

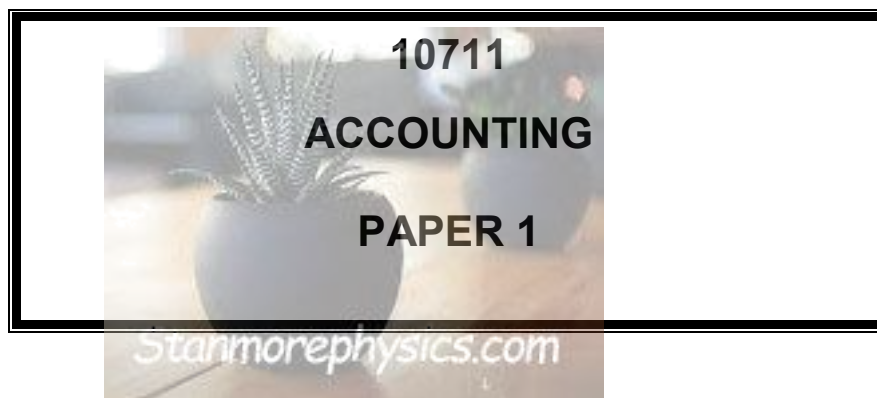


GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA



PREPARATORY EXAMINATION

2022



TIME: 2 hours

MARKS: 150

12 pages + 1 formula sheet

INSTRUCTIONS AND INFORMATION

1. Answer ALL the questions in the special ANSWER BOOK which is provided.
2. Show ALL workings in order to earn part-marks.
3. You may use a non-programmable calculator.
4. You may use a dark pencil or blue/black ink to answer questions.
5. Where applicable, show ALL calculations to ONE decimal point.
6. 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.
7. Write neatly and legibly.
8. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION	TOPIC	MARKS	MINUTES
1	Financial Statements	60	48
2	Financial Indicators and Cash Flow Statement	45	36
3	Interpretation of Financial Statements	20	16
4	Corporate Governance, Audit Report and Problem-solving	25	20
TOTAL		150	120

QUESTION 1: FINANCIAL STATEMENTS**(60 marks; 48 minutes)****1.1 CONCEPTS**

Choose the correct term to complete each of the following statements. Write only the term next to the question numbers (1.1.1 to 1.1.5) in the ANSWER BOOK.

income statement;	current asset;	non-current asset;
balance sheet;	expense;	net working capital

- 1.1.1 The statement reflecting the financial position of the company is called a/an ...
- 1.1.2 Consumable stores on hand is a/an ...
- 1.1.3 A fixed deposit that will mature in two years is a/an ...
- 1.1.4 The difference between current assets and current liabilities is ...
- 1.1.5 The statement reflecting the financial results of the company is called a/an ...

(5)**1.2 STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF FINANCIAL POSITION****FEINT PPE LTD**

Refer to the information from the records of FEINT PPE Limited for the financial year ended 28 February 2022.

REQUIRED:

Complete the following for the year ended 28 February 2022.

- 1.2.1 Statement of Comprehensive Income (Income Statement). Note that some information is included in the ANSWER BOOK. **(32)**
- 1.2.2 Equity and Liabilities section of the Statement of Financial Position (Balance Sheet). Show ALL workings in brackets. **(23)**

INFORMATION:

The following balances/totals appeared in the books on 28 February 2022:

	R
Ordinary shares capital	?
Retained income (28 February 2022)	468 000
Mortgage Loan: Best Bank	?
Trading Stock	370 870
Creditors' control	203 100
Provision for bad debts (1 March 2022)	2 140
SARS Income Tax (provisional payments)	323 888
Deposit from tenant	12 000
Sales	?
Cost of sales	?
Rent income	130 200
Audit fees	25 000
Insurance	103 500
Sundry expenses	?
Dividends on ordinary shares	340 000

Adjustments and additional information:

- A** Feint PPE Ltd operates on a 60% mark-up policy on all sales. Last year's sales amounted to R6 500 000. Feint PPE Ltd is pleased to announce a 20% increase in sales for the year ending February 2022. There were no sales returns for the year.
- B** According to a physical stocktaking, trading stock on hand amounted to R358 240.
- C** A debtor's account with a credit balance of R3 400 must be transferred to his account in the creditors' ledger.
- D** Decrease the provision for bad debts by R230.
- E** A vacant storeroom was rented to a tenant on 1 March 2021. On 1 December 2021 the rent was decreased by 7.5%. Provide for the outstanding rent for February 2022.
- F** Feint PPE Ltd paid a 40% deposit on their audit fees for the year. The balance will be settled on 5 March 2022.

- G** An insurance policy was taken out on 1 August 2021 at R11 500 per month.
- H** The loan statement from Best Bank reflects the following:

BEST BANK LOAN STATEMENT ON 28 FEBRUARY 2022	
Balance at the beginning of the financial year	R1 250 000
Fixed monthly repayments including interest	45 200
Interest expense (capitalised)	220 500

- Interest for the next financial year is expected to be R 150 000.
 - Part of the loan will be repaid in the next financial year.
- I** Sundry expenses is the missing figure in the income statement.
- J** The income tax which amounted to R340 088 was calculated at a rate of 28% of the net profit.
- K** Shares and Dividends
- The authorised ordinary share capital consists of 800 000 shares, of which 60% was in issue.
 - Total dividends for the year amounted to R445 600.
- L** The following financial indicators were calculated on 28 February 2022.
- Operating profit on sales is 15%.
 - Net asset value per share is 720 cents.

QUESTION 2: FINANCIAL INDICATORS AND CASH FLOW STATEMENT**(45 marks; 36 minutes)****SEVERANCE LIMITED**

The information below was extracted from the records of Severance Limited. The financial year ends on 28 February 2022.

REQUIRED:

2.1 Draw up the following notes to the Balance Sheet:

2.1.1 Ordinary Shareholders' Equity (7)

2.1.2 Retained Income (9)

2.2 Fill in the missing amounts on the Cash Flow Statement provided. Show workings and indicate outflows in brackets. (18)

2.3 Calculate the following financial indicators on 28 February 2022:

2.3.1 % operating expenses on sales (3)

2.3.2 Current ratio (4)

2.3.3 Return on shareholders' equity (4)

INFORMATION:

A Extract from the Statement of Comprehensive Income (Income Statement) on 28 February 2022:

Sales	R10 650 000
Operating expenses	1 250 000
Depreciation	320 000
Operating profit	3 460 000
Interest expenses	219 700
Income tax (28%)	2 072 000

B Trade and other receivables and payables

	28 February 2022 (R)	28 February 2021 (R)
Trade Debtors	1 279 400	342 000
Trade Creditors	770 000	338 000
Accrued Income	48 000	81 000
Accrued Expense (Advertising)	9 000	8 700
Income received in advance	5 400	6 200
SARS (Income Tax)	(DR) 30 000	(CR) 160 000
Shareholders for dividends	?	212 000
Bank overdraft	0	147 500

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

	28 February 2022 (R)	28 February 2021 (R)
Fixed assets (carrying value)	20 158 970	13 590 000
Financial assets	0	1 000 000
Current assets	2 021 280	721 850
Inventories	561 880	110 250
Cash and cash equivalents	102 000	72 000
Shareholders' equity	?	
Ordinary share capital	26 250 000	
Retained income	?	7 000 000
Loan: EYE Bank	1 960 000	2 080 000
Current liabilities	?	

D FIXED ASSETS

- Fixed assets were purchased during the financial year.
- Old equipment was sold at carrying value, R67 590 on the 1 July 2021.

E SHARE CAPITAL AND DIVIDENDS

- On 1 May 2021, the directors issued a further 2 000 000 ordinary shares at R2,75 each.
- An interim dividend of 22 cents was paid on 15 October 2021.
- On 30 November 2021, 500 000 ordinary shares were repurchased from a disgruntled shareholder at 25 cents above the average price.
- A final dividend of 12 cents per share was declared by the directors at the end of the financial year. Only registered shareholders are entitled to the final dividend.



QUESTION 3: ANALYSIS AND INTERPRETATION**(20 marks; 16 minutes)****ZUSA LIMITED**

Zusa Limited, a pharmaceutical company listed on the JSE, produces ginger immune booster products. They have their own farm in QwaQwa where they grow their own crops. Boozer, one of their supervisors, has informed the directors how the farming industry had to contend with the impact of the drought on ginger. Zusa Ltd is busy developing the vaccine for COVID-19 as well. Due to slow growth of ginger and having less work, Zusa Ltd decided to reduce the number of workers.

The information below is an extract from their financial records.

REQUIRED:

- 3.1 Calculate the Debt Equity ratio for the year ended February 2022. (3)
- 3.2 The directors of Zusa Limited need to raise an additional R1 000 000 towards research and development of the COVID-19 vaccine. They have decided that they will raise a loan to finance the research and development. Do you think this is a wise decision? Comment and quote TWO financial indicators with figures to support your answer. (6)
- 3.3 Comment on the dividend policy of Zusa Limited. Quote figures. (3)
- 3.4 Name TWO issues that will impact the profitability of Zusa Limited and explain the effect they will have on the profit. (4)
- 3.5 The managing director currently holds 51% of the ordinary shares.
 - 3.5.1 If the company was to issue another 200 000 shares, what percentage of shares would he own after the new shares were issued? (3)
 - 3.5.2 Why would the managing director be concerned with the issue of new shares? (1)

INFORMATION:**A EXTRACT FROM FINANCIAL STATEMENTS:**

	2022	2021
Current Assets	251 750	110 250
Current Liabilities	156 000	342 000
Non-current Liabilities	480 000	810 000
Ordinary Share Capital	2 200 000	3 500 000
Retained Income	750 000	800 000

B FINANCIAL INDICATORS:

	2022	2021
Debt Equity ratio	?	0,5 : 1
Return on total capital employed	17%	19%
Return on shareholders' equity	8%	16%
Earnings per share	93 cents	105 cents
Dividends per share	24 cents	65 cents
Net asset value per share	725 cents	702 cents
Current ratio	1,9 : 1	0,3 : 1
Acid test ratio	1,2 : 1	0,2 : 1
Stock turnover rate	6 times	9 times
Period of stock on hand	60 days	40 days
Interest rates on investments	3%	5%
Interest rates on loans	9%	12%

- C** The authorised share capital of Zusa Limited is 1 000 000 ordinary shares. At the beginning of the financial year 75% of the shares were issued.

QUESTION 4: CORPORATE GOVERNANCE, AUDIT REPORT AND PROBLEM-SOLVING
(25 marks; 20 minutes)

- 4.1 Choose an explanation from COLUMN B that matches the term in COLUMN A. Write only the letter (A – E) next to the question numbers (4.1.1 to 4.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
4.1.1	Internal Auditor	A	Impact of business activities on the profit, as well as the effect on the environment and social issues
4.1.2	Triple-Bottom Line	B	Explains the performance of the company and the major decisions that were taken
4.1.3	Directors' Report	C	Expresses an opinion on the financial statements of a company
4.1.4	King Code	D	Monitors control measures to prevent mismanagement and fraud
		E	This sets out the ethical and effective leadership expected of companies.

(4)

4.2 AUDIT REPORT

An extract of the independent audit report of Lexi Ltd for the financial year ended 28 February 2022 is provided.

INFORMATION:**EXTRACT FROM THE AUDIT REPORT OF LEXI LTD**

We have audited the annual financial statements of Lexi Ltd set out on pages 12 – 30, for the year ended 28 February 2022. These financial statements are the responsibility of ...

Basis for Opinion

During our audit we established that bonuses paid to directors, amounting to R11,2 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 Lexi Ltd for the year ended 28 February 2022.

BB (Buthelezi and Bester) Chartered Accountants (SA)

Refer to the extract of the audit report to Lexi Ltd and answer the following questions.

- 4.2.1 Why do the independent auditors refer to pages 12 – 30 of the annual report? (2)
- 4.2.2 Complete the sentence “These financial statements are the responsibility of ...” in paragraph 1. Write only the missing word to complete the sentence. (1)
- 4.2.3 What kind of audit report did Lexi Ltd receive from BB Auditors? (1)
- 4.2.4 As a shareholder, what concerns would you have regarding this audit report? Explain THREE points. (6)
- 4.2.5 Refer to paragraph 2. Explain the role/responsibility of the Remunerations Committee and give a reason why this committee is necessary. (2)

4.3 **PROBLEM-SOLVING: FIXED ASSETS**

The following information was extracted from the records of JB Suppliers Ltd. The company has three identical delivery vehicles. These vehicles are being used for delivering merchandise to customers. Company policy states that deliveries will be free of charge to customers within a radius of 10 km of the premises.

REQUIRED:

Identify and explain THREE major problems (with figures) relating to the control of fixed assets. In EACH case, provide advice to improve control over these assets. (9)

INFORMATION FOR THE YEAR ENDING 28 February 2022:

DETAILS	VEHICLE A	VEHICLE B	VEHICLE C
Cost Price:	R375 000	R280 000	R150 000
Date purchased:	01/03/2021	01/03/2020	01/03/2002
Carry value 28/02/2022:	R337 500	R224 000	R1
Distance travelled in the past year:	23 400 km	18 360 km	17 880 km
Number of deliveries made:	520 per year	1 050 per year	1 100 per year
Fuel consumption:	R40 300 per year	R31 620 per year	R39 595 per year
Service and maintenance cost:	R0 (maintenance plan from dealership)	R3 500 per year	R9 500 per year
Number of days driver worked:	283 days	239 days	291 days
Salary of driver per year:	R252 000	R252 000	R252 000

TOTAL: 150**END**

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 & other receivables + Cash & cash equivalents) : Current liabilities	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	

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.



GAUTENG PROVINCE
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PREPARATORY EXAMINATION

2022

10711
ACCOUNTING
PAPER 1
ANSWER BOOK

12 pages

NAME OF SCHOOL:

NAME OF LEARNER:

QUESTION	TOPIC	MARKS	MARKS OBTAINED
1	Concepts, Income Statement and Balance Sheet	60	
2	Financial Indicators and Cash Flow Statement	45	
3	Interpretation of Financial Statements	20	
4	Corporate Governance, Audit Report and Problem-solving	25	
TOTAL		150	

QUESTION 1: FINANCIAL STATEMENTS**1.1 CONCEPTS**

1.1.1	
1.1.2	
1.1.3	
1.1.4	
1.1.5	

5

1.2 STATEMENT OF COMPREHENSIVE INCOME (INCOME STATEMENT)**1.2.1 FEINT PPE LIMITED INCOME STATEMENT FOR THE YEAR ENDED
28 FEBRUARY 2022**

Sales	
Cost of sales	
Gross Profit	
Other Operating Income	
Gross Operating Income	
Operating Expenses	
Salaries	601 450
Directors' fees	470 850
Depreciation	281 000
Sundry expenses	
Operating Profit	
Net profit before interest expense	
Net profit before tax	
Income tax	(340 088)
Net profit after tax	

32

1.2.2 STATEMENT OF FINANCIAL POSITION

EQUITY AND LIABILITIES SECTION OF THE BALANCE SHEET

SHAREHOLDERS' EQUITY	
Ordinary share capital	
Retained income	468 000
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
Trade and other payables	
TOTAL EQUITY AND LIABILITIES	

23

60

QUESTION 2: FINANCIAL INDICATORS AND CASH FLOW STATEMENT**2.1.1 ORDINARY SHAREHOLDERS' EQUITY NOTE**

7 500 000	Ordinary shares in issue at the end of the year	26 250 000

7

2.1.2 RETAINED INCOME NOTE

Balance at the beginning of the year	7 000 000

9

2.2 CASH FLOW STATEMENT

SEVERANCE LTD

CASH FLOW STATEMENT FOR YEAR ENDED 28 FEBRUARY 2022	
CASH EFFECTS OF OPERATING ACTIVITIES	
Cash generated from operations	7 015 170
Interest paid	(219 700)
CASH EFFECTS OF INVESTING ACTIVITIES	
Fixed assets purchased	(6 956 560)
CASH EFFECTS OF FINANCING ACTIVITIES	
Proceeds of shares issued	
Repurchase of shares	
NET CHANGE IN CASH AND CASH EQUIVALENTS	
Cash and cash equivalents (opening balance)	
Cash and cash equivalents (closing balance)	

2.3 CALCULATE THE FOLLOWING FINANCIAL INDICATORS

2.3.1

% operating expenses on sales	
Workings	Answer

3

2.3.2

Current ratio	
Workings	Answer

4

2.3.3

Return on shareholders' equity	
Workings	Answer

4

45

QUESTION 3: ANALYSIS AND INTERPRETATION

3.1

Debt Equity Ratio

3

3.2

Do you think it is a wise decision to borrow R1 000 000? Comment and quote TWO financial indicators with figures to support your answer.

6

3.3

Comment on the dividend policy of Zusa Limited. Quote figures.

3

3.4

Name TWO issues that will impact on the profitability of Zusa Limited and explain the effect they will have on the profit.

Problem	Effect

4

3.5

3.5.1

Percentage of shares that the managing director would own after new shares are issued.

3

3.5.2

Why would the managing director be concerned about the issue of new shares?

1

20

QUESTION 4: CORPORATE GOVERNANCE, AUDIT REPORT AND PROBLEM-SOLVING

4.1

4.1.1	
4.1.2	
4.1.3	
4.1.4	

4

4.2 **AUDIT REPORT**

4.2.1

Why do the independent auditors refer to pages 12 – 30 of the annual report?

2

4.2.2

Complete the sentence “These financial statements are the responsibility of ...” in paragraph 1. Write only the missing word to complete the sentence.

1

4.2.3

What kind of audit report did Lexi Ltd receive from BB Auditors?

1

4.2.4

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

Point 1:

Point 2:

Point 3:


6

4.2.5

Refer to paragraph 2. Explain the role/responsibility of the Remunerations Committee and give a reason why this committee is necessary.

2

4.3 PROBLEM-SOLVING: FIXED ASSETS

Identify and explain THREE major problems (with figures) relating to the control of fixed assets. In EACH case, provide advice to improve control over these assets.

PROBLEM IDENTIFIED WITH FIGURES	ADVICE TO RESOLVE PROBLEM
VEHICLE A:	
VEHICLE B:	
VEHICLE C:	

9

25

TOTAL: 150

END



GAUTENG PROVINCE
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REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2022

MARKING GUIDELINES

ACCOUNTING PAPER 1 (10711)

MARKING PRINCIPLES:

1. Unless otherwise stated in the marking guidelines, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced 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 a final figure, allocate the part-mark for the workings for that figure (not the method mark for the answer). Note: If figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.
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. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: Check operation must be +, -, x, ÷, or per memo.
9. One part correct means 'operation and one part correct'. Where method marks are awarded for one part correct, the marker must inspect the reasonableness of the answer and at least one part must be correct before awarding the mark. If a figure has earned a method-mark, this will be regarded as 'one part correct'.
10. In calculations, do not award marks for workings if numerator and denominator are swapped – this also applies to ratios.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a ☒.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f = foreign item; p = placement/presentation.

12 pages

QUESTION 1

1.1 CONCEPTS:

1.1.1	Balance sheet ✓
1.1.2	Current Asset ✓
1.1.3	Non - Current Asset ✓
1.1.4	Net working Capital ✓
1.1.5	Income statement ✓



5

1.2 FEINT PPE LIMITED

1.2.1 INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2022

Sales (6 500 000 x 120/100) OR (6 500 000 + 1 300 000)	7 800 000	✓✓	
Cost of sales (7 800 000 x 100/160) If Sales x 100/160	(4 875 000)	✓✓*#	
Gross Profit If Sales x 60/160 S – CofS	2 925 000	✓#	5
Other Operating Income	141 530	✓*	
Rent Income (130 200 ✓ + 11 100 ✓✓)	141 300	✓*	
Provision for bad debts adjustment	230	✓✓	
Gross Operating Income operation	3 066 530	✓	8
Operating Expenses GOI – OP	(1 896 530)	✓	
Salaries	601 450		
Directors' fees	470 850		
Depreciation	281 000		
Sundry Expenses balancing figure	387 600	✓	
Audit fees (25 000 ✓ + 37 500 ✓✓) OR (25 000 x 100/40)	62 500	✓*	
Insurance (103 500 ✓ – 23 000 ✓) OR (11 500 X 7) OR 103 500 X 7/9	80 500	✓*	
Trading stock deficit (370 870 – 358 240)	12 630	✓✓	11
Operating Profit Check = sales x 15%	1 170 000	✓✓	
Interest Income NPBIE – OP	265 100	✓	
Net Profit before interest expense NPBT + IE	1 435 100	✓	
Interest expense	(220 500)	✓	
Net Profit before tax NPAT + IT	1 214 600	✓#	
Income tax	(340 088)		8
Net Profit after tax 340 088 X 72/28	874 512	✓✓#	

Foreign items e.g. balance sheet items/dividends -1 Max *one part correct
#Check if the learner calc. Sales or CofS using the mark-up given

32

1.2.2 BALANCE SHEET ON 28 FEBRUARY 2021

EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
480 000 ✓ x 720c ✓ (800 000 x 60%)		3 456 000 ✓*
Ordinary share capital SE – RI		2 988 000 ✓
Retained income		468 000
NON-CURRENT LIABILITIES		535 700
Loan: Best Bank		
(45 200 x 12) one mark (1 250 000 ✓ – 542 400 ✓ + 220 500 ✓) – 392 400 ✓ 928 100 three marks	(542 400 – 150 000) one mark	535 700 ✓*
CURRENT LIABILITIES		770 200 ✓*
Trade and other payables		
(203 100 ✓ + 3 400 ✓ + 12 000 ✓✓ + 37 500 ✓) 206 500 two marks deposit audit fees		256 000 ✓*
SARS Income tax (340 088 – 323 888)		16 200 ✓✓#
Shareholders for dividends (445 600 ✓ – 340 000 ✓)		105 600 ✓*#
Current portion of loan see NCL above		392 400 ✓#
TOTAL EQUITY AND LIABILITY		4 761 900 ✓

4

5

14

Foreign entries -1 (max-2)

Presentation/incorrect details -1(max-2)

*one part correct

#Can be part of T&OP

23

60

QUESTION 2

2.1.1 ORDINARY SHAREHOLDERS' EQUITY NOTE

6 000 000 <input checked="" type="checkbox"/> #	Ordinary shares at the beginning of the year	22 500 000 <input checked="" type="checkbox"/> #
2 000 000 ✓	Ordinary Shares issued at R2,75 each	5 500 000 ✓
(500 000) ✓	Shares repurchase at (ASP: R3,50 ✓)	(1 750 000) <input checked="" type="checkbox"/>
7 500 000	Ordinary shares in issue at the end of the year	26 250 000

check operation

7

2.1.2 RETAINED INCOME NOTE

Balance at the beginning of the year	7 000 000	
Net profit after taxation (2 072 000 x 72/28)	5 328 000	✓✓
Repurchase of shares (500 000 x 25/100)	(125 000)	✓*
Ordinary share dividends operation	(2 660 000)	<input checked="" type="checkbox"/> *
Interim (8 000 000 x 22/100) one part correct	1 760 000	✓ <input checked="" type="checkbox"/>
Final (7 500 000 x 12/100)	900 000	✓✓
Balance at the end of the year operation	9 543 000	<input checked="" type="checkbox"/> #

* ignore brackets

Operation, repurchase of shares and dividends should be subtracted

9

2.2 SEVERANCE LTD

*one part correct

#answer must indicate inflow/outflow to earn part-mark

CASH FLOW STATEMENT FOR YEAR ENDED 28 FEBRUARY 2022		
CASH EFFECTS OF OPERATING ACTIVITIES		
Cash generated from operations		7 015 170
Interest paid		(219 700)
Income tax paid (2 072 000 ✓ + 160 000 ✓ + 30 000 ✓) OR (– 2 072 000 – 160 000 – 30 000) Accept other alternative methods e.g. Ledger		(2 262 000) ☑#* one part correct
Dividends paid See 2.1.2 1 760 000 ☑ + 212 000 ✓ OR See 2.1.2 (2 660 000 – 900 000) + 212 000 one mark one mark Accept other alternative methods e.g. Ledger	7	(1 972 000) ☑#* one part correct
CASH EFFECTS OF INVESTING ACTIVITIES		
Fixed assets purchased		(6 956 560)
Proceeds from sale of fixed assets		67 590 ✓
Change in fixed deposit	3	1 000 000 ✓✓
CASH EFFECTS OF FINANCING ACTIVITIES		
Proceeds of shares issued		5 500 000 ☑ See OSC
Repurchase of shares (ASP + 0,25) (1 750 000 + 125 000) OR (500 000 X R3,75) See OSC See RI		(1 875 000) ☑☑
Change in loan (2 080 000 – 1 960 000)	4	(120 000) ✓
NET CHANGE IN CASH AND CASH EQUIVALENTS		177 500 ☑#*
Cash and cash equivalents (opening balance) (72 000 – 147 500)		(75 500) ✓✓
Cash and cash equivalents (closing balance)	4	102 000 ✓

2.3 CALCULATE THE FOLLOWING FINANCIAL INDICATORS

* Expressed as a percentage. % sign not necessary. 100 does not count as one part correct for method mark

2.3.1

% operating expenses on sales	
Workings	Answer
$\frac{1\,250\,000}{10\,650\,000} \checkmark \times \frac{100}{1}$	11,7% <input checked="" type="checkbox"/> * Accept 11,73% Accept 12%

3

2.3.2

Current ratio	
Workings	Answer
$2\,021\,280 \checkmark : (784\,400 \checkmark + 900\,000 \checkmark)$ <p style="text-align: center;">(770 000 + 9 000 + 5 400) See 2.1.2 1 684 400 two marks</p>	1, 2 : 1 <input checked="" type="checkbox"/>

4

2.3.3

Return on shareholders' equity	
Workings	Answer
$\frac{5\,328\,000 \checkmark}{\frac{1}{2}(26\,250\,000 + 9\,543\,000) + (22\,500\,000 + 7\,000\,000) \checkmark} \times \frac{100}{1}$ <p style="text-align: center;">See RI See OSC 35 793 000 one mark 32 646 500 two marks</p>	16,3% <input checked="" type="checkbox"/> *

4

45



QUESTION 3

3.1

Debt Equity Ratio

$$480\,000 \checkmark : (2\,200\,000 + 750\,000) \checkmark$$

$$480\,000 : 2\,950\,000$$

$$0,2 : 1 \quad \checkmark \quad \text{must be } x : 1$$

$$\text{Accept } 0,16 : 1$$

3

3.2

Do you think it is a wise decision to borrow R1 000 000? Comment and quote TWO financial indicators with figures to support your answer.

Financial Indicators ✓ ✓ Trend and Figures ✓ ✓ Comment ✓✓

YES

Debt/equity ratio decreased from 0,5 : 1 (2021) to 0,2 : 1 (2022) **see 3.1** / by 0,3: 1

ROTCE decreased from 19% (2021) to 17% (2022) by 10,5% / 2% base points

Any valid comment on the above

- The company is lowly geared and borrowing has decreased.
- Positive gearing ROTCE exceeds interest on loans of 9%.
- ZUSA Limited has low risk and is positively geared.

6

3.3

Comment on the dividend policy of Zusa Limited. Quote figures.

Calculation for dividend pay - out. **One mark each**

Comment: dividends compared to earnings for each year **one mark**

2021

$$\frac{65}{105} \times \frac{100}{1} = 61,9 \text{ or } 62\% \checkmark$$

2022

$$\frac{24}{93} \times \frac{100}{1} = 25,8 \text{ or } 26\% \checkmark$$

In 2021, 62% of the company's earnings were distributed and dividends of the current year dropped to 26%. ✓

OR

The company retained 38% of its earnings in 2021 and in 2022 it increased this to 74% / The company decided to retain profits.

3

3.4

Name TWO issues that will impact on the profitability of Zusa Limited and explain the effect they will have on the profit.

Problem ✓ ✓	Effect ✓ ✓
Drought	It pushes up the price of ginger and sales might drop / Profits of the company will decrease due to a reduced supply to customers.
Retrenchments	Operating expenses will decrease due to the cutting of labour costs / Operating expenses will increase due to paying retrenchments packages.

4

3.5.1 Percentage of shares that the managing director would own after new shares are issued.**Number of shares before share issue**

$$750\,000 \times 51\% = 382\,500$$

Percentage after share issue

$$\frac{382\,500 \checkmark}{950\,000 \checkmark} \times \frac{100}{1}$$

$$= 40\% \quad \checkmark \quad 100 \text{ is not regarded as one part correct (ignore \% sign)}$$

Accept 40,3%

3

3.5.2 Why would the managing director be concerned about the issue of new shares?

He would no longer be the majority shareholder / lost controlling powers ✓

Figures need not be quoted

1

20

QUESTION 4: CORPORATE GOVERNANCE**4.1**

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

4

4.2 AUDIT REPORT**4.2.1 Why did the independent auditors refer to pages 12 – 30 of the annual report?**

part-mark for incomplete/partial answer ✓✓

- The financial statements are contained in those pages of the Annual Report; other reports are also included in the Annual Report, which were not prepared or inspected by them.
- The auditors are responsible for a certain part of the report.
- Directors are responsible for parts of the report as prepared by them

2

**4.2.2 Complete the sentence “These financial statements are the responsibility of ...” in paragraph 1.
Write only the missing word to complete the sentence.**

- directors ✓

1

4.2.3 What kind of audit report did Lexi Ltd receive from BB Auditors?

- A disclaimer/withheld ✓

1

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

Any three valid points ✓✓ ✓✓ ✓✓

Award part-marks for partially correct answers

- This is a disclaimer report which will have a negative effect on the company e.g. reputation/share price / Unethical conduct that will drive away investors.
- The corporate governance /king codes of the company is compromised.
- The correct procedures of approving directors' fees have not been followed.
- The directors have abused their positions / Fraud committed by the directors / Directors failed to honour their fiduciary duties.
- The huge amount paid to directors could negatively / mismanagement of funds affect the financial results/liquidity and solvency/profitability of the company.
- Insufficient audit evidence / Source documents can't be verified

6

4.2.5 Refer to paragraph 2. Explain the role/responsibility of the Remunerations Committee and give a reason why this committee is necessary.

Explanation: ✓ Note: Mark for explanation could be embedded in the reason

- Review all salaries, bonuses and other earnings/They must approve, and give advice on the proposals of fees and bonuses.
- To prevent directors from paying themselves too much.

Reason ✓

- To ensure fairness/transparency in the payment of fees/salaries.
- To prevent fraud/corruption/wastage
- Detect mismanagement or fraudulent activities
- They can compare the remuneration/earnings against financial information of other companies in the industry.

2

4.3 PROBLEM SOLVING: FIXED ASSETS

PROBLEM IDENTIFIED WITH FIGURES		ADVICE TO RESOLVE PROBLEM
Problem ✓	Figure(s) ✓	Advice ✓
VEHICLE A:		
<ul style="list-style-type: none"> More kilometres travelled but fewer deliveries made than other vehicles. Unauthorised use of vehicle. <p>23 400 km compared to 18 360 and 17 880 km or 520 deliveries made compared to 1 050 and 1 100 deliveries or 23 400 km vs only 520 deliveries.</p>		<ul style="list-style-type: none"> Improve internal control over the use of vehicles. Disciplinary action against the driver. Implement a logbook system/vehicle tracking. Compare logbook with google maps to avoid unauthorised private traveling.
VEHICLE B:		
<ul style="list-style-type: none"> Fewer days worked, but driver received the same salary as the other drivers. <p>239 days worked compared to 291 and 283 days/or received salary of R252 000 for only working 239 days.</p>		<ul style="list-style-type: none"> Investigate the reasons for absence. Only pay workers for the days worked. Do not pay a fixed salary but pay commission for days worked.
VEHICLE C:		
<ul style="list-style-type: none"> High petrol consumption because vehicle is old. High maintenance cost because vehicle is old. The vehicle with the lowest carry value including R1 residual value is normally expensive to maintain. <p>R39 595 for 17 880 km travelled vs R40 300 for 23 400 km travelled. R9 500 maintenance vs R3 500 and R0 for other vehicles. R2,21 fuel consumption compared to R1,70 of other vehicles.</p>		<ul style="list-style-type: none"> Consider replacing this vehicle as it is expensive to maintain. Consider using vehicle A for the deliveries since it is a new vehicle that is cost effective and it is being misused. Replace the driver of vehicle A with the driver of vehicle C, since the latter made the most deliveries and of the three drivers, worked the most days.