Either retaining funds OR rewarding shareholders ✓
Figures: Horizon Ltd pays out 67% (65c of 97c earned) ✓✓ quote two figures or %
While Optima Ltd pays out 96% (80c of 83c earned) ✓✓ quote two figures or %
Be aware of alternative ways of explanation and calculation e.g. amount or % retained

6

Compare and comment on the % return on equity earned by EACH company. Quote figures.

Horizon Ltd earns 6,2%✓ Award two marks for the difference 12%
Optima earns 18,2%✓
Comparison (may be implied) ✓
Compare to interest rate (6,5%) ✓

4

Mike feels that the earnings per share (EPS) of Optima Ltd is much better than that of Horizon Ltd. Explain why he feels this way. Quote figures or calculations.

Quote EPS of Horizon Ltd 97 cents ✓
Quote EPS of Optima Ltd 83 cents ✓
Compare EPS of both companies to:
Share value **OR** to number of shares owned **OR** % ROSHE **OR**: Net Profit ✓
Identify figures for any one comparison below ✓✓

	Horizon Ltd	Optima Ltd
•	Cost of shares is high 750c or 840c (Earnings yield is 12,9% or 11,5%)	Cost of shares is low 445c or 400c (Earnings yield is 18,7% or 20,8%)
•	EPS is earned on 580 000 shares	EPS is earned on 1 430 000 shares
•	% ROSHE is 6,2%	% ROSHE is 18,2%
•	NP after tax is R1 202 800 (97c x 1 240 000 shares)	NP after tax is R2 158 000 (83c x 2 600 000 shares)

5

5.3.3

Explain TWO decisions taken by the directors of Horizon Ltd in response to the state of the economy, and how these decisions will affect the company in future.

Decisions: TWO valid decisions ✓ ✓ Figures ✓ ✓

- Sold fixed assets R1 800 000 / No new fixed assets bought (R0)
- Did not issue new shares (R0)
- Investments (reduced) R900 000
- Loan (repaid) R1 600 000

Effect on Horizon Ltd in future: Mark independently of the above decisions

Any one valid comment: ✓✓ one mark for partial or incomplete answer

- The infrastructure / size of the company is decreasing which will affect future profit
- The reduced infrastructure / size of the company could lead to cost savings (or increased profit)

Response for 1 mark:

- Saving on interest / less risk

6

Explain TWO decisions taken by the directors of Optima Ltd that affect risk and gearing. Quote and comment on TWO financial indicators.

Decisions: Two valid decisions ✓ ✓ Figures ✓ ✓

- Loan (increased) R3 800 000
- Shares (issued) R200 000
- Shares repurchased R0

Quote and comment on TWO financial indicators that affect risk and gearing.

Quote indicators with figures: Debt-equity ratio: 0,7 : 1; ROTCE 15,1%;

Comments on: increased risk / positive gearing (ROTCE exceeds interest rate)

8

TOTAL MARKS
75

QUESTION 2

2.1

2.1.1	Directors' report ✓
2.1.2	Internal ✓
2.1.3	Limited ✓

3

2.2 USANDA LIMITED

2.2.1

Calculate: Income tax paid		Answer			
Workings					
$(1\ 777\ 000 - 1\ 243\ 900)$ one mark $69\ 300 \checkmark + 533\ 100 \checkmark - 19\ 800 \checkmark$ Alternative presentations: Mark ONE alternative only $- 69\ 300 - 533\ 100 + 19\ 800$ $(69\ 300) + (533\ 100) + 19\ 800$		R582 600 <input checked="" type="checkbox"/> one part correct			
	<table border="1"> <tr> <td>19 800</td> <td>69 300</td> </tr> <tr> <td>582 600</td> <td>533 100</td> </tr> </table>		19 800	69 300	582 600
19 800	69 300				
582 600	533 100				
Calculate: Dividends paid		Answer			
Workings					
$495\ 000$ two marks $247\ 500 \checkmark + (835\ 000 \checkmark - 340\ 000 \checkmark)$ Alternative presentations: Mark ONE alternative only $- 247\ 500 - 835\ 000 + 340\ 000$ $(247\ 500) + (835\ 000) + 340\ 000$		R742 500 <input checked="" type="checkbox"/> one part correct			
	<table border="1"> <tr> <td>340 000</td> <td>247 500</td> </tr> <tr> <td>742 500</td> <td>835 000</td> </tr> </table>		340 000	247 500	742 500
340 000	247 500				
742 500	835 000				

4

4

2.2.2

CASH EFFECTS OF FINANCING ACTIVITIES		(2 625 500) <input checked="" type="checkbox"/> *
Proceeds from shares issued $2\ 345\ 000$ two marks $9\ 555\ 000 \checkmark + (335\ 000 \checkmark \times R7,00 \checkmark) - 11\ 220\ 000 \checkmark$		680 000 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *
Funds used to repurchase shares $335\ 000 \times 9,50$		(3 182 500) <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
Change in loan $2\ 080\ 000 - 1\ 930\ 000$ or $270\ 000 - 420\ 000$ $(2\ 080\ 000 - 420\ 000 + 270\ 000)$ $35\ 000 \times 12$		(150 000) <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *

11

* one part correct

NET CHANGE IN CASH AND CASH EQUIVALENTS	56 000 ✓
Cash (opening balance) 154 700 – 90 000	64 700 ✓✓
Cash (closing balance)	120 700 ✓

4

2.2.3 Calculate financial indicators for the year ended 28 February 2021:

% operating profit on sales		
Workings	Answer	
$\frac{2\,262\,100}{17\,800\,000} \times \frac{100}{1}$ <p>Expressed as a % (sign not necessary) Not 0,127</p>	one part correct must x100 12,7% ✓ <input checked="" type="checkbox"/>	2
Acid-test ratio		
Workings	Answer	
(659 500 – 276 500) two marks or (262 300 + 120 700) two marks $383\,000 \checkmark \checkmark : 611\,900 \checkmark$	one part correct 0,6 :1 <input checked="" type="checkbox"/> as x : 1; not 0,6 Accept 0,63 : 1	4
% return on average shareholders' equity (ROSHE)		
Workings	Answer	
$\frac{1\,243\,900 \checkmark}{\frac{1}{2} \checkmark (11\,985\,000 + 9\,891\,400) \checkmark} \times 100$ <p>21 876 400 one mark 10 938 200 two marks Expressed as a % (sign not necessary) Not 0,113</p>	one part correct 11,4% <input checked="" type="checkbox"/> 11,37%	4
Dividend payout rate (%)		
Workings	Answer	
495 000/1 650 000 = 30 cents 30 cents + 20 cents; one mark each $\frac{50 \text{ cents} \checkmark \checkmark \times 100}{74 \text{ cents} \checkmark \quad 1}$ <p>OR $\frac{835\,000}{1\,243\,900} \times \frac{100}{1} \text{ (2021 Total. div)}$ (2021 NPATax)</p> <p>Note: the 100 does not count as 'one part correct' for the method mark</p>	$67,6\% \checkmark$ <p>if x 100 one other part correct</p> <p>OR</p> $67,1\%$ <p>if x 100 one other part correct</p> <p>Accept 67% / 68%</p>	4

TOTAL MARKS
40

QUESTION 3

3.1

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

4

3.2

SCI-FI GEEKS LTD

3.2.1

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response.

Financial indicators ✓ ✓ Figures ✓ ✓ Explanation ✓✓ part marks for incomplete answer

- The stock holding period increased from 32 days to 102 days (or 70 days).
- Average debtors' collection period increased from 31 days to 46 days (15 days)
- The difference between current ratio (2,4 : 1) and acid test ratio (1,0 : 1) reflects that there is an over-investment in stock.

Any ONE valid explanation; part marks for incomplete / unclear explanation

- Too much liquid assets (cash) tied up in stock (stock piling)
- High stock volumes create security problems
- Stock can easily become obsolete due to advancements in technology rendering the stock unsaleable.
- The business has relaxed / neglected its collection policies / lockdown during Covid-19 and this impacts on the debtors / stock / cash flow of the business.

6

3.2.2

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

ONE valid comment with figures ✓✓

- The DPS dropped from 90 cents (in 2020) to 72 cents (in 2021)
- Shareholders received 18 cents less; or a 20% drop.

2

Explain the change in the dividend payout rate. Quote figures.

Explanation ✓✓

- The dividend pay-out rate increased from 69% (90/130) to 136,5% or 72/58 (accept 124,1%) / or a 98,4% increase from the previous year

Give a reason for this change.

ONE valid point ✓✓

- Directors attempted to please the shareholders for the low profitability
- Compensation for using funds retained in previous financial years.
- No plans for growth / expansions (no need to retain additional funds)

4

A shareholder felt that they should be satisfied with the dividends they received as it is better than last year. Explain why you agree with him. Quote figures.

Explanation ✓✓ figure ✓

- EPS dropped from 130c to 58c (by 72 cents / 55%) but DPS dropped from 90c to 72c (by 18 cents / 20%)
- If the policy was maintained at 69% of EPS, they would have received 40 cents.
- The drop in the market price from 540 cents to 410 cents reflects a dividend yield (DPS/MP) of 17,7% this year compared to 16,7% last year.

3

3.2.3

Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures).

✓ Debt/equity ratio increased from 0,3 : 1 to 0, 4: 1 (or by 0,1 : 1) ✓

✓ ROTCE decreased from 39% to 23,2% (or 15,8%) ✓

Any valid comment on the above ✓✓ part marks for partial answers

- Increased borrowing not effectively used to increase / improve profitability
- Although still positively geared (ROTCE exceeds interest rate), the drop in profitability / downward trend is a concern.
- Although there is low financial risk, the company is more reliant on own capital

6

3.2.4

Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures.

TWO reasons ✓✓ ✓✓ financial indicators and figures ✓✓

- The CEO bought the shares at R1,50 each (375 000/250 000); exercising undue influence over the issue price; receiving preferential treatment; against the Companies Act which requires that shares be advertised; lack of transparency;
- The market price is 410 cents; NAV is 332 cents; Company lost out on potential additional funding as shares could have been sold at a price in that range, or on the stock exchange.

6

3.2.5

The Cash Flow Statement reflected a positive change in R980 000. Provide TWO points why this should still be a concern to directors. Quote figures.

TWO points ✓ ✓ Figures ✓ ✓

Cash flow from operating activities is R148 080
 Large increase in loan, R651 500 / high interest payment R232 000 contributed to negative cash flow from operations
 Very high payment for dividends, R925 000
 Cash from investing activities, R101 580
 Additional shares issued, R375 000

4

TOTAL MARKS
35

**DBE 2021 NOVEMBER
 QUESTION 1**

1.1

Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021.	
WORKINGS	ANSWER
$\begin{matrix} 230 - 24 & & 240 - 206 / \text{if both unit totals add up to 240} \\ (206 \times R2\ 850) + (34 \times R2\ 600) \\ \checkmark & \checkmark & \checkmark & \checkmark \end{matrix}$	R675 500 <input checked="" type="checkbox"/> one part correct

5

1.2 Calculate: Correct net profit after tax for the year ended 30 June 2021. Indicate '+' for increase and '-' for decrease.

NO.	WORKINGS	AMOUNT
	Incorrect net profit before tax	4 918 950
(i)	Audit fees	+ 123 600 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> No part marks
(ii)	Interest on loan 4 028 000 <input checked="" type="checkbox"/> – 3 755 000 <input checked="" type="checkbox"/> or 4 028 000 one mark + (420 000 – 4 175 000) one mark	– 273 000 <input checked="" type="checkbox"/> #
(iii)	Rent income (two marks; no part marks) (5 500 – 750) 4 750 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> x 2 <input checked="" type="checkbox"/> Be aware of different methods (77 000 x 4/14) one mark one mark one mark 22 000 – 3000 = 19 000 x 2 ÷ 4	– 9 500 <input checked="" type="checkbox"/> #
(iv)	Income tax (1 200 000 + 85 250) must add prov tax + amount owed	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> # – 1 285 250
	Net profit after tax	3 474 800 <input checked="" type="checkbox"/> one part correct

12

operation and – sign or accept use of brackets
 total must include the NP figure

1.3 Retained Income Note on 30 June 2021

-1 P (if no details) *-brackets to earn full marks

Balance at beginning		
Net profit after tax	see 1.2	3 474 800 <input checked="" type="checkbox"/>
Shares repurchased	ignore workings	(78 000) <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *
Dividends for the year	ignore workings	(1 170 000) <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *
Balance at end		3 240 000

5

JIMO LTD

STATEMENT OF FINANCIAL POSITION ON 30 JUNE 2021

Figures are NOT required in shaded areas.

ASSETS		
NON-CURRENT ASSETS		
Fixed assets		
Financial assets		
CURRENT ASSETS		8 700 000
Inventories 4 198 500 ✓ + 675 500 <input checked="" type="checkbox"/> – 14 000 ✓ ✓ see 1.1		4 860 000 <input checked="" type="checkbox"/> *
Trade and other receivables (3 668 810 ✓ + 8 000 ✓ + 123 600 ✓ + 11 000 ✓) audit fees transfer		3 811 410 <input checked="" type="checkbox"/> *
Cash and cash equivalents	balancing figure accept negative amount	28 590 <input checked="" type="checkbox"/>
TOTAL ASSETS	see total E+L 12	16 762 000 <input checked="" type="checkbox"/>
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		9 720 000 <input checked="" type="checkbox"/> *
(1 800 000 ✓ x 540/100 ✓ or R5,40) Must use NAV		
Ordinary share capital	Must be the balancing figure<	6 480 000 <input checked="" type="checkbox"/> <
Retained income	4	3 240 000
NON-CURRENT LIABILITIES		3 842 000
Mortgage loan (3 755 000 ✓ + 273 000 <input checked="" type="checkbox"/>) – 186 000 ✓ ✓ see 1.2 (ii)	5	3 842 000 <input checked="" type="checkbox"/> *
CURRENT LIABILITIES		(8 700 000 – Inventories) / 1,2 Or T&OR + CCE / 1,2
Trade and other payables 1 253 000 ✓ + 9 500 <input checked="" type="checkbox"/> + 11 000 ✓ – 14 000 <input checked="" type="checkbox"/> see Inventories rent income 1 400 x 10		1 259 500 <input checked="" type="checkbox"/> *
Shareholders for dividends	see 1.3 / given	1 170 000 <input checked="" type="checkbox"/> #
Current portion of loan	see NCL	186 000 <input checked="" type="checkbox"/> #
SARS: Income tax		85 250 ✓ #
Bank overdraft	balancing figure	499 250 <input checked="" type="checkbox"/>
TOTAL EQUITY AND LIABILITIES	12	16 762 000 <input checked="" type="checkbox"/>*

inspect if included with T&OP

*one part correct

-1 foreign items max -2

presentation -1 max -2

33

TOTAL MARKS

55

QUESTION 2

2.1 Ordinary Share Capital Note on 28 February 2021

800 000	Ordinary shares at the beginning	6 400 000 ✓
100 000	New shares issued <small>balancing figure Must subtract repurchased</small>	1 250 000 ✓
(30 000) ✓	Repurchased 30 000 shares at R8,50 ✓	(255 000) ✓# <small>If one part correct do not accept 36 000</small>
870 000 ✓	Shares at the end of the year	7 395 000

6

2.2 Calculate the following financial indicators on 28 February 2021:

% operating expenses on sales																			
WORKINGS	ANSWER																		
$\frac{1\,458\,600}{7\,293\,000} \times 100^*$ <p>Check numerator / denominator</p>	20% ✓ one part correct; calculated as a % % sign not necessary																		
Dividend per share																			
WORKINGS	ANSWER																		
<p>(no part marks) (162 000/900 000)</p> <p>18 cents ✓✓ + 22 cents ✓ OR 0,18 + 0,22</p> <table style="margin-left: 20px;"> <tr> <td style="text-align: center;">18c</td> <td style="text-align: center;">22c</td> <td></td> </tr> <tr> <td style="text-align: center;"><small>two marks</small></td> <td style="text-align: center;"><small>one mark</small></td> <td></td> </tr> <tr> <td style="text-align: center;">$\frac{162\,000}{900\,000}$</td> <td style="text-align: center;">+</td> <td style="text-align: center;">$\frac{191\,400}{870\,000}$</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;"><small>See below '&'.</small></td> </tr> </table> <p>No marks for denominator if the same figure is used for interim & final dividends.</p> <p>If weighted average used: <small>one mark</small></p> <table style="margin-left: 20px;"> <tr> <td style="text-align: center;">$\frac{162\,000 + 191\,400}{861\,666,7}$</td> <td style="text-align: center;">=</td> <td style="text-align: center;">$\frac{353\,400}{861\,667}$</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;"><small>two marks</small></td> </tr> </table> <p>(one mark) do not accept no method mark & (162 000 + 191 400) / 870 000 = 40,6 cents X (162 000 + 191 400) / 900 000 = 39,3 cents X (162 000 + 191 400) / 885 000 = 39,9 cents X</p>	18c	22c		<small>two marks</small>	<small>one mark</small>		$\frac{162\,000}{900\,000}$	+	$\frac{191\,400}{870\,000}$			<small>See below '&'.</small>	$\frac{162\,000 + 191\,400}{861\,666,7}$	=	$\frac{353\,400}{861\,667}$			<small>two marks</small>	Assume cents if not specified. 40 cents ✓& &Workings must be inspected in this case to earn the mark. Only award method mark if correct method is used i.e. different denominators for interim DPS & final DPS (e.g. 900 000 & 870 000).
18c	22c																		
<small>two marks</small>	<small>one mark</small>																		
$\frac{162\,000}{900\,000}$	+	$\frac{191\,400}{870\,000}$																	
		<small>See below '&'.</small>																	
$\frac{162\,000 + 191\,400}{861\,666,7}$	=	$\frac{353\,400}{861\,667}$																	
		<small>two marks</small>																	
% return on average shareholders' equity																			
WORKINGS	ANSWER																		
$\frac{985\,500 \checkmark}{\frac{1}{2} \checkmark (6\,450\,000 \checkmark + 8\,038\,100 \checkmark)} \times 100^*$ <p style="margin-left: 40px;"><small>14 488 100 two marks</small></p> <p style="margin-left: 40px;"><small>7 244 050 three marks</small></p> <p>Check numerator / denominator</p>	13,6% ✓* one part correct calculated as a % Do not accept 0,136 or 0,14																		

2

4

5

* x 100 does not constitute 'one part correct'

2.3 CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2021

Figures are NOT required in shaded areas.

For use of reversed signs, ensure that only one option is consistently used

CASH FLOW FROM OPERATING ACTIVITIES	1 180 000
Cash generated from operations	
Interest paid	
Taxation paid <small>(1 350 000 – 985 500) one mark</small> 35 900✓ + 364 500✓ + 29 100✓ Be aware of signs reversed, use of brackets or ledger account formats	(429 500) ✓*
Dividends paid 115 300 + 162 000 OR: 115 300 + 353 400 – 191 400 Be aware of signs reversed & use of brackets or ledger account formats	(277 300) ✓*
6	
CASH FLOW FROM INVESTING ACTIVITIES	(1 320 000)
CASH FLOW FROM FINANCING ACTIVITIES	409 000 ✓*
Shares issued see 2.1	1 250 000 ✓*
Shares repurchased 36 000 one mark two m.marks 255 000 ✓ + (30 000✓ x 1,20✓) OR 30 000 x R9,70 <small>see 2.1 (if R1,20 above ASP)</small>	(291 000) ✓*
Loan repaid 8	(550 000) ✓*
NET CHANGE IN CASH AND CASH EQUIVALENTS	269 000 ✓* <small>from top (OA + IA + FA)</small>
CASH AND CASH EQUIVALENTS AT BEGINNING	(75 200) ✓* <small>One mark if figure correct but no brackets</small>
CASH AND CASH EQUIVALENTS AT END 4	193 800 ✓*

18

*one part correct and must indicate correct operation & correct use of brackets;
 If no brackets, assume answer is an inflow of cash – award marks for workings only;

TOTAL MARKS	35
--------------------	-----------

QUESTION 3

3.1

3.1.1	D ✓	Return on equity	Accept abbreviations if understandable
3.1.2	A ✓	Liquidity	
3.1.3	B ✓	Gearing	
3.1.4	C ✓	Solvency	

4

3.2

FLEXI LTD AND BROOM LTD

3.2.1

Profitability:

Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently, and is thereby more profitable. Quote figures and trends.

part marks for incomplete / partial / unclear responses

Any TWO financial indicators (explaining trend) from Broom Ltd with figures ✓✓ ✓✓
If figures are shown for Flexi Ltd, award marks to names of indicators (max 2 marks)

Quote figures and trends for any two indicators below

% OExp on sales improved / decreased (from 17%) to 13,6% / by 20% / by 3,4% points (accept 3,4%)

% OP on sales increased (from 20,5%) to 24,2% / by 18% / by 3,7% points (accept 3,7%)

% NP on sales increased (from 16%) to 19,6% / by 22,5% / by 3,6% points (accept 3,6%)

All indicators show an improvement in profits / expenses well managed.

4

3.2.2

Dividends, earnings & returns:

Comment on the dividend pay-out policy of Flexi Ltd. Explain why this is an irresponsible change in policy. Provide TWO points. Quote figures and trends.

Trend (with figures) ✓✓

part marks for incomplete / partial / unclear responses (e.g. mentioning only DPS or only EPS)

Responses for 2 marks for figures & trends:

- The pay-out rate increased (from 59%) to 115% / by 94,9% / 56% points (accept 56%)
- In 2021 they paid DPS of 92c compared EPS of 80c (i.e. 12c from retained income).
- Although the EPS dropped from 138 cents to 80 cents (by 58 cents) / DPS was 10 cents more than last year (82c to 92c) and DPS now exceeds EPS (by 12c / 92c to 80c).

Explanation / comment on decision ✓✓

part marks for incomplete / partial / unclear responses; figures may be included in the explanation

Expected comments – any one valid comment for two marks e.g.

- Company is depleting Retained Income reserve (which can be more effectively used to rebuild profitability)
- The company is trying to keep shareholders happy / trying to influence market price of shares by increasing dividends / equalizing dividends over several years.

4

Comment on the % return on shareholders' equity of EACH company. Quote figures and trends.

Financial indicator with figures & trend ✓ ✓

Flexi Ltd:

ROSHE dropped from 12,2% to 7,6% / by 37,7% / 4,6 % points (accept 4,6%)

Broom Ltd:

ROSHE improved from 10,7% to 14,1% / by 31,8% / 3,4% points (accept 3,4%)

Additional comment in each case ✓ ✓

Figures may be included in the explanation; candidates are NOT required to mention a specific figure for the alternative rate; do not penalise for incorrect rates on investments (as these could vary from 4% to 14%)

- **Flexi Ltd:** Refer to / compare alternative investments e.g. fixed deposit
- **Broom Ltd:** Refer to / compare alternative investments e.g. fixed deposit

Comment for 1 mark only (to cover both companies):

- If candidates only mention increased / decreased / good / bad without alternative investments.

4

A shareholder feels that the earnings per share (EPS) in Broom Ltd are better than that in Flexi Ltd. Explain why you agree with him. Quote figures or calculations.

To get full marks, must compare EPS to Value of share (MP / NAV) for Flexi Ltd with figures ✓✓ part marks for incomplete / partial / unclear responses
To get full marks, must compare EPS to Value of share (MP / NAV) for Broom Ltd with figures ✓✓ part marks for incomplete / partial / unclear responses

Expected responses for four marks (two marks per company):

- EPS to NAV is 7,4% in Flexi Ltd and 11,4% in Broom Ltd
- EPS to MP for 2021 is 8,1% in Flexi Ltd (80/990) and 10,9% (72/660) in Broom Ltd
- EPS on MP for 2020 is 7,1% in Flexi Ltd (80/1130) and 11,7% (72/615) in Broom Ltd
- Flexi Ltd earned 80c on a share valued at 990c/1 081c while Broom Ltd earned 72c on a share valued at 660c/632c.

OR: Other comparisons for each company for only one mark in each company:

- Flexi Ltd EPS decreased from 138c to 80c whilst Broom increased from 65c to 72c
- Flexi EPS is calculated on a smaller number of share (700 000) so it looks good; Broom's EPS is calculated on a larger number of shares (1 500 000)

4

3.2.3 Shareholding of Bob Yates in both companies:

Comment on the price paid for the shares repurchased by Flexi Ltd. Provide TWO points. Quote figures.

Figures may be included in the explanation

Any TWO valid points (2 marks each), at least one of which must be related to a financial indicator with figures:

- Compare with figures R13,20 to MP of R9,90 or R11,30
- Compare with figures R13,20 to NAV of R 10,81 or R11,28
- Compare with figures R13,20 to any other value (e.g. average issue price)
- Any other general comment without figures e.g. compromised the funds (liquidity) / Bob abused his status to enrich himself / MP also shows a decreasing trend / no demand for shares / could drop the price further (apply part marks for simple or incomplete or partial answers).

4

Calculate the number of shares that Bob purchased in Broom Ltd with the money he received from the share buyback at Flexi Ltd.

WORKINGS	ANSWER
$\begin{array}{r} 150\,000 \times 13,20 \\ \hline 1\,980\,000 \\ \hline R6,60 \end{array}$	300 000 shares ✓✓ one part correct

2

Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. Quote figures and trends.

Explanation on % shareholding ✓ Comparison in Flexi Ltd with figures ✓
Explanation on % shareholding ✓ Comparison in Broom Ltd with figures ✓
Be aware of combined explanation with figures

Flexi Ltd:

Bob was the majority shareholder (51%)
He now has only 40,5% of the shares (283 500 / 700 000) so he has lost majority status.

Broom Ltd:

Bob had 41,8% of the shares $460\,000 + 300\,000$
He now has 50,7% of the shares (760 000 / 1 500 000) see 3.2.3
He is now the majority shareholder (or based on calculation in 3.2.3)

OR: There was no share repurchase in Broom Ltd, so that would not affect his % shareholding which was 41,8% (two marks)

OR: As he bought 300 000 shares in Broom Ltd, he is now the majority shareholder (50,7%).

4

3.2.4 Financing strategies and gearing:

Explanation of decisions taken by the directors of Broom Ltd (two marks):

Any ONE decision ✓ Figure ✓

Increased the share capital by R2 640 000 or (400 000 shares) **OR**
Decreased the loan by R400 000 **OR** Net increase of R2 240 000 to total capital employed

Explain ONE benefit (two marks):

Explanation of benefit ✓✓ Award part marks for partial / unclear / incomplete responses

- All the money generated is spent on lasting items (fixed assets) which could generate further profits in future
- Improved debt/equity ratio / reduced debt/equity (low risk) / improved creditworthiness in future
- Improved % return on average capital employed.

4

Explain how the decisions taken by Flexi Ltd on its capital employed has affected the risk and gearing of the business. Quote TWO financial indicators (with figures and trends).

TWO financial indicators (with figures)

- **Debt/equity** ✓ is now / increased (from 0,4 : 1) to 1,1 : 1 / by 0,7 : 1 ✓
- **ROTCE** ✓ is now / decreased (from 16,1%) to 10,2% / by 36,6% / by 5.9% points (accept 5,9%) ✓

Explanation could be combined with figures or separate; both risk & gearing must be mentioned. Ignore reference to % ROSHE (i.e. do not penalise)

Award part marks for partial / unclear / incomplete responses

- High risk due to increase in loan ✓
- The business is experiencing negative gearing ✓ (ROTCE is lower than interest rate of 13%)

6

TOTAL MARKS

40

QUESTION 4

4.1

Explain why a disclaimer audit report would be bad for a company's reputation. Provide TWO points. <small>part marks for incomplete / partial / unclear answers</small>	
POINT 1 ✓✓	Be aware of alternative valid responses e.g. Any TWO <ul style="list-style-type: none"> This indicates that there is something seriously wrong with the financial statements.
POINT 2 ✓✓	<ul style="list-style-type: none"> The company and its results cannot be trusted / creates a bad impression or bad publicity This can negatively affect the share price on the JSE. Decreased demand for shares / losing potential investors / existing shareholders would want to sell their shares. Poor management and control of internal processes / incompetent management / question the integrity of directors. Suppliers and customers will look elsewhere / creditors might not give credit Banks / financial institutions might not approve loans

4

4.2

One of the most important decisions that shareholders have to make at the annual general meeting (AGM) is to appoint directors to serve on the board.

Explain why the shareholders have been given this responsibility. Expected responses: ✓✓ <small>part marks for incomplete / partial / unclear answers</small> Be aware of alternative valid responses Any ONE valid response e.g. <ul style="list-style-type: none"> Separation of ownership (shareholders) from control (directors) The shareholders are the major investors but they cannot all work at the company. They will have to appoint directors to run the company for them. They have entrusted their investment to the directors. 	
If you were a shareholder, what factors or characteristics would you want to find out about the directors who would get your vote? Explain TWO points and give a reason for EACH.	
<small>Reason could be included with Explanation / Some Explanations could be Reasons</small>	
EXPLANATION Any TWO ✓✓ ✓✓ <small>Two separate and different points Single word responses acceptable</small>	REASONS Any TWO ✓ <small>Any TWO different reasons (not necessarily linked to the explanation)</small>
<ul style="list-style-type: none"> Integrity / honesty / ethical / moral / person / set good example / work ethic / responsible / no conflicts of interest / no accusations of nepotism Clear crime record Good qualifications / member of professional body / management skills / competence / good judgement / communication skills Innovative / creative Experience in field / good track record / references / aware of policies. Up to date with current trends / continues professional development Collaborative / a good team player Transparency & accountability (generally assessed after appointment, unless stated as part of track record) 	<ul style="list-style-type: none"> The shareholders have entrusted their investment to the directors. They need expertise to run a company well. Company would not fall behind on the global market. Employees / shareholders would respect director / have confidence in their ability. Be a confident ambassador for the company / deal with all stakeholders.

2

6

4.3

A recent news report stated that a major company, Baxco Ltd, had been awarded a tender to supply equipment worth R20 m to a chain of private hospitals. The report accuses the CFO (chief financial officer) of that company of paying R2 m in cash to the CEO of the hospital group.

As a shareholder, explain what you would say at the AGM. Provide TWO points.

TWO valid and different points ✓✓ ✓✓ part marks for incomplete / partial answers

Be aware of alternative valid responses

- This appears to be a clear case of corruption / under-handed agreement that did not follow the normal tender processes / kick-backs or bribes involved / unethical & illegal.
- The CFO's actions must be investigated and appropriate disciplinary measures should follow (abusing his influence / authority) / institute criminal proceedings / legal process / sued (dismissed / fired /replaced: only 1 mark).
- Investigate further to ensure that criminal activity has not filtered through to other parts of the company.
- If the directors' integrity is compromised, this will affect the reaction of the public and the customers.
- This would affect the share price and the profits (image of the business)
- Concern over access to large cash amount / lack of internal controls.

4

4.4

Refer to the question paper for an extract from the website and Directors' Report of a major South African company.

In your opinion, explain why this major company found it necessary to implement this policy. Provide TWO points.

TWO valid and different points ✓✓ ✓✓ part marks for incomplete / partial answers

Be aware of alternative valid responses

- Crime is a major problem in this country and people are scared to come forward to report crimes as they fear that their lives might be at risk; protection policy may encourage them to report cases.
- The company states this in their policies to make people realise that they are serious about combatting crime.
- The company would want to find out about wrong-doing before it is exposed in the press / impact negatively on the business.
- This could also prevent or minimize wrong-doing as people are aware of this policy / being watched / reported / culprits must be reported.
- This is part of good governance or according to King Code / improve reputation of company / compliance with policies / total quality management.

4

TOTAL MARKS

20

OWN QUESTION

1.1

1.1.1	income ✓
1.1.3	current liability ✓
1.1.4	Non-current asset ✓

3

1.2.1

Calculate the missing figures indicated by (i) to (iii) on the Fixed asset note. Show workings to earn part-marks.

	Calculation	Answer
(i)	$560\,000 - 240\,400$ Old $319\,600 \times 20/100 = 63\,920$ ✓ <input checked="" type="checkbox"/> New $180\,000 \times 20/100 \times 1/12 = 3\,000$ ✓ <input checked="" type="checkbox"/>	(5) 66 920 ✓ one part correct
(ii)	$120\,000 - (42\,000 \checkmark + 8\,000 \checkmark \checkmark)$ $120\,000 \times 10\% \times 8/12$	(4) 70 000 ✓ one part correct
(iii)	Asset disposal $8\,000$ ✓ see above Old $310\,000 \checkmark \checkmark \times 10/100 = 31\,000$ two marks $430\,000 - 120\,000$	(4) 39 000 ✓ one part correct

13

1.2.2

Ordinary Share capital

1 400 000 ✓	Balance on 1 March 2019	8 400 000 ✓
(300 000) ✓	Ordinary shares re-purchased (at average price of R6,00 ✓)	(1 800 000) ✓
400 000	Ordinary shares issued	3 600 000 ✓ operation
1 500 000 ✓	Balance on 29 February 2020	10 200 000

7

Retained Income

Balance on 1 March 2019	244 400
Net profit after income tax	958 500 ✓
Shares repurchased (300 000 x R1,20 ✓✓) operation, one part correct	(360 000) ✓*
Ordinary share dividends operation, one part correct	(745 000) ✓
Interim	220 000 ✓
Final (1 500 000 x 35 cent)	525 000 ✓ <input checked="" type="checkbox"/>
Balance on 28 February 2020 operation, one part correct	97 900 ✓

9

1.2.3 ZWANI LIMITED INCOME STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2020		
Sales (5 600 000 – 15 000)		5 585 000 ✓☑*
Cost of sales (3 500 000 – 9 375✓✓)		(3 490 625) ☑*
Gross profit	operation 6	2 094 375 ☑
Other operating income		137 280
Rent income (149 600✓ – 12 320✓✓)	4	137 280 ☑*
Gross operating income		2 231 655
Operating expenses		(876 095) ☑
Sundry expenses		45 200
Salaries and wages		212 000
Audit fees (200 000 – 40 000)		160 000 ✓☑
Directors fees (333 500 + 14 500✓✓)		348 000 ☑*
Depreciation	See 1.2.1	105 920 ☑
Trading stock deficit (445 600 + 9 375 ☑ – 450 000✓)		4 975 ☑*
Operating profit	11	1 355 560 ☑*
Interest income	balancing figure	120 440 ☑
Profit before interest expenses/Finance cost		1 476 000 ☑
Interest expenses		(126 000)
Profit before tax	NPAT + IT	1 350 000 ☑
Income tax	958 500 / 71*29	(391 500) ✓✓
Net profit after tax	5	958 500

26

Foreign items -1 max -2 ☑* - Operation – one part correct

1.2.3 ZWANI LIMITED BALANCE SHEET ON 29 FEBRUARY 2020		
EQUITY & LIABILITIES		
Ordinary shareholders' equity		10 297 900 <input checked="" type="checkbox"/>
Ordinary share capital		10 200 000
Retained income	see 1.2.1 2	97 900 <input checked="" type="checkbox"/>
Non-current liabilities		
Loan from director 615 000✓ – 180 000✓✓	4	435 000 <input checked="" type="checkbox"/>
Current liabilities		
Trade & other payables 158 900✓ + 12 320 <input checked="" type="checkbox"/> + 14 500 <input checked="" type="checkbox"/> – 1 000 ✓ Rent income Directors fee		184 720 <input checked="" type="checkbox"/>
SARS: Income Tax (375 800 – 391 500)		15 700 <input checked="" type="checkbox"/>
Shareholders for dividends	see 1.2.2	525 000 <input checked="" type="checkbox"/>
Current portion of loan	see loan	180 000 <input checked="" type="checkbox"/>
TOTAL EQUITY & LIABILITIES	11	11 638 320 <input checked="" type="checkbox"/>

17

TOTAL MARKS
75

QUESTION 2

2.1

Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–D) next to the question number (2.1.1–2.1.4).

2.1.1	C	✓
2.1.2	A	✓
2.1.3	D	✓
2.1.4	B	✓

4

2.2

**MORGAN LTD
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017**

	Sales	10 800 000	
	Cost of sales Sales /1.8	(6 000 000)	✓✓
3	Gross profit sales - cos	4 800 000	✓
	Other income operation	95 600	✓
	Commission income	12 000	
	Rent income (92 800✓ – 9 200✓✓) one part correct	83 600	✓
6	Gross income operation	4 895 600	✓
	Operating expenses GI - OP	(3 313 600)	✓
	Salaries and wages	1 529 150	
	Depreciation	199 750	
	Sundry expenses	875 000	✓
	Directors fees one mark two marks (630 000✓ + 18 000✓✓)(630 000 x ³⁶ / ₃₅)	648 000	✓
	Audit fees (36 000 ✓ + 12 000 ✓✓) one part correct	48 000	✓
	Trading stock deficit (225 950 – 213 750)	12 200	✓✓
	Provision for bad debts adjustment	1 500	✓✓
15	Operating profit	1 582 000	✓
	Interest income balancing figure	75 500	✓✓
	Net profit before interest expense operation NP before tax + interest expense	1 657 500	✓
	Interest expense	(57 500)	✓✓
	Net profit before tax Income tax + NP after tax	1 600 000	✓
	Income tax	(480 000)	✓✓
8	Net profit after tax income tax must be subtracted	1 120 000	

32

Foreign items -1 (max -2)

2.3.1 ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL

2 000 000 ordinary shares

ISSUED SHARE CAPITAL

1 500 000 ✓	Ordinary shares on 1 March 2017	4 500 000	✓
(250 000) ✓	^{R3,90 – R0,90)(ASP)} Shares repurchased (ASP: R3,00 ✓ <input checked="" type="checkbox"/> ignore brackets on this line; mark absolute figures only	(750 000) one part correct	<input checked="" type="checkbox"/>
400 000 ✓	Shares issued during the year at R5	2 000 000	✓
1 650 000 <input checked="" type="checkbox"/> one part correct	Shares on 28 February 2017 operation one part correct ; Repurchase deducted and issued added	5 750 000	<input checked="" type="checkbox"/>

10

2.3.2 RETAINED INCOME

Balance on 1 March 2017	750 500	✓
Buyback of shares (250 000 ✓ x 0,90 ✓)	(225 000) one part correct do not accept 0	<input checked="" type="checkbox"/>
Net profit after tax see 2.2	1 120 000	✓
Ordinary share dividends operation, one part correct	(831 000)	<input checked="" type="checkbox"/>
• Interim dividends balancing figure	475 500	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
• Final dividends	355 500	✓
Balance on 28 February 2018 operation, one part correct	814 500	✓

10

2.4 EQUITY AND LIABILITIES SECTION OF THE BALANCE SHEET

	SHAREHOLDERS' EQUITY operation	6 564 500	<input checked="" type="checkbox"/>	
	Ordinary share capital see 2.3.1	5 750 000	<input checked="" type="checkbox"/>	
3	Retained income see 2.3.2	814 500	<input checked="" type="checkbox"/>	
	NON-CURRENT LIABILITIES	416 000		
3	Loan: Rian Bank (520 000 ✓ – 104 000 ✓) one part correct	416 000	<input checked="" type="checkbox"/>	
	CURRENT LIABILITIES operation, one part correct	958 000	<input checked="" type="checkbox"/>	
	Trade and other payables one part correct (412 200 ✓ + 18 000 <input checked="" type="checkbox"/> + 12 000 <input checked="" type="checkbox"/> + 9 200 <input checked="" type="checkbox"/> Directors' fees Audit Fees Rent income See 2.2 for amounts for Dir fees, Audit fees and Rent income	451 400	<input checked="" type="checkbox"/>	
	Shareholders for dividends see 3.2.2	355 500	<input checked="" type="checkbox"/>	
	SARS: income (480 000 <input checked="" type="checkbox"/> – 444 750 ✓) see IS	35 250	<input checked="" type="checkbox"/>	
	Bank overdraft	11 850	<input checked="" type="checkbox"/>	
	Short term loan see NCL above	104 000	<input checked="" type="checkbox"/>	
13	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES operation, one part correct	7 938 500	<input checked="" type="checkbox"/>	19

TOTAL MARKS

75