



**KWAZULU-NATAL PROVINCE**

**EDUCATION**  
REPUBLIC OF SOUTH AFRICA



**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ACCOUNTING P1**  
**PREPARATORY EXAMINATION**  
**SEPTEMBER 2022**

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**MARKS: 150**

**TIME: 2 HOURS**

**This question paper consists of 10 pages,  
a formula sheet and a 10-page Answer Book.**

## INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

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

QUESTION	TOPIC	MARKS	MINUTES
1	Tangible/ fixed asset note and Statement of Comprehensive Income	60	50
2	Notes to the Financial Statements, Cash Flow Statement and Financial Indicators	40	30
3	Interpretation of Financial Statements	35	30
4	Corporate Governance and Audit report	15	10
<b>TOTAL</b>		<b>150</b>	<b>120</b>

**QUESTION 1: TANGIBLE ASSETS NOTE AND STATEMENT OF COMPREHENSIVE INCOME**  
**(60 Marks; 50 Minutes)**

**1.1 CONCEPTS**

Choose the correct term from COLUMN B to match the description in COLUMN A. Write only the letter (A – E) next to the question number (1.1.1 to 1.1.3) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.1.1	Sets out the rights, duties and responsibilities of shareholders and directors.	A	Matching concept
1.1.2	The total number of shares that a company can issue.	B	International Financial Reporting Standards (IFRS)
1.1.3	Revenue generated during an accounting period should be in line with the expenses during the same period.	C	Memorandum of Incorporation (MOI)
		D	Authorised share capital

3 x 1 (3)

**1.2 DUNDEE LTD**

The information relates to the financial year ended 28 February 2022.

**REQUIRED:**

**1.2.1 Refer to Information B (i)**

Calculate the missing amounts denoted by (a) to (d) on the Fixed Asset Note. (19)

**1.2.2** Complete the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2022.

Certain figures are provided in the ANSWER BOOK. (38)

**INFORMATION:**

**A. EXTRACT FROM THE PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2022**

<b>Balance sheet accounts</b>	
Loan: Triumph Bank	630 000
Fixed deposit: Wayde Bank	1 000 000
Debtors control	186 000
Trading stock	?
SARS (Income tax) (Dr)	500 000
Provision for bad debts (1 March 2021)	4 830
Consumables on hand (1 March 2021)	820
<b>Nominal accounts</b>	
Sales	7 816 150
Cost of sales	?
Service fee income	350 000
Directors fees	550 000
Audit fees	88 410
Salaries and wages	681 600
Rent income	87 465
Interest on fixed deposit	80 000
Insurance	44 700
Bad debts	6 730
Packing material	4 600
Sundry Expenses	?

**B. Additional information and adjustments:**

**(i) FIXED/TANGIBLE ASSETS:**

	<b>Buildings</b>	<b>Vehicles</b>	<b>Equipment</b>
Carrying value at beginning of year	1 516 400	330 000	61 100
Cost price	1 516 400	900 000	615 000
Accumulated depreciation	-	(570 000)	(553 900)
<b>Movements</b>			
Additions	(a)	411 000	(d)
Disposal	-	(b)	-
Depreciation	-	(c)	66 099
Carrying value at end of year	2 946 400		
Cost price			
Accumulated depreciation			

- A vehicle, cost R180 000, was sold on 31 December 2021 for R70 000 cash. Accumulated depreciation on the vehicle sold was R62 400 on 1 March 2021.
- The new vehicle was purchased on 31 December 2021.
- Vehicles are depreciated at 20% p.a. on diminishing balance.
- New equipment was bought on 1 January 2022.
- Equipment is depreciated at 10% p.a. on cost.



- (ii) A credit note for R35 700 issued to a debtor for goods returned on 27 February 2022, was recorded as an invoice, in error.
- (iii) The business prices its goods at a mark-up of 70% on cost. Note that trade discount totaling R360 000 was allowed on invoices to certain customers.
- (iv) Packing Material on hand on 28 February 2022 amounted to R560. The consumable stores on hand on 1 March 2021 were not reversed.
- (v) No entries were made for stock stolen at the beginning of January 2022. The insurance company deposited R32 000 into the business bank account in respect of the insurance claim. Dundee Ltd must bear the stock loss of 20%. This must still be recorded.
- (vi) A debtor, B Zulu, with an outstanding balance of R2 000, has left the country. His account must be written off as irrecoverable.
- (vii) The provision for bad debts must be adjusted to R3 630.
- (viii) Rent income of R8 500 per month was decreased by R850 per month with effect from 1 June 2021, due to the poor condition of the premises. The premises were upgraded, and the rent was thereafter increased by 10% p.a. effective from 1 January 2022. The tenant has not paid the rent for February 2022
- (ix) An employee, S Zwane, who commenced work on 1 February 2022, was omitted from the salaries journal. Details of his salary for February 2022 is as following:

Deductions	Net salary	Contributions
3 405	10 095	?

**Note:**

Business contribute 13% of the gross salary

All contributions are recorded as part of salaries and wages.

- (x) An insurance premium of R27 000 for company vehicles was paid on 31 May 2021 for the period of 1 June 2021 to 31 May 2022.
- (xii) The loan statement from Tholeni bank on 28 February 2022 reflected the following:

Balance at the Beginning of the financial year	R1 470 000
Repayments during the year	R840 000
Interest capitalized	?
Balance at the end of financial year	R750 000

- (xiii) Income tax for the financial year was calculated as R540 000. This is 30% of the net profit before tax.



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

You are provided with information relating to Ladysmith Limited, for the financial year ended 28 February 2022.

**REQUIRED:**

- 2.1 Prepare the following notes to the Financial Statements on 28 February 2022:
- 2.1.1 Ordinary share capital (5)
  - 2.1.2 Retained income (9)
- 2.2 Complete the Cash Flow Statement for the year ended 28 February 2022. Certain figures are provided in the ANSWER BOOK. (18)
- 2.3 Calculate the following financial indicators for the year ended 28 February 2022:
- 2.3.1 % operating profit on sales (2)
  - 2.3.2 Net asset value per share (NAV) (3)
  - 2.3.3 Debt-equity ratio (3)

**INFORMATION:****A Extract from the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2022:**

Sales	R2 660 000
Cost of sales	R1 330 000
Depreciation	232 300
Interest expense	128 000
Operating profit	691 600
Net profit before tax	747 000
Income tax	224 100

**B Extract from the Statement of Financial Position (Balance Sheet) on 28 February:**

	2022	2021
Ordinary shareholders' equity	2 870 900	?
Ordinary share capital	2 710 000	1 770 000
Retained Income	190 900	?
Non-current liabilities (15% p.a.)	892 000	1 180 000
Investment in fixed deposit	?	330 000
Cash and cash equivalent	321 500	5 000
Bank overdraft	-	92 000
Fixed/Tangible assets carrying value	3 372 300	2 937 600
SARS (Income tax)	45 000 Dr	17 500 Cr
Shareholders for dividends	271 000	192 000

**C Share capital**

The business is registered with an authorised share capital of 800 000 ordinary shares.

1 March 2021	The issued share capital consisted of 480 000 ordinary shares.
1 March 2021	200 000 ordinary shares were issued.
1 January 2022	2 500 ordinary shares were repurchased from a retired shareholder at a total cost of R12 500. This transaction was recorded

**D Dividends**

The 2022 financial records reflected R348 500 paid for dividends.

**E Fixed assets**

- Part of the building was sold during the financial year, R583 000.
- Equipment was purchased during the financial year.

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

**KHOMBINDLELA LIMITED AND THANDUYISE LIMITED**

You are provided with information relating to two companies which operate in the same industry. Njabulo Khumalo own shares in both companies.

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

**REQUIRED:**

**3.1 Liquidity:**

Identify the company that is managing its liquidity more efficiently. Quote THREE financial indicators, with figures, to support your choice. (6)

**3.2 Returns, earnings and dividends:**

- Explain whether the shareholders of Khombindlela Ltd should be satisfied with their returns on investment. Quote figures. (2)

The directors of Thanduyise Ltd changed their dividend pay-out policy.

- Explain this change. Quote figures. (3)
- Explain why you consider this change to be either a responsible or an irresponsible decision. Provide TWO point. (4)
- Njabulo feels that the dividends he received in Thanduyise Ltd is better than that of Khombindlela Ltd. Explain why you agree with him. Quote figures. (4)

**3.3 Risk and gearing:**

Compare the risk and gearing of each company and explain which company is managing debt more effectively. Quote TWO financial indicators, with figures. (6)

**3.4 Shares and share holding:**

3.4.1 Njabulo, the majority shareholder of Thanduyise Ltd, was not aware that directors issued additional shares during the financial year.

Explain why he wants to maintain his position as the majority shareholder. Provide ONE point. (2)

3.4.2 Calculate the number of shares that he must purchase to achieve this objective, and the amount he will require to purchase these shares. (4)

3.4.3 What advice would you offer Njabulo about his shares in Khombindlela Ltd? Provide TWO points. Quote figures. (4)

**INFORMATION:****A. Financial indicators, interest rate and market price of shares:**

	Khombindlela Ltd		Thanduyise Ltd	
	2022	2021	2022	2021
Debt / equity ratio	0,5 : 1	0,2 : 1	0,2 : 1	0,6 : 1
Current ratio	2,4 : 1	2,1 : 1	1,8 : 1	1,9 : 1
Acid-test ratio	0,7 : 1	0,8 : 1	1,1 : 1	0,9 : 1
Stock turnover rate	5,6 times	7,4 times	9,9 times	9,5 times
Debtors' average collection period	42 days	38 days	34 days	32 days
Earnings per share (cents)	99 cents	112 cents	83 cents	64 cents
Dividends per share (cents)	85 cents	95 cents	79 cents	33 cents
Dividend pay-out rate	86 %	85 %	95 %	51 %
% Return on average equity	8,3%	9,2%	9,4%	6,8%
% Return on average capital employed	11,9%	13,4%	13,4%	9,8%
Net asset value per share (cents)	1195 cents	1192 cents	932 cents	943 cents

**B. Additional Information:**

Market price on stock exchange	1177 cents	1186 cents	945 cents	940 cents
Interest rate on loans	12,5%	12,5%	12,5%	12,5%
Interest rate on fixed deposits	8,5%	8,5%	8,5%	8,5%

**C. Shares and shareholding of Njabulo Khumalo:**

	Khombindlela Ltd		Thanduyise Ltd	
	2022	2021	2022	2021
Total number of shares in issue in each company	900 000	900 000	1 040 000	850 000
Shares owned by Njabulo	225 000	225 000	460 000	460 000
% shareholding in each company	25%	25%	?	54,1%



**QUESTION 4 CORPORATE GOVERNANCE AND AUDIT REPORT**

**(15 Marks; 10 Minutes)**

**4.1 CORPORATE GOVERNANCE**

**REQUIRED:**

- 4.1.1 Explain what is meant by *good corporate governance* and explain why it is important to the shareholders. (3)
- 4.1.2 Provide ONE possible reason why Freedom Book says he will vote against the proposal by Mngoma Ltd. (2)
- 4.1.3 Provide TWO points of advice on how the other directors should handle this matter. (4)

**INFORMATION**

**LUTHULI LIMITED:**

This information relates to the financial year ended on 28 February 2022. Freedom Book is the CEO of the company, there are two other executive directors.

Mngoma Ltd, a respected company with a reputation for **good corporate governance**, has made an offer to purchase the remaining 2 550 000 of the 6 000 000 shares in Luthuli Limited at a price which is considerably more than the current market value. One company director has been suspected by media houses of irregular activities/decisions in the past.

Whilst other directors feels that this is a very generous offer and are in favour of accepting it, Freedom indicated that as a majority shareholder, he would use his status to vote against this proposal and succeed.

**4.2 AUDIT REPORT**

**REQUIRED:**

- 4.2.1 Choose the correct word from those given in brackets. Give a reason. Zululand Ltd received a /an ( qualified/unqualified/disclaimer) audit report. (2)
- 4.2.2 Explain TWO consequences of this audit report for the company and/or the CEO. (4)

**EXTRACT FROM REPORT OF THE INDEPENDENT AUDITORS**

**Basis for our opinion**

The company's procurement policy states that purchases over R250 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 Zululand Ltd for the year ended 30 June 2022.

**Zibani & Myeza Associates. CA (SA)**

**15**

**TOTAL MARKS: 150**

**GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET**

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





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REPUBLIC OF SOUTH AFRICA

**ACCOUNTING P1**

**ANSWER BOOK**

**SEPTEMBER 2022**

**PREPARATORY EXAMINATION**

**NATIONAL  
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**GRADE 12**

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

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

QUESTION	MARKS	MOD BY THE SCHOOL	MOD BY THE CLUSTER	MOD BY THE PROVINCE
1				
2				
3				
4				
TOTAL				

**N.B. This answer book consists of 10 pages.**

## QUESTION 1

- 1.1 Choose an explanation from column B that matches the term in column A. Write only the letter (A – D) next to the question numbers (1.1.1 to .1.3) in the ANSWER BOOK.

1.1.1	
1.1.2	
1.1.3	

3

1.2.1

	CALCULATION	ANSWER
(a)		
(b)		
(c)		
(d)		

19



**1.2.1 Statement of Comprehensive Income for the year ended 28 February 2022.**

<b>Sales</b>	
<b>Cost of sales</b>	
<b>Gross profit</b>	
<b>Other operating income</b>	
<b>Service fee income</b>	<b>350 000</b>
<b>Gross income</b>	
<b>Operating expenses</b>	
<b>Directors fees</b>	<b>550 000</b>
<b>Audit Fees</b>	<b>88 410</b>
<b>Operating profit</b>	
<b>Interest income</b>	<b>80 000</b>
<b>Operating profit before interest expense</b>	
<b>Interest expense</b>	
<b>Net profit before taxation</b>	
<b>Taxation</b>	<b>(540 000)</b>
<b>Net profit after tax</b>	

<b>38</b>

<b>TOTAL MARKS</b>
<b>60</b>

## QUESTION 2

### 2.1.1 Ordinary share capital note

<b>AUTHORISED SHARES</b>		
<b>800 000 SHARES</b>		
<b>ISSUED SHARES:</b>		
<b>480 000</b>	<b>Shares issued on 1 March 2021</b>	<b>1 770 000</b>
	<b>Shares issued at the end</b>	<b>2 710 000</b>

5

### 2.1.2 RETAINED INCOME

<b>Balance at the beginning</b>	
<b>Ordinary share dividends</b>	
<b>Balance at the end</b>	<b>160 900</b>

9

**2.2 Cash Flow Statement for the year ended 28 February 2022**

<b>Cash flow from operating activities</b>	
<b>Cash generated from operations</b>	
<b>Dividends paid</b>	<b>(348 500)</b>
<b>Cash flow from investing activities</b>	<b>(417 000)</b>
<b>Purchases of Fixed assets</b>	
<b>Proceeds from sale of fixed assets</b>	<b>583 000</b>
<b>Cash flow from financing activities</b>	
<b>Proceeds from shares issued</b>	
<b>Buy-back of shares</b>	<b>(12 500)</b>
<b>Net change in cash and cash equivalent</b>	
<b>Cash and cash equivalent at the beginning</b>	
<b>Cash and cash equivalent at the end</b>	<b>321 500</b>

2.3.1 % operating profit on sales

--

2

2.3.2 Net asset value per share (NAV)

--

3

2.3.3 Debt-equity ratio

--

3

TOTAL MARKS

40

**QUESTION 3****3.1 Liquidity**

Identify the company that is managing its liquidity more efficiently. Quote **THREE** financial indicators, with figures, to support your choice.

6

**3.2 Returns, earnings and dividends:**

- Explain whether the shareholders of Khombindlela Ltd should be satisfied with their returns on investment. Quote figures.

2

The directors of Thanduyise Ltd changed the dividend pay-out policy.

- Explain this change. Quote figures.
- Explain why you consider this change to be either a responsible or an irresponsible decision. Provide TWO point.
- Njabulo feels that the dividends he received in Thanduyise Ltd is better than that of Khombindlela Ltd. Explain why you agree with him. Quote figures.

3

4

4



**3.3 Risk and gearing**

Compare the risk and gearing of each company and explain which company is managing debt more effectively. Quote TWO financial indicators, with figures.

6

**3.4 Shares and share holding:**

**3.4.1** Njabulo, the majority shareholder of Thanduyise Ltd, was not aware that directors issued additional shares during the financial year. Explain why he wants to maintain his position as the majority shareholder. Provide ONE point.

2

**3.4.2** Calculate the number of shares that he must purchase to achieve this objective, and the amount he will require to purchase these shares.

4

**3.4.3** What advice would you offer Njabulo about his shares in Khombindlela Ltd? Provide TWO point. Quote figures.

4

TOTAL MARKS

35

**QUESTION 4**

- 4.1.1 Explain what is meant by *good corporate governance* and explain why it is important to the shareholders**



3

- 4.1.2 Provide ONE possible reason why Freedom Book says he will vote against the proposal by Mngoma Ltd.**

2

- 4.1.3 Provide TWO points of advice on how the other directors should handle this matter.**

4

4.2.1

Choose the correct word from those given in brackets.  
Zululand Ltd received a /an ( qualified/unqualified/disclaimer) audit report.

Give a reason.

2

4.2.2

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

4

TOTAL MARKS
15



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**EDUCATION**  
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**ACCOUNTING P1**  
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**SEPTEMBER 2022**  
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**GRADE 12**

**MARKS: 150**

**MARKING PRINCIPLES:**

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

**This marking guideline consists of 10 pages.**

### QUESTION 1

**1.1 Choose an explanation from column B that matches the term in column A. Write only the letter (A – D) next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.**

1.1.1	C ✓
1.1.2	D ✓
1.1.3	A ✓

3
3

**1.2.1**

	CALCULATION	ANSWER
(a)	2 946 400 – 1 516 400	1 430 000 ✓✓ <b>2</b>
(b)	180 000 ✓ – 62 400 ✓ – 19 600 ✓✓ <b>One part correct</b> 117 600 two marks	98 000 ✓ <b>One part correct</b> <b>5</b>
(c)	Sold: 19 600 ✓ see (a) above New: 411 000 x 20/100 x 2/12 = 13 700 ✓✓ <b>One part correct</b> Old: (900 000 – 180 000) – (570 000 – 62 400) 720 000 – 507 600 212 400 ✓✓ x 20% = 42 480 ✓ <b>One part correct</b>	75 780 ✓ <b>One part correct</b> <b>7</b>
(d)	61 100 – 1 (66 099 ✓ – 61 099 ✓✓) x 100/10 x 12/2 ✓ 5 000 three marks	300 000 ✓ <b>One part correct</b> <b>5</b>

19
19

1.2.2 Statement of Comprehensive Income for the year ended 28 February 2022.

		One part correct	
	Sales (7 816 150 – 35 700 – 35 700 or – 71 400)	7 744 750	✓✓
	Cost of sales (7 744 750 ✓ + 360 000 ✓) 100/170	(4 767 500)	✓
6	Gross profit	2 977 250	✓
	Other operating income	447 080	
	Service fee income	350 000	
	Rent income (87 465 ✓ + 8 415 ✓✓) OR (25 500 + 53 550 + 16 830)	95 880	✓
	Provision for bad debts adjustment	1 200	✓✓
7	Gross income	3 424 330	✓
	Operating expenses	(1 584 330)	✓
	Directors fees	550 000	
	Audit Fees	88 410	
	Salaries and wages (681 600 + 13 500 ✓ + 1 755 ✓)	696 855	✓
	Insurance (44 700 ✓ – 6 750 ✓✓)	37 950	✓
	Bad debts (6 730 + 2 000)	8 730	✓✓
	Packing material (820 + 4 600 – 560)	4 860	✓✓
	Depreciation (75 780 one mark + 66 099 one mark)	141 879	✓✓
	Loss on sale of an asset (98 000 See 1.2.1 – 70 000)	28 000	✓
	Loss on stock	8 000	✓✓
18	Sundry Expenses	46 816	✓
	Operating profit	1 840 000	✓
	Interest income	80 000	
	Operating profit before interest expense	1 920 000	✓
	Interest expense	(120 000)	✓✓
	Net profit before taxation	1 800 000	✓✓
	Taxation	(540 000)	
7	Net profit after tax	1 260 000	✓
	Foreign entry -1 max -2		

TOTAL MARKS
60
60

## QUESTION 2

### 2.1.1 Ordinary share capital note

<b>AUTHORISED SHARES</b>		
<b>800 000 SHARES</b>		
<b>ISSUED SHARES:</b>		
480 000	shares issued on 1 March 2021	1 770 000
200 000	shares issued on 1 March 2021	950 000
(2 500)	buy-back of shares @ R4 ✓✓ must be in brackets	(10 000)
677 500 ✓ Operation	Shares issued at the end	2 710 000

✓

✓

5

5

### 2.1.2 RETAINED INCOME

<b>Balance at the beginning</b>	balancing figure	68 000
Buy back of shares (12 500 – 10 000 See 2.1.1) OR 2 500 x 1	must be in brackets	(2 500)
Net profit after tax (747 000 – 224 100)		522 900
<b>Ordinary share dividends</b>	Operation one part correct must be in brackets	(427 500)
Interim dividends (348 500 – 192 000)		156 500
Final dividends		271 000
<b>Balance at the end</b>		<b>160 900</b>

✓

✓✓

✓✓

✓

✓✓

✓

9

9



## 2.2 Cash Flow Statement for the year ended 28 February 2022

	<b>Cash flow from operating activities</b>		
	<b>Cash generated from operations</b>		
	Interest paid	(128 000)	✓
	<b>Dividends paid</b>	<b>(348 500)</b>	
5	Tax paid (224 100 ✓ + 17 500 ✓ + 45 000 ✓) <small>Operation one part correct</small>	(286 600)	✓
	<b>Cash flow from investing activities</b>	<b>(417 000)</b>	
	<b>Purchases of Fixed assets</b> (3 372 300 ✓ + 232 300 ✓ + 583 000 ✓ – 2 937 600 ✓)	(1 250 000)	✓
	<b>Proceeds from sale of fixed assets</b>	<b>583 000</b>	
6	Changes in financial assets <small>Balancing figure</small>	250 000	✓
	<b>Cash flow from financing activities</b> <small>Operation one part correct</small>	649 500	✓
	<b>Proceeds from shares issued</b> <small>See 2.1.1</small>	950 000	✓
	<b>Buy-back of shares</b>	<b>(12 500)</b>	
4	Changes in loan	(288 000)	✓✓
	<b>Net change in cash and cash equivalent</b> <small>operation one part correct</small>	408 500	✓
3	Cash and cash equivalent at the beginning (5 000 – 92 000)	(87 000)	✓✓
	<b>Cash and cash equivalent at the end</b>	<b>321 500</b>	

18

18

**2.3.1 % operating profit on sales**

$$\frac{691\,600}{2\,660\,000} \times \frac{100}{1}$$

26% ✓ ☒ Operation one part correct

2

2

**2.3.2 Net asset value per share (NAV)**

$$\frac{2\,870\,900}{677\,500} \times 100$$

424 cents ✓ ☒ See 2.1.1  
 424 cents ✓ ☒ Operation one part correct



3

3

**2.3.3 Debt-equity ratio**

892 000 ✓ : 2 870 900 ✓

0.3 : 1 ✓ ☒ Operation one part correct

3

3

**TOTAL MARKS**

40

40

### QUESTION 3

#### 3.1 Liquidity

**Identify the company that is managing its liquidity more efficiently. Quote THREE financial indicators, with figures, to support your choice.**

Any three financial indicator explaining trend from Thanduyise Ltd with figures showing Sound control of short term debts, cash and inventory:

✓✓

✓✓

✓✓

Part marks for incomplete/partial/unclear response:

Current ratio decreased from 1,9 : 1 to 1,8 : 1 by 0,1.

Acid test ratio increased from 0,9 : 1 to 1,1 : 1 by 0.2.

Stock turnover rate increased from 9,5 times to 9,9 times by 0,4.

6

6

#### 3.2 Returns, earnings and dividends:

- **Explain whether the shareholders of Khombindlela Ltd should be satisfied with their returns on investment. Quote figures.**

One explanation with figures ✓✓ Part marks for incomplete/partial/unclear response

ROSHE decreased from 9.2% to 8.3% by 0.9%. This is 0.2% lower than interest of fixed deposit of 8.5%. Poor performance than alternative investments.

2

2

**The directors of Thanduyise Ltd changed the dividend pay-out policy.**

- **Explain this change. Quote figures.**

One explanation ✓✓ Figures ✓ Part marks for incomplete/partial/unclear response

Dividend payout rate increase from 51% to 95% by 44%.

EPS increased from 64 cents to 83 cents by 19 cents to increase DPS.

Earnings used for DPS increase from 33 cents to 79 cents by 46 cents.

3

3

- **Explain why you consider this change to be either a responsible or an irresponsible decision. Provide TWO point.**

Two explanations responsible for: ✓✓ ✓✓

Part marks for incomplete/partial/unclear response:

Earnings used for dividends / Retained income used for future improvements / Shareholders kept happy with improved dividends / Market prices influenced with increased dividends / Potential investors' appetite increased / Stabilizing dividends over several years.

4

4

- **Njabulo feels that the dividends he received in Thanduyise Ltd is better than that of Khombindlela Ltd. Explain why you agree with him. Quote figures.**

Compare DPS to value of share (MP/NAV) in two companies ✓✓ ✓✓

Khombindlela Ltd Dividend yield decreased from 8% to 7,1% (using NAV) while Thanduyise dividend yield increased from 3,5% to 8,5% (using NAV).

Khombindlela Ltd Dividend yield decreased from 8% to 7,2% (using MP) while Thanduyise dividend yield increased from 3,5% to 8,4% (using MP).

4

4

### 3.3 Risk and gearing

Compare the risk and gearing of each company and explain which company is managing debt more effectively. Quote TWO financial indicators, with figures.

Comment on risk and gearing with figures and trends: ✓✓

Part marks for incomplete/partial/unclear response:

**Khombindlela Ltd.**

- Debt/equity ratio increased from 0,2 : 1 to 0,5 : 1 by 0,3. This indicates an increase in risks.
- ROTCE decreased from 13,4% to 11,9% By 1,5%. ROTCE of 11,9% is below the interest on loan of 12,5%. Interest on loans that indicate a negative gearing.

Comment on risk and gearing with figures and trends: ✓✓

Part marks for incomplete/partial/unclear response:

**Thanduyise Ltd.**

- Debt/equity ratio decreased from 0,6 : 1 to 0,2 : 1 by 0,4. This indicates a decrease in risks.
- ROTCE increased from 9,8% to 13,4% By 3,6%. ROTCE of 13,4% is above the interest on loan of 12,5%. Interest on loans that indicate a positive gearing.

Thanduyise risk and gearing is better than Khombindlela Ltd. ✓✓

6

6

### 3.4 Shares and share holding:

**3.4.1 Njabulo, the majority shareholder of Thanduyise Ltd, was not aware that directors issued additional shares during the financial year.**

**Explain why he wants to maintain his position as the majority shareholder. Provide ONE point.**

One explanation ✓✓ Part marks for incomplete/partial/unclear response:

Majority voting rights /Influence major decision making / Influence appointments /  
Shares to be sold / Share repurchase.

2

2

**3.4.2 Calculate the number of shares that he must purchase to achieve this objective, and the amount he will require to purchase these shares.**

Majority shareholding: 51% of 1 040 000 = 530 400 ✓

Shares to buy: 530 400 – 460 000 = 70 400 ✓ One part correct

Amount to pay: 70 400 x 945 cents ✓ = R665 280 ✓

Accept other alternative answers such as 50% + 1 share or 50% + 100 shares)

4

4

**3.4.3 What advice would you offer Njabulo about his shares in Khombindlela Ltd? Provide TWO point. Quote figures.**

One explanation with figures ✓✓ Part marks for incomplete/partial/unclear response

- Sell Khombindlela shares because ROSHE decreased from 9,2% to 8,3% which is below interest on fixed deposit.
- Invest money in Fixed deposit because interest is 8,5% which is better than ROSHE of 8,3%.

4

4

**TOTAL MARKS**

35

35

## QUESTION 4

### 4.1.1 Explain what is meant by *good corporate governance* and explain why it is important to the shareholders

**Explanation** ✓✓ Part mark for unclear/incomplete/partial answer

- Managing the business on sound business and ethical principles.
- Looking after the interest of all role players /stakeholders by being fair.
- Ensure that the company has proper rules, policies and practices to create long term shareholder value, and are implementing them.

**Importance to shareholders** ✓ Accept short, incomplete statements

- Impact on the image of the business / goodwill
- Improvement in share price
- Potential investors will be attracted
- Confidence in management and control

3

3

### 4.1.2 Provide ONE possible reason why Freedom Book says he will vote against the proposal by Mngoma Ltd.

**One point** ✓✓ Part mark for unclear/incomplete/partial answer

- He will lose his majority control on the Board
- CEO is appointed – not necessarily the majority shareholder
- Majority control( is more relevant to voting – when all shareholders are present; not necessarily on the board)
- He may also lose his CEO status
- He has the business interest at heart
- He does not want the company to be over-capitalised

2

2

### 4.1.3 Provide TWO points of advice on how the other directors should handle this matter.

**TWO valid points** ✓✓ Part mark for unclear/incomplete/partial answer

- Call up special meeting of shareholders
- Issue a grievance report
- Start disciplinary proceedings
- Ask him to resign
- Report irregularities to authorities i.e. SAPS, CIPC

4

4

4.2.1

**Choose the correct word from those given in brackets.**

**Zululand Ltd received a /an ( qualified/unqualified/disclaimer) audit report.**

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 Zululand Ltd.

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

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

2

2

4.2.2

**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 auditors will be more vigilant in future / could increase audit fees if they spend more time on the audits in future
- Shareholders / investors will lose faith in the directors / company
- Inquiry / investigation into the company or its directors
- The CEO / Directors might not be re-elected at the next AGM
- The company could be de-listed on the JSE

**Responses for 1 mark:**

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

4

4

**TOTAL MARKS**

15

15