



**education**  
**MPUMALANGA PROVINCE**  
**REPUBLIC OF SOUTH AFRICA**

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**ACCOUNTING P1**  
**SEPTEMBER 2022**

**MARKS: 150**

**TIME: 2 hours**

**This question paper consists of 10 pages,  
1 formula sheet and a 11-page answer book.**

## INSTRUCTION AND INFORMATION

Read the following instruction carefully and follow them precisely

1. Answer ALL questions.
2. A special ANSWER BOOK is provided in which to answer ALL questions.
3. Show ALL workings to earn pert-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer 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 in the table below as a guide when answering the question Paper. Try not to deviate from it.

QUESTION	TOPIC	MARKS	MINUTES
1	Statement of Financial Position	50	40
2	Cash Flow Statement and Financial Indicators	35	28
3	Interpretation of Financial Information	45	36
4	Corporate governance and audit of the company	20	16
<b>TOTAL</b>		<b>150</b>	<b>120</b>

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**QUESTION 1: NOTE AND STATEMENT OF FINANCIAL POSITION.**

**(50 marks; 40 minutes)**

**KELLY LTD**

**REQUIRED:**

**Refer to information A – F**

1.1 Prepare the Retained Income Note on 28 February 2022. (11)

1.2 Complete the Statement of Financial Position (Balance Sheet) for the year ended 28 February 2022. (27)

**NOTE:**

Show workings, Certain figures are provided in your answer book.

1.3 The CEO, Paul Joe, owns 42% of the issued shares on 28 February 2022. The board of Directors wants to issue the unissued shares in the next financial year.

1.3.1 Calculate the number of shares that Paul must buy to gain control of the company. (4)

1.3.2 Paul wants to buy shares at the current Net asset value without advertising them to the public. As an existing shareholder, why would you not be satisfied with this arrangement? Explain. Provide TWO points. (4)

1.4 Kelly Ltd is planning to spend R500 000 on staff development and training over the next two years. Explain where this amount should be shown in the published annual report, and provide a reason for your answer. (4)

**INFORMATION:**

**A. The following balances were extracted from the records of KELLY LTD on 28 February 2022:**

	<b>R</b>
Ordinary share capital	<b>?</b>
Retained income (1 March 2021)	57 480
Fixed assets at carrying value	3 940 900
Fixed Deposit: Dube Bank	415 000
Loan from director: J France	1 155 000
Inventory (all trading stock)	222 600
Trade and other payables	231 920
SARS: Income tax (provisional tax payment)	280 000
Cash in bank	212 400

**B. Share Capital and Dividends:**

- Authorised shares: 800 000
- On 1 March 2021, 80% of the authorised share capital was in issue.
- Interim dividends of 28 cents per share was paid on 30 August 2021.
- On 28 February 2022, the company repurchased 40 000 shares at R1,25 above the average share price of R6,00. The full amount for this transaction was paid by EFT, but the EFT has not yet been entered in the CPJ.
- A final dividend of R210 000 was declared on 28 February 2022.

**C. Profit and tax:**

Income tax at 31% of the net profit for the year amounted to R306 280.

**D. Fixed deposit:**

R165 000 of the fixed deposit matures on 30 June 2022. The rest matures in 2025.

**E. Loan from Director J France:**

- The loan was originally received on 1 December 2019.
- This loan is to be repaid over 5 years in equal monthly instalments with effect from 31 December 2019. All payments have been made.
- Interest is not capitalised and has been paid in full.

**F. Financial indicators on 28 February 2022:**

Current ratio	1,5 : 1
Net asset value (NAV)	650 cents
Market price (Security Exchange)	710 cents

**QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS**  
**(35 marks; 28 minutes)**

The information relates to Castro Ltd for the financial year ended 30 June 2022.

**REQUIRED:**

- 2.1 Complete the Note for Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2022: (4)
- 2.2 Calculate the following figures in the 2022 Cash Flow Statement:
- 2.2.1 Taxation paid (4)
- 2.2.2 Fixed assets purchased (6)
- 2.2.3 Shares issued (2)
- 2.2.4 Funds used for the repurchased shares (2)
- 2.2.5 Net change in cash and cash equivalents (4)
- 2.3 Calculate the following:
- 2.3.1 Earnings per share (4)
- 2.3.2 Debt-equity ratio (3)
- 2.3.3 Return on average capital employed (6)

**INFORMATION:**

**A.**

<b>Information from the financial statement on 30 June:</b>		
	<b>2022 R</b>	<b>2021 R</b>
Depreciation	16 645	22 000
Interest expenses	120 000	123 000
Fixed assets (carrying value)	1 541 940	944 800
Financial assets	130 000	190 000
<b>Shareholders' equity</b>	<b>2 499 900</b>	<b>1 117 500</b>
Ordinary share capital	2 375 000	1 000 000
Retained income	124 900	117 500
Loan	350 000	1 070 000
Inventory	1 125 000	1 145 000
Trade and other receivables	1 115 000	1 143 000
Cash and cash equivalent	88 900	2 500
Trade and other payables	1 150 940	1 070 800
Bank overdraft	-	153 000
<b>Total capital employed</b>	<b>2 849 900</b>	<b>2 187 500</b>

B.

<b>NOTES TO THE BALANCE SHEET:</b>		
	<b>2022 R</b>	<b>2021 R</b>
<b>TRADE AND OTHER RECEIVABLES</b>	1 115 000	1 143 000
Debtors Control	1 102 000	1 130 000
Accrued Income	9 000	6 000
Prepaid Expenses	4 000	3 000
SARS: Income Tax	0	4 000
<b>TRADE AND OTHER PAYABLES</b>	1 150 940	1 070 800
Creditors Control	1 043 565	1 047 300
Accrued expenses	7 000	9 500
SARS: Income Tax	10 375	0
Shareholders for dividends	260 000	14 000

**ADDITIONAL INFORMATION:**

**A. Share capital and dividends.**

- The company is registered with an authorised share capital of 300 000 ordinary shares.
- On 30 June 2021 there were 100 000 shares in issue.
- 100 000 additional shares issued at R15 on 1 January 2022.
- On 30 June 2022, 10 000 shares were repurchased from the estate of a deceased shareholder at R3,50 above the average price.
- The interim dividends of 20 cents per share was declared and paid on 15 December 2021. The final dividends were declared on 30 June 2022.

**B. Sale of equipment.**

Cost price	R40 000
Accumulated depreciation to date sold	R20 570
Date sold	1 April 2022
Selling price (at carrying value)	?

**C. Income tax.**

- Income tax for the year amounted to R197 600.
- Net profit after tax; R322 400.

### QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION

(45 marks; 36 minutes)

- 3.1 Complete the following sentences using the word (s) in the list below. Write only the word next to the question number (3.1.1 – 3.1.5) in the ANSWER BOOK.

liquid;   profitable;   solvent;   return;   risk/gearing
---

3.1.1 A company with total assets exceeding total liabilities is ...

3.1.2 A company that relies heavily on loans will have high ...

3.1.3 A company that controls its income and expenses properly will be ...

3.1.4 The percentage net income on equity indicates the ... earned by shareholders

3.1.5 A company that is able to settle its immediate debts is ...

(1 x 5) (5)

### 3.2 FINANCIAL INDICATORS OF TWO COMPANIES:

Your friend, Jack, has bought shares in both companies. He asks you for your opinions on the financial results. The companies are the same size.

#### REQUIRED:

Explain your answer to the following questions. In each case compare and quote financial indicators of both companies (actual figures, ratios or percentages) to support your answer.

3.2.1 Jack is of the opinion that KAT Ltd is handling its working capital more effectively and is in a better liquidity situation than KIT Ltd. Explain and quote THREE financial indicators to support his opinion

(9)

3.2.2 The operating efficiency of KIT Ltd are better than that of KAT Ltd. Quote and explain ONE financial indicator to support your opinion.

(2)

3.2.3 Which company uses more loans? Explain whether this is a good idea or not. In each case, quote a financial indicator to support your answer.

(6)

3.2.4 Compare and comment on the dividends pay-out policies of both companies.

(8)

3.2.5 KIT Ltd has a better percentage return, earnings and dividends than KAT Ltd. Explain by quoting THREE financial indicators to support this opinion.

(9)



3.2.6 The existing shareholders of the TWO companies hold different opinions of the current market value of their shares.

- Explain why the existing shareholders of KIT Ltd are happy with this. Quote a financial indicator /figure to support your answer. (3)
- Explain why the existing shareholders of KAT Ltd are very disappointed with this. Quote a financial indicator/figure to support your answer. (3)

**INFORMATION:**

	KIT LTD	KAT LTD
Market price per share on the JSE	750 cents	885 cents
Net asset value per share	609 cents	939 cents
Earnings per share	410 cents	176 cents
Dividends per share	240 cents	185 cents
% return on shareholders' equity	21,3%	11,2%
% return on total capital employed	32,6%	13,6%
% interest rate on loan	15,0%	15,0%
Debt/equity ratio	0,3 : 1	2,0 : 1
Current ratio	6,0 : 1	1,5 : 1
Acid-test ratio	2,8 : 1	0,9 : 1
Period for which stock is on hand	150 days	88 days
Average debtors' collection period	53 days	25 days
% Gross profit on cost of sales	62,2%	58,3%
% Operating expenses on sales	37,9%	44,5%
% Operating profit on sales	10,1%	7,3%

**QUESTION 4: CORPORATE GOVERNANCE AND AUDIT OF THE COMPANY**  
**(20 marks; 16 minutes)**

You are provided with the following extract for Don Ltd from the report of the independent auditors.

**REQUIRED:**

- 4.1 Explain what is meant by Corporate Governance. (2)
- 4.2 Provide TWO examples of corporate governance that would occur in a company. (4)
- 4.3 Refer to the underlined words in paragraph 2.  
• Give TWO examples of audit evidence. (4)
- 4.4 Explain why an independent auditor would want to see that the following GAAP principles that are applied:  
• Matching (2)  
• Going concern (2)
- 4.5 Refer to paragraph 3. Explain why you would be satisfied with this audit report opinion. (3)
- 4.6 To whom is an audit report addressed? Give reason for your answer. (3)

**INFORMATION:**

**EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS**

Paragraph 1 We have audited the annual financial statements of Don Ltd set out on Pages 10 to 19 for the year ended 31 May 2022. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Paragraph 2 **An audit includes:**  
• Examining, on a test basis, evidence supporting the amounts in the financial statements  
• Assessing the accounting principles used and significant estimates made by management;  
• Evaluating the overall financial statement presentation.

Paragraph 3 **Audit opinion:**  
In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 31 May 2022 and the results of their operations and cash flow for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 1973 (Act 71 of 1973) in South Africa.

**Bob & John**, Chartered Accountants (SA)

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)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
<b>NOTE:</b>  * 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.	

NAME OF SCHOOL

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NAME OF CANDIDATE

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CLASS NO.

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**NATIONAL SENIOR CERTIFICATE**

**ACCOUNTING P1**

**GRADE 12**

**SEPTEMBER 2022**

<b><i>SPECIAL ANSWER BOOK</i></b>
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QUESTION	MARKS	INITIAL	MOD.
1			
2			
3			
4			
TOTAL			

**This answer book consists of 10 pages**

**QUESTION 1****KELLY LTD****1.1 Retained income note on 28 February 2022.**

<b>Balance on 1 March 2021</b>	
<b>Ordinary share dividends</b>	
<b>Balance on 28 February 2022</b>	

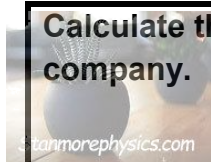
11

**1.2 STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2022.**

<b>ASSETS</b>	
<b>NON-CURRENT ASSETS</b>	
<b>Fixed assets</b>	<b>3 940 900</b>
<b>CURRENT ASSETS</b>	
<b>TOTAL ASSETS</b>	
<b>EQUITY AND LIABILITIES</b>	
<b>Shareholders' equity</b>	
<b>NON-CURRENT LIABILITIES</b>	
<b>Loan (1 155 000</b>	
<b>CURRENT LIABILITIES</b>	<b>888 200</b>
<b>Trade and other payables</b>	<b>231 920</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	

27

- 1.3.1 Calculate the number of shares that Paul must buy to gain control of the company.**



4

- 1.3.2 Paul wants to buy shares at the current Net asset value without advertising them to the public. As an existing shareholder, why would you not be satisfied with this arrangement? Explain. Provide TWO points.**

4

- 1.4 Kelly Ltd is planning to spend R500 000 on staff development and training over the next two years. Explain where this amount should be shown in the published annual report, and provide a reason for your answer.**

EXPLANATION	REASON

4



TOTAL MARKS
50

**QUESTION 2**

- 2.1 Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2022:**

Net profit before tax	
Adjustment in respect of:	
Operating profit before changes in working capital	

4

- 2.2.1 Calculate: Taxation paid**

WORKINGS	ANSWER

4

- 2.2.2 Calculate: Fixed assets purchased**

WORKINGS	ANSWER

6

- 2.2.3 Calculate: Shares issued**

WORKINGS	ANSWER

2

- 2.2.4 Calculate: Funds used for the repurchase of shares**

WORKINGS	ANSWER

2

2.2.5	<b>Calculate: Net change in cash and cash equivalents</b>	
	<b>WORKINGS</b>	<b>ANSWER</b>
	Net change in cash and cash equivalents	
	Cash and cash equivalents at the beginning	
	Cash and cash equivalents at the end	
		4

2.3.1	<b>Calculate: Earning per share</b>	
	<b>WORKINGS</b>	<b>ANSWER</b>
		4

2.3.2	<b>Calculate: Debt-equity ratio</b>	
	<b>WORKINGS</b>	<b>ANSWER</b>
		3

2.3.3	<b>Calculate: Return on average capital employed</b>	
	<b>WORKINGS</b>	<b>ANSWER</b>
		6

<b>TOTAL MARKS</b>
35



**QUESTION 3****3.1.**

<b>3.1.1</b>	
<b>3.1.2</b>	
<b>3.1.3</b>	
<b>3.1.4</b>	
<b>3.1.5</b>	

5

**3.2.1**

**Jack is of the opinion that KAT Ltd is handling its working capital more effectively and is in a better liquidity situation than KIT Ltd. Explain and quote THREE financial indicators to support his opinion.**

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9

**3.2.2**

**The operating efficiency of KIT Ltd are better than that of KAT Ltd. Quote and explain ONE financial indicator to support your opinion.**

2

**3.2.3 Which company uses more loans? Quote a financial indicator to support your answer.**

**Explain whether this is a good idea or not. In each case, quote a financial indicator to support your answer.**

6

**3.2.4 Compare and comment on the dividends pay-out policies of the TWO companies.**

	Financial indicator or explanation with figures	Comparison and comment
KIT Bpk		
KAT Bpk		

8

**3.2.5 KIT Ltd has a better percentage return, earnings and dividends than KAT Ltd. Explain by quoting THREE financial indicators to support this opinion.**

9

3.2.6

**Explain why the existing shareholders of KIT Ltd are happy with this. Quote a financial indicator/figure to support your answer.**

3

**Explain why the existing shareholders of KAT Ltd are very disappointed with this. Quote a financial indicator/figure to support your answer.**

3

<b>TOTAL MARKS</b>
<b>45</b>

**QUESTION 4**

4.1. Explain what is meant by Corporate Governance.

2

4.2. Provide TWO examples of corporate governance that would occur in a company.

4

4.3. Give TWO examples of audit evidence

4

4.4. Explain why an independent auditor would want to see that the following GAAP principles that are applied:

- Matching
- Going concern

4

4.5. Refer to paragraph 3. Explain why you would be satisfied with this audit report opinion.

3

4.6 To whom is an audit report addressed? Give reason for your answer.

Reason:

3

TOTAL MARKS
20

TOTAL:150



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**GRADE 12**

**ACCOUNTING P 1**  
*Stanmorephysics.com*  
**SEPTEMBER 2022**

**MARKING GUIDELINES**

**MARKS: 150**

<b>MARKING PRINCIPLES:</b>	
1.	Unless otherwise stated in the marking guideline, 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 a final figure, allocate the part-mark for the working 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.	This memorandum is not for public distribution; as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
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 and at least one part must be correct before awarding the mark.
10.	Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, –, x, ÷, or per memo.
11.	In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
12.	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 ☒
13.	Be aware of candidates who provide valid alternatives beyond the marking guideline.
14.	Codes: f = foreign item; p = placement/presentation.

**This marking guideline consists of 10 pages**

**QUESTION 1**

**KELLY LTD**

**1.1 Retained income note on 28 February 2022.**

<b>Balance on 1 March 2021</b>	57 480	✓
Net profit after tax (306 280 ✓ x 69/31 ✓)	681 720	✓*
Shares repurchased (40 000 x 1,25)	(50 000)	✓✓
<b>Ordinary share</b> ignore brackets	(389 200)	✓*
Interim dividends (640 000 x 0,28 cents)	179 200	✓✓
Final dividends	210 000	✓
<b>Balance on 28 February 2022</b> must subtract BBS & OSD	300 000	✓

11

**1.2 STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2022.**

<b>ASSETS</b>	
<b>NON-CURRENT ASSETS</b>	4 190 900 ✓
<b>Fixed assets</b>	<b>3 940 900</b>
Fixed deposit (415 000 – 165 000)	250 000 ✓
	✓
<b>CURRENT ASSETS</b> (CLx1,5)	1 332 300 ✓
	✓
Inventories	222 600 ✓
Trade and other receivables balancing figure	1 022 300 ✓
Cash and cash equivalents See FD (212 400 ✓ + 165 000 ✓ - 290 000 ✓✓) see RI 50 000 one mark: 240 000 AVE one mark	87 400 ✓*
<b>TOTAL ASSETS</b> See total E & L	5 523 200 ✓
<b>EQUITY AND LIABILITIES</b>	
<b>Shareholders' equity</b>	
(640 000 – 40 000) ✓ x 650 cents✓ must x NAV*	3 900 000 ✓*
Ordinary share capital balancing figure Or (600 000 x 6 Average price)	3 600 000 ✓
Retained income see R I	300 000 ✓
<b>NON-CURRENT LIABILITIES</b>	735 000
<b>Loan (1 155 000 – 420 000✓✓)</b>	735 000 ✓*
<b>CURRENT LIABILITIES</b>	<b>888 200</b>
<b>Trade and other payables</b>	<b>231 920</b>
Shareholders for dividends See R I	210 000 ✓
SARS: Income tax (306 280✓ – 280 000✓)	26 280 ✓*



Current portion of loan	See Non-C L	420 000 <input checked="" type="checkbox"/>	<b>27</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		5 523 200 <input checked="" type="checkbox"/> *	

\*one part correct

-1 foreign item (-2 max) misplaced items must be marked wrong. Current liability items maybe combined.



1.3.1 Calculate the number of shares that Paul must buy to gain control of the company.

$$400\,000 \checkmark - 252\,000 \checkmark\checkmark = 148\,000 + 1 \text{ or } + 100 \checkmark \text{ one part correct}$$

Or

$$408\,000 \text{ one mark} - 252\,000 \text{ two marks} = 156\,000 \text{ one mark}$$

Accept:  $800\,000 \times 51\% = 408\,000$  (in this case Paul must buy 156 000 shares)

4

1.3.2 Paul wants to buy shares at the current Net asset value without advertising them to the public. As an existing shareholder, why would you not be satisfied with this arrangement? Explain. Provide TWO points.

TWO valid points  $\checkmark\checkmark\checkmark\checkmark$

- The issue of these shares must be transparent and legal (i.e., in terms of a decision taken by the Board of Directors; it must not contravene the MOI, the Prospectus or the Companies Act.
- It would be unethical for Paul to pay a price for the share that is below the Market price as this would dilute the average share price (which could lead to a decline in market price).
- It would be unfair and unethical for Paul to benefit in this way as he would be abusing his position in the company (and other directors or shareholders would be disadvantaged).

4

1.4 Kelly Ltd is planning to spend R500 000 on staff development and training over the next two years. Explain where this amount should be shown in the published annual report, and provide a reason for your answer.

EXPLANATION $\checkmark\checkmark$	REASON $\checkmark\checkmark$
In the Directors Report	<p>It has not yet been paid so it cannot be shown in the Statement of Comprehensive Income.</p> <p>It is important for the directors to create a good impression to the readers of the financial report.</p> <p>It will highlight the company's compliance with the King Code / Emphasis on the triple bottom line</p>

4

TOTAL MARKS

50



**QUESTION 2**

- 2.1 Complete the Note for Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2022:**

<b>Net profit before tax</b>	
<b>Adjustment in respect of:</b>	
Depreciation	16 645 ✓✓
Interest on loan	120 000 ✓✓
<b>Operating profit before changes in working capital</b>	

4

- 2.2.1 Calculate: Taxation paid**

<b>WORKINGS</b>	<b>ANSWER</b>
197 600✓ – 4 000✓ – 10 375✓	183 225 ✓*

4

- 2.2.2 Calculate: Fixed assets purchased**

<b>WORKINGS</b>	<b>ANSWER</b>
16 645✓ + 19 430✓✓ + 1 541 940✓ – 944 800✓	633 215 ✓*

6

- 2.2.3 Calculate: Shares issued**

<b>WORKINGS</b>	<b>ANSWER</b>
100 000 x R15	R1 500 000 ✓✓

2

- 2.2.4 Calculate: Funds used for the repurchase of shares**

<b>WORKINGS</b>	<b>ANSWER</b>
(10 000 x R16.00) (10 000 x R12,50 + 10 000 x R3,50)	R160 000 ✓✓

2

- 2.2.5 Calculate: Net change in cash and cash equivalents**

<b>WORKINGS</b>	<b>ANSWER</b>
<b>Net change in cash and cash equivalents</b>	239 400 ✓
<b>Cash and cash equivalents at the beginning</b> (153 000 – 2 500)	(150 500) ✓✓
<b>Cash and cash equivalents at the end</b>	88 900 ✓

4

2.3.1	<b>Calculate: Earning per share</b>	
	<b>WORKINGS</b>	<b>ANSWER</b>
	$\frac{322\,400 \checkmark \quad \times \quad 100^*}{190\,000 \checkmark\checkmark \quad \quad \quad 1}$	169,68 cents <input checked="" type="checkbox"/> or 170 one part correct must be cents

4

2.3.2	<b>Calculate: Debt-equity ratio</b>	
	<b>WORKINGS</b>	<b>ANSWER</b>
	$350\,000 \checkmark : 2\,499\,900 \checkmark$	0,14 : 1 <input checked="" type="checkbox"/> or 0,1 : 1 one part correct must be in ratio: 1

3

2.3.3	<b>Calculate: Return on average capital employed</b>	
	<b>WORKINGS</b>	<b>ANSWER</b>
	$\frac{640\,000 \quad \text{Two marks}}{520\,000 \checkmark + 120\,000 \checkmark} \times \frac{100^*}{\frac{1}{2} \checkmark (2\,849\,900 \checkmark + 2\,187\,500 \checkmark)}$ $\frac{5\,037\,400}{2\,518\,700} \quad \text{two marks}$	25,4% <input checked="" type="checkbox"/> or 25,40% one part correct must be in %

6

<b>TOTAL MARKS</b>
<b>35</b>

### QUESTION 3

3.1.

3.1.1	Solvency	✓
3.1.2	Risk/gearing	✓
3.1.3	Profitable	✓
3.1.4	Return	✓
3.1.5	Liquidity	✓

5

3.2.1

**Jack is of the opinion that KAT Ltd is handling its working capital more effectively and is in a better liquidity situation than KIT Ltd. Explain and quote THREE financial indicators to support his opinion.**

Financial indicator ✓ ✓ ✓

Quoting of figures ✓ ✓ ✓

Explanation ✓ ✓ ✓

A combined explanation may be provided. Figures must be provided but not necessarily for both companies; candidates cannot get full marks if superfluous indicators are used; if candidates provide additional irrelevant indicators, search for the correct ones in the answer provided by the candidates and award marks accordingly. For those who provide more than three options, penalty of -1 for an irrelevant indicator (max -2)

- Current ratio of KAT Ltd is 1,5 : 1 and KIT Ltd is 6,0 : 1 ( KIT Ltd.'s ratio is 4 times bigger). KAT has enough current assets to cover his current liabilities whereas KIT Ltd is holding too much of his funds in the form of current assets which may not results in a return for the business.
- Acid test ratio of KAT Ltd is 0,9 : 1 and of KIT Ltd is 2,8 : 1 ( KIT Ltd.'s ratio is 3 times bigger) . Even if KAT is not able to sell all of his trading stock he should still be able to cover his short term debt. KIT Ltd is holding much of his current assets in the form of trading stock (stock piling).
- Period of which enough stock is on hand for KAT Ltd is 88 days and for KIT Ltd is 150 days (almost 6 months). KAT Ltd has enough stock for 3 months which is appropriate for a company selling running shoes as styles of shoes normally change seasonally. KIT Ltd is holding stock for too long, styles will change and clients will not be interested in buying outdated styles resulting in absolute stock.
- Debtor's average collection period of KAT Ltd is 25 days which is within the normal/acceptable credit terms and is much lower than the 53 days of KIT Ltd.

9



**3.2.2 The operating efficiency of KIT Ltd are better than that of KAT Ltd. Quote and explain ONE financial indicator to support your opinion.**

Good answer = 2 marks each; partial = 1 mark; incorrect = 0

✓✓

Operating expenses on sales of KIT 37,9% lower than that of KAT Ltd 44,5%, which indicates that KIT Ltd has better control of expenses.

Operating profit on sales of KIT Ltd 10,1% higher than that of KAT Ltd 7,3%, which indicates that apart from the better control over his expenses (KIT) there has been a slightly higher mark-up% applied as well.

2

**3.2.3 Which company uses more loans? Quote a financial indicator to support your answer.**

KAT Ltd. ✓

Debt/equity ratio 2 : 1 ✓ for KAT and 0,3 : 1 ✓ for KIT Ltd.

**Explain whether this is a good idea or not. In each case, quote a financial indicator to support your answer.**

It is not a good idea. ✓

ROTCE for KAT Ltd is 13,6% ✓ which means that the return they are earning is lower than the interest (15%) he is paying on the loan (negatively gearing) ✓

6

**3.2.4 Compare and comment on the dividends pay-out policies of the both companies.**

	Financial indicator or explanation thereof with figures.	Comparison and comment ✓✓ ✓✓ Do not accept comparison of the DPS only. Must mention both companies. Can get 1 mark.
<b>KIT Ltd</b>	DPS 240 cents. ✓ EPS 410 cents. ✓ Or 2 Marks Distributes 58.5% of earnings	KAT Ltd is distributing a higher percentage of income earned, 5% comes from retained income.
<b>KAT Ltd</b>	DPS 185 cents. ✓ EPS 176 cents. ✓ Or 2 marks Distributes 105% of earnings	KIT Ltd pays 58.5% and retained 41.5% for future growth.

8

**3.2.5 KIT Ltd has a better percentage return, earnings and dividends than KAT Ltd. Explain by quoting THREE financial indicators to support this opinion.**

Financial indicator ✓ ✓ ✓

Figures ✓ ✓ ✓

Explanation ✓ ✓ ✓

- % ROSHE for KIT Ltd is much higher (21,3%) than that of KAT Ltd (11.2%).
- EPS for KIT Ltd is 410 cents whereas KAT Ltd is only earning 176 cents per share.
- DPS for KIT Ltd is 240 cents whereas for KAT Ltd it is only 185 cents per share.

9

**3.2.6 Explain why the existing shareholders of KIT Ltd are happy with this. Quote a financial indicator/figure to support your answer.**

Comparing market price and NAV of KIT Ltd ✓✓ Figures ✓

Market price of KIT Ltd is 750 cents which is higher than the NAV of 609 cents OR market price is 141 cents higher than the NAV. KIT Ltd is thus able to show a price higher than the value of the shares in the books of the company.

3

**Explain why the existing shareholders of KAT Ltd are very disappointed with this. Quote a financial indicator/figure to support your answer.**

Comparing market price and NAV of KAT Ltd ✓✓ Figures ✓

Market price of KAT Ltd is 885 cents which is lower than the NAV of 939 cents OR market price is 54 cents lower than the NAV.

3

**TOTAL MARKS**

**45**

QUESTION 4

4.1. Explain what is meant by Corporate Governance.

Any TWO valid explanation ✓✓

- It is essentially the set of rules that govern the way companies control and manage the business.

2

4.2. Provide TWO examples of corporate governance that would occur in a company.

Any TWO valid examples ✓✓ ✓✓

- Respect of human rights
- Transparency of executive salaries
- Implementation of code of conduct for employees

4

4.3. Give TWO examples of audit evidence

Any TWO valid examples ✓✓ ✓✓

Part-mark for partial answers

- Source documents (provided by external organisations, provide verification).
- Records such as asset registers, stock records etc.
- Policies and procedures of the company.
- Check the internal controls and the efficiency of the internal audit.
- Report of an audit committee which assess the internal and external audit processes / internal auditors report on ensuring internal controls.
- Any valid proof of entries in the books or financial statements concerning cash.

4

4.4. Explain why an independent auditor would want to see that the following GAAP principles that are applied: ✓✓ ✓✓

- **Matching** - To see if incomes and expenses are recorded in the correct financial period.
- **Going concern**- For both the Income Statement and Balance Sheet are prepared as if there is no intention to stop or limit the operation of the business,

4

4.5. Refer to paragraph 3. Explain why you would be satisfied with this audit report opinion. ✓✓✓

Good = 3; Satisfactory = 2; Poor = 1; Incorrect = 0)

- The auditors have stated that they are satisfied with all aspects of the financial reporting by the directors.
- This is a standard reporting – (fairly presented).
- No negative comment reported.
- The auditors have not stated that the report is qualified or withheld.

3



- The auditor's report is unqualified.

4.6 **To whom is an audit report addressed? Give reason for your answer.**

Shareholders ✓

**Reason:** ✓✓

Accept short explanations; may be phrased differently

Part-marks for unclear/incomplete explanation

Independent auditors are appointed by the shareholders/the shareholders are the owners of the company.

3

<b>TOTAL MARKS</b>
20