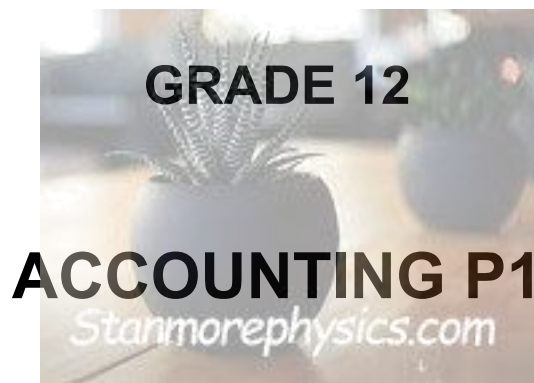


CAPE WINELANDS / WEST COAST EDUCATION DISTRICTS



PREPARATORY EXAMINATION



SEPTEMBER 2022

MARKS: 150

TIME: 2 HOURS

**This question paper consists of 10 pages,
a formula sheet and a 9-page answer book.**

INSTRUCTIONS AND INFORMATION

Read the following instructions 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 part-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 formula sheet at the end of the 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	Transaction analysis and audit report	20	15
2	Statement of Financial Position and Notes	60	55
3	Cash Flow Statement and Financial Indicators	30	20
4	Analysis and Interpretation	40	30
TOTAL		150	120

QUESTION 1: TRANSACTION ANALYSIS AND AUDIT REPORT

(20 marks; 15 minutes)

CONCEPTS

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

1.1.1 The concept of (limited / unlimited) liability ensures that shareholders are not responsible for the debts of the business in the event of bankruptcy.

1.1.2 When preparing financial statements, creditors will be reflected as trade and other (receivables / payables / equity).

1.1.3 The separate disclosing of significant items, such as interest expenses, is an application of the (prudence / materiality) GAAP principle. (3)

1.2 CLAY-BRICK LTD

REQUIRED:

Analyse the transactions below according to the headings on the table provided in the ANSWER BOOK

- Indicate *account debited* and *account credited* in the General Ledger and the effect on the accounting equation. Indicate an increase as +, a decrease as – and no effect as 0. Refer to the example provided.
- Assume a favourable bank balance at all times.

Example: Bought packing material on credit, R2 700.

NO.	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT	A	O	L
e.g.	Packing material	Creditors' Control	2 700	0	-	+

TRANSACTIONS:

1.2.1 Electronic funds transfers (EFT) totalling R225 000 were made to shareholders, being the amount owing to them at the end of the previous financial year.

1.2.2 The company received R550 000 for the issue of new shares.

1.2.3 The income tax assessment for the year was received. The income tax amount, R840 000, exceeded the provisional tax payments made. (9)

1.3 Independent audit report:

You are provided with an extract of the audit report for Clay-Brick Ltd for the financial year ended 30 June 2022.

REQUIRED:

- 1.3.1 Identify the type of audit report that the company received. Give a reason for your answer. (2)
- 1.3.2 Explain why the auditor referred to:
- Pages 10 to 25 (2)
 - International financial Reporting Standards and the Companies Act of South Africa (2)
- 1.3.3 Name any TWO items of audit evidence that the auditors may have used. (2)

INFORMATION:

Extract of the audit report:

To Shareholders

Basis of Opinion

We conducted our audit in accordance with international standards on auditing.

We are independent of the company, as applicable to performing audits, and with other ethical requirements as per the professional code of conduct. The audit evidence we obtained was sufficient and appropriate.

Opinion

We have audited the financial statements, as set out on pages 10 to 25. These comprise the Statement of Comprehensive Income, Statement of financial Position and the Cash Flow Statement for the year ended 30 June 2022.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the business as at the year ended, its financial performance and cash flows, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Poobie and Piet
Registered Auditors

31 August 2022

**QUESTION 2: ADJUSTMENTS, STATEMENT OF FINANCIAL POSITION
(BALANCE SHEET) AND NOTES (55 marks; 45 minutes)**

- 2.1 Complete each of the following statements by choosing a word(s) from the list below. Write only the word(s) next to the question numbers (2.1.1. to 2.1.3) in the **ANSWER BOOK**.

external auditors; directors; shareholders; internal auditors

- 2.1.1 The ... are employed by the company to set up and monitor control processes.
- 2.1.2 ... are appointed to give an unbiased opinion on the financial statements.
- 2.1.3 ... are appointed by the owners of the company to perform key management functions. (3)

2.2 RIZPAH LTD

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

- 2.2.1 Calculate the correct net profit after tax by accounting for the adjustments with **information C and D**. (11)
- 2.2.2 Complete the following Notes to the Statement of Financial Position (Balance Sheet):
- Ordinary Share Capital (8)
 - Retained Income (8)
- 2.2.3 Prepare the Statement of Financial Position (Balance Sheet) on 28 February 2022. (30)

INFORMATION:

A. Extract from the accounting records on 28 February:

Balance Sheet Accounts	2022 R	2021 R
Fixed deposit	733 500	?
Ordinary Share Capital	11 931 000	?
Retained Income	1 794 000	?
Loan: CW-Loans	?	?
SARS: Income tax (provisional tax)	675 000	
Creditors' control	926 170	
Shareholders for dividends	320 100	243 000
Debtors' control	1 312 500	
Provision for bad debts	?	35 460
Trading stock (balancing figure)	?	
Petty cash	7 500	7 500
Bank overdraft (balancing figure)	?	
Nominal accounts		
Audit fees	72 000	
Rent income	153 600	

B. Share Capital and Dividends

DATE	DETAILS
1 March 2021	75 % of the authorised share capital of 1 200 000 ordinary shares were in issue.
30 August 2021	80 000 shares were repurchased from a retired shareholder. He was paid 20% (R204 000) above the average share price and would no longer qualify for dividends.
31 August 2021	An interim dividend of 42 cents per share was paid.
1 December 2021	An additional 150 000 shares were issued.
28 February 2022	A final dividend was declared.

- C. The following adjustments were not considered with the calculation of the net profit before tax of R2 226 840 in the Statement of Comprehensive Income (Income Statement):



- The provision for bad debts must be increased by R3 740
- Only half the audit fees were paid. The balance will be paid in March 2022.
- The tenant occupies part of the premises from 1 May 2021. He has not paid the rent for January and February 2022. Rent remained constant for the accounting period.

- D. Income tax for the year is calculated at 30% of the net profit:
- E. R360 000 of the fixed deposit will mature on 1 April 2022.
- F. A debit balance of R26 920 from the Debtors' Ledger must be transferred to the Creditors' Ledger.
- G. The following figures and financial indicators were calculated on 28 February 2022, after all adjustments were processed:

Current Assets	R3 120 000
Current ratio	1,6 : 1
Debt-equity ratio	0,4 : 1

- H. The loan from CW-Loan will be reduced by a capital portion of R342 000 in the 2023 financial year.

QUESTION 3: CASH FLOW STATEMENT AND FINANCIAL INDICATORS
(30 marks; 20 minutes)

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

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

- 3.1.1 Profit on sale of a fixed asset
- 3.1.2 Amount due to shareholders for final dividends payable
- 3.1.3 Total amount spent on the repurchase of shares (3)

3.2 SUNRISE LTD

The financial year ended on 28 February 2022.

- 3.2.1 Calculate the following figures for the 2022 Cash Flow Statement:

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

- 3.2.2 Calculate financial indicators for the year ended 28 February 2022:

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

INFORMATION FOR SUNRISE LTD:

A. Information from Statement of Comprehensive Income on 28 February 2022:

Sales	4 362 500
Gross Profit	1 762 500
Depreciation	204 000
Operating profit	1 016 950
Interest expense	220 500
Income tax	238 950
Net profit after tax	569 000

B. Information from Statement of Financial Position on 28 February 2022

	2022	2021
Fixed assets (carrying value)*	R5 917 550	R5 329 000
SARS: Income tax	9 000 (Cr)	31 500 (Dr)
Shareholders' equity	4 312 500	5 032 500
Ordinary share capital	3 862 000	4 650 000
Loan: UOME-Bank	1 750 000	1 400 000
Shareholders for dividends	186 000	97 500
*NOTE: Fixed assets were sold at carrying value, R245 000		

C. Share capital and dividends:

SHARE CAPITAL		NUMBER OF SHARES	DETAILS OF SHARES
2021	1 March	1 500 000	In issue at R3,10 per share
	30 April	300 000	Repurchased at R3,45 per share
2022	1 January	40 000	New shares issued
	28 February	1 240 000	In issue

DIVIDENDS			DIVIDENDS PER SHARE
Final	2 March 2021	Paid	6,5 cents
Interim	31 August 2021	Paid	17,5 cents
Final	28 February 2022	Declared	15 cents

QUESTION 4: ANALYSIS AND INTERPRETATION

(40 marks; 20 minutes)

4.1 KIM LTD AND CHEVY LTD

Refer to Information D to F

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

He recently invested another R840 000 in each company by buying shares on the JSE at market value as follows:

KIM LTD	CHEVY LTD
R16,80	R8,00

REQUIRED:

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

4.1.1 Purchase of shares:

- Explain why directors should be interested in the price of their companies' shares on the JSE. (2)
- Calculate the number of additional shares in KIM Ltd that Mike was able to buy on the JSE in 2022. (3)
- Comment on the price that Mike paid for these shares and give TWO reasons why he might have been satisfied to pay his price. (6)

4.1.2 Dividends and earnings:

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

4.1.3 Refer to the Cash Flow Statements:

The poor economy has negatively affected KIM LTD more than CHEVY LTD.

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

D. **Shareholding of Mike Tyson in two companies**

	KIM LTD	CHEVY LTD
Number of shares bought in 2019	580 000 shares	1 430 000 shares
Total shares issued by each company	1 240 000 shares	2 600 000 shares
Additional shares bought by Mike	?	105 000 shares
Mike's % shareholding before buying additional shares	46,8%	55,0 %

E. **Financial indicators and additional information on 28 February 2022:**

	KIM LTD	CHEVY LTD
Earnings per share (EPS)	194 cents	166 cents
Dividends per share (DPS)	130 cents	160 cents
Debt-equity ratio	0,1 : 1	0,7 : 1
% return on average equity	6,2 %	18,2 %
% return on average capital employed	9,4 %	15,1 %
Net asset value (NAV)	1 500 cents	890 cents
Additional information:		
Interest on loans	12,0 %	12,0 %
Interest on investments	6,5 %	6,5 %

F. **Extracts from the Cash Flow Statements for the year ended 28 February 2022:**

	KIM LTD	CHEVY LTD
Cash flow from investing activities	R5 400 000	(R5 460 000)
Purchase of fixed assets	0	(3 160 000)
Sale of fixed assets	3 600 000	0
Change in investments	1 800 000	2 300 000
Cash flow from financing activities	(5 340 000)	8 000 000
Proceeds of new shares issued	0	400 000
Shares repurchased	(2 140 000)	0
Cash effects of long-term loan	(3 200 000)	7 600 000

40

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 & 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.	

CAPE WINELANDS / WEST COAST EDUCATION DISTRICTS

SCHOOL: _____

LEARNER: _____

PREPARATORY EXAMINATION



GRADE 12

ACCOUNTING P1

SEPTEMBER 2022

SPECIAL ANSWER BOOK

QUESTION	MAXIMUM MARKS	MARK OBTAINED	MODERATED MARK
1	20		
2	60		
3	30		
4	40		
TOTAL	150		

This answer book consists of 9 pages.

Please turn over

QUESTION 1

1.1

1.1.1	
1.1.2	
1.1.3	

3

1.2

NO.	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT	A	O	L
1.2.1						
1.2.2						
1.2.3						

9

1.3.1

Identify the type of audit report that the company received. Give a reason for your answer.

TYPE OF REPORT

REASON

2

1.3.2

Explain why the auditor referred to pages 10 to 25



2

Explain why the auditor referred to International Financial Reporting Standards and the Companies Act of South Africa

2

1.3.3

Name any TWO items of audit evidence that the auditors may have used.

2

TOTAL MARKS

20

QUESTION 2

2.1 CONCEPTS

2.1.1	
2.1.2	
2.1.3	

3

2.2 RIZPAH LTD

- 2.2.1 Calculate the correct net profit after tax by accounting for the adjustments with information C and D.
Indicate (+) for increase and (–) for decrease.

Workings	Answer
Incorrect net profit before tax	2 226 840
Provision for bad debts	
Audit fees	
Rent income	
Correct net profit before tax	
Income tax	
Correct net profit after tax	

11

2.2.2 Ordinary Share Capital Note

Authorised: 1 200 000 ordinary shares

Issued

	Shares in issue on 1 March 2021	
	Shares in issue on 28 February 2022	11 931 000

8

2.2.2

Retained Income Note	
Balance at beginning of financial year	
Dividends	
•	
•	
Balance at the end of financial year	1 794 000

2.2.3

Prepare the Statement of Financial Position on 28 February 2022	
ASSETS	
NON-CURRENT ASSETS	
CURRENT ASSETS	3 120 000
Cash and cash equivalents	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
ORDINARY SHAREHOLDERS' EQUITY	
Ordinary share capital	11 931 000
NON-CURRENT LIABILITIES	
Loan: CW-Loans	
CURRENT LIABILITIES	
Trade and other payables	
TOTAL EQUITY AND LIABILITIES	

30

TOTAL MARKS	
	60

QUESTION 3

3.1

3.1.1	
3.1.2	
3.1.3	

3

3.2.1

Calculate: Income tax paid	
Workings	Answer

4

Calculate: Dividends paid	
Workings	Answer

4

Calculate: Proceeds of shares issued	
Workings	Answer

5

Calculate: Fixed Assets purchased	
Workings	Answer

5

3.2.2 Calculate financial indicators for the year ended 28 February 2022:

% Operating profit on sales	
Workings	Answer

3

Net Asset Value per share	
Workings	Answer

3

Debt-equity ratio	
Workings	Answer

3

TOTAL MARKS	
	30

QUESTION 4

4.1 KIM LTD AND CHEVY LTD

4.1.1

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

2

Calculate the number of additional shares in Kim Ltd that Mike was able to buy on the JSE in 2022.

Workings

Answer

3

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

Comment (with figures):

Reason 1:

Reason 2:

6

4.1.2

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

6

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



4

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

5

4.1.3

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

Decision 1 (with figures):

Decision 2 (with figures):

Effect on Kim Ltd in future:

6

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

Decision 1 (with figures):

Decision 2 (with figures):

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

8

TOTAL MARKS

40

ERRATA: ACCOUNTING – PAPER 1

Colleagues

Can you please adjust the marking guidelines with the following amendments / corrections:
(Errata and changes is indicated in blue:

Question 2.2.3 – Statement of Financial Position (Adjustment F not applied to Trade and other receivables / also affecting inventory as balancing figure

CURRENT ASSETS	3 120 000
Inventory balancing figure	1 449 570 ✓
Trade and other receivables <div style="display: flex; justify-content: space-between; font-size: small;"> Net trade debtors income tax diff </div> <div style="display: flex; justify-content: space-between; font-size: x-small;"> ✓ ✓ ✓ see 2.2.1 ✓ ✓ </div> <div style="display: flex; justify-content: space-between; font-size: x-small;"> (1 312 500 – 39 200 + 38 400 + 18 150 – 26 920) ✓ ✓ see fin. assets </div>	<div style="text-align: right; font-size: small;">one part correct</div> <div style="text-align: right;">1 302 930 ✓</div>
Cash and cash equivalents (7 500 + 360 000)	<div style="text-align: right; font-size: small;">one part correct</div> <div style="text-align: right;">367 500 ✓</div>
TOTAL ASSETS 11	21 165 000 ✓

Question 3.2.1 - Calculations of dividends paid and Proceeds of shares issued

Calculate: Dividends paid	
Workings	Answer
<div style="text-align: center; font-size: small;">✓✓ ✓</div> <div style="text-align: center;">210 000 + 97 500 OR</div> <div style="text-align: center; font-size: small;">97 500 + 396 000 – 186 000</div> <div style="display: flex; justify-content: space-around; font-size: x-small;"> one mark one mark one mark </div> <div style="text-align: center; font-size: x-small;">also accept ledger account format / signs may be swapped</div>	<div style="text-align: center; font-size: small;">✓</div> <div style="text-align: center;">307 500</div> <div style="text-align: center; font-size: x-small;">one part correct</div>

4

Calculate: Proceeds of shares issued	
Workings	Answer
<div style="text-align: center; font-size: small;">✓ ✓✓ ✓</div> <div style="text-align: center;">-4 650 000 + 930 000 + 3 862 000</div> <div style="text-align: center; font-size: x-small;">also accept ledger account format / signs may be swapped</div>	<div style="text-align: center; font-size: small;">✓</div> <div style="text-align: center;">142 000</div> <div style="text-align: center; font-size: x-small;">one part correct</div>

5

Question 3.2.2 – Calculate % operating profit on sales

% Operating profit on sales	
Workings	Answer
<div style="text-align: center;"> $\frac{1\,016\,950}{4\,362\,500} \times 100/1$ </div>	<div style="text-align: center; font-size: small;">✓</div> <div style="text-align: center;">23,3%</div> <div style="text-align: center; font-size: x-small;">one part correct, must be %</div>

3

ERRATA: REKENINGKUNDE – VRAESTEL 1

Kollegas

Kan u asseblief die nasiengids met die volgende veranderinge / korreksies:
(Errata en veranderinge is in **blou**):

Vraag 2.2.3 – Staat van Finansiële posisie (Aansuiwering F is nie by Handels- en ander ontvangbare bedrae in berekening gebring nie / affekteer ook balanserende handelsvoorraad

BEDRYFSBATES	3 120 000
Voorraad balanserende syfer	1 449 570 <input checked="" type="checkbox"/>
Handels- en ander ontvangbare bedrae <div style="display: flex; justify-content: space-between;"> Netto handelsdeb. <input checked="" type="checkbox"/> Inkomstebel. verskil <input checked="" type="checkbox"/> </div> <div style="display: flex; justify-content: space-between;"> <input checked="" type="checkbox"/> sien 2.2.1 <input checked="" type="checkbox"/> </div> (1 312 500 – 39 200 + 38 400 + 18 150 – 26 920)	<div style="text-align: right;">een deel korrek</div> 1 302 930 <input checked="" type="checkbox"/>
Kontant en kontantekwivalente (7 500 + 360 000) <input checked="" type="checkbox"/> sien fin. bates	<div style="text-align: right;">een deel korrek</div> 367 500 <input checked="" type="checkbox"/>
TOTALE BATES Sien TOTALE EKWITEIT EN LASTE 11	21 165 000 <input checked="" type="checkbox"/>

Vraag 3.2.1 - Berekening van dividend betaal en Opbrengs met aandele uitgereik

Bereken: Dividende betaal	
Bewerkings	Antwoord
<div style="text-align: center;">✓✓ ✓</div> 210 000 + 97 500 OF 97 500 + 396 000 – 186 000 <div style="display: flex; justify-content: space-around; font-size: small;"> een punt een punt een punt </div> aanvaar ook grootboekrekening format / tekens mag andersom gebruik word	<div style="text-align: center;">✓</div> 307 500 <div style="text-align: center;">een deel korrek</div>

4

Bereken: Opbrengs met aandele uitgereik	
Bewerkings	Antwoord
<div style="text-align: center;">✓ ✓✓ ✓</div> -4 650 000 + 930 000 + 3 862 000 aanvaar ook grootboekrekening format / tekens mag andersom gebruik word	<div style="text-align: center;">✓</div> 142 000 <div style="text-align: center;">een deel korrek</div>

5

Vraag 3.2.2 – Bereken % bedryfswins op verkope

% Bedryfswins op verkope	
Bewerkings	Antwoord
$\frac{1\,016\,950}{4\,362\,500} \times 100/1$	<div style="text-align: center;">✓</div> 23,3% <div style="text-align: center;">een deel korrek, moet % wees</div>

3

CAPE WINELANDS / WEST COAST EDUCATION DISTRICTS

GRADE 12

ACCOUNTING P1 MARKING GUIDELINES SEPTEMBER 2022

Stanmorephysics.com

MARKS: 150

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 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. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer.
9. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
10. In calculations, do not award marks for workings if numerator & 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. Note that one comment could contain different aspects.
13. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 9 pages.



QUESTION 1

1.1

1.1.1	limited	✓
1.1.2	payables	✓
1.1.3	materiality	✓

3

1.2

NO.	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT	A	O	L	
1.2.1	Shareholders for dividends ✓	Bank ✓	225 000	-	0	-	✓
1.2.2	Bank ✓	Ordinary share-holders capital ✓	550 000	+	+	0	✓
1.2.3	Income tax ✓	SARS:Income tax ✓	840 000	0	-	+	✓

9

1.3.1

Identify the type of audit report that the company received. Give a reason for your answer.

TYPE OF REPORT

Unqualified audit report ✓ accept "clean" or "good" report; mark type and reason independently

REASON Any valid reason ✓ accept short, incomplete statements if message is clear

- The audit report indicates 'fairly present'.
- The auditors did not identify any problems.

2

1.3.2

Explain why the auditor referred to pages 10 to 25

Any suitable explanation ✓✓ part mark for unclear/incomplete/partial answers

- The auditors are responsible only for reports presented on these pages of the Annual Report.
- The audited financial reports / statements are found on these pages of the full report presented to the shareholders at the AGM

2

Explain why the auditor referred to International Financial Reporting Standards and the Companies Act of South Africa

Any suitable explanation ✓✓ part mark for unclear/incomplete/partial answers

- The audit and the financial records/statements of the company are in compliance with both local and international requirements.
- It affects uniform presentation of financial statements

2

1.3.3

Name any TWO items of audit evidence that the auditors may have used.

Any TWO examples of evidence ✓ ✓ individual examples of documents is one point

Stock sheets / fixed assets register / source documents including EFT records / bank; debtors; creditors statements / signed contracts / employee profiles/ physical inspection of assets / journals

2

TOTAL MARKS

20

QUESTION 2

2.1 CONCEPTS

2.1.1	internal auditors	✓
2.1.2	external auditors	✓
2.1.3	directors	✓

3

2.2 RIZPAH LTD

- 2.2.1 Calculate the correct net profit after tax by accounting for the adjustments with information C and D. Indicate (+) for increase and (–) for decrease.

Workings	Answer
Incorrect net profit before tax	2 226 840
Provision for bad debts	- 3 740 ✓
Audit fees	- 72 000 ✓✓
Rent income $(153\,600 / 8) \times 2$ ✓ ✓ ✓ one part correct	+ 38 400 ✓
Correct net profit before tax operation one part correct	2 189 500 ✓
Income tax NP before tax X 0,30	656 850 ✓✓
Correct net profit after tax operation one part correct	1 532 650 ✓

11

2.2.2 Ordinary Share Capital Note

Authorised: 1 200 000 ordinary shares

Issued

900 000 ✓	Shares in issue on 1 March 2021	11 475 000 ✓ No. of shares x ASP or operation bottom-up
(80 000) ✓ ignore brackets	Shares repurchased @ 12,75 ✓	(1 020 000) ✓ ignore brackets one part correct
150 000 ✓	Additional shares issued	1 476 000 ✓ balancing figure
970 000 ✓ operation & one part correct	Shares in issue on 28 February 2022	11 931 000

8

2.2.2

Retained Income Note	
Balance at beginning of financial year	1 129 850 ✓ <i>balancing figure</i>
Net profit after tax	1 532 650 ✓ <i>see 2.2.1</i>
Repurchase of 80 000 shares	(204 000) ✓
Dividends	(664 500) ✓ <i>Interim + Final</i>
• Interim (42/100 x 820 000) ✓	344 400 ✓ <i>one part correct</i>
• Final ✓	320 100 ✓
Balance at the end of financial year	1 794 000

8

2.2.3

Prepare the Statement of Financial Position on 28 February 2022		
ASSETS		
NON-CURRENT ASSETS	TA - CA	18 045 000 ✓
Fixed Assets	NCA – Fin.A	17 671 500 ✓
Financial Assets (733 500 – 360 000)	5	one part correct 373 500 ✓
CURRENT ASSETS		3 120 000
Inventory	balancing figure	1 422 650 ✓
Trade and other receivables		one part correct
Net trade debtors ✓ income tax diff ✓ (1 312 500 – 39 200 + 38 400 + 18 150)	see 2.2.1 ✓	1 329 850 ✓
Cash and cash equivalents (7 500 + 360 000)	see fin. assets ✓	one part correct 367 500 ✓
TOTAL ASSETS	See TOTAL EQUITY & LIABILITIES 11	21 165 000 ✓
EQUITY AND LIABILITIES		
ORDINARY SHAREHOLDERS' EQUITY		operation 13 725 000 ✓
Ordinary share capital		11 931 000
Retained income	2	1 794 000 ✓
NON-CURRENT LIABILITIES		5 490 000
Loan: CW-Loans	2	OSE x 0,4 5 490 000 ✓✓
CURRENT LIABILITIES		1 950 000 ✓✓
Trade and other payables (926 170 + 72 000 – 26 920)	see 2.2.1 ✓	one part correct 971 250 ✓
Shareholders for dividends		320 100 ✓
Short term loan		342 000 ✓
Bank overdraft		balancing figure 316 650 ✓
TOTAL EQUITY AND LIABILITIES	operation, one part correct 10	21 165 000 ✓

30

TOTAL MARKS	
	60

QUESTION 3

3.1

3.1.1	B ✓
3.1.2	A ✓
3.1.3	C ✓

3

3.2.1

Calculate: Income tax paid	
Workings	Answer
$\begin{array}{r} \checkmark \quad \checkmark \quad \checkmark \\ -31\,500 + 238\,950 - 9\,000 \\ \text{or} \\ 31\,500 - 238\,950 + 9\,000 \end{array}$	$\begin{array}{c} \checkmark \\ 198\,450 \\ \text{one part correct} \end{array}$

4

Calculate: Dividends paid	
Workings	Answer
$\begin{array}{r} \checkmark \checkmark \quad \checkmark \\ 210\,000 + 186\,000 \end{array}$	$\begin{array}{c} \checkmark \\ 396\,000 \\ \text{one part correct} \end{array}$

4

Calculate: Proceeds of shares issued	
Workings	Answer
$\begin{array}{r} \checkmark \quad \checkmark \checkmark \quad \checkmark \\ -4\,650\,000 + 930\,000 + 3\,812\,000 \\ \text{also accept ledger account format} \end{array}$	$\begin{array}{c} \checkmark \\ 142\,000 \\ \text{one part correct} \end{array}$

5

Calculate: Fixed Assets purchased	
Workings	Answer
$\begin{array}{r} \checkmark \quad \checkmark \quad \checkmark \quad \checkmark \\ 5\,329\,000 - 245\,000 - 204\,000 - 5\,917\,550 \\ \text{or} \\ -5\,329\,000 + 245\,000 + 204\,000 + 5\,917\,550 \end{array}$	$\begin{array}{c} \checkmark \\ 1\,037\,550 \\ \text{one part correct} \\ \text{accept figure between brackets} \end{array}$

5

3.2.2 Calculate financial indicators for the year ended 28 February 2022:

% Operating profit on sales	
Workings	Answer
$\frac{1\,762\,500 \checkmark}{4\,362\,500 \checkmark} \times 100/1$	<input checked="" type="checkbox"/> 40,4% <i>one part correct, must be %</i>

3

Net Asset Value per share	
Workings	Answer
$\frac{4\,312\,500 \checkmark}{1\,240\,000 \checkmark} \times 100/1$	<input checked="" type="checkbox"/> 347,8 cents <i>accept R3,48 one part correct, must be value</i>

3

Debt-equity ratio	
Workings	Answer
$1\,750\,000 \checkmark : 4\,312\,500 \checkmark$	<input checked="" type="checkbox"/> 0,4 : 1 <i>one part correct, must be ratio x:1</i>

3

TOTAL MARKS	
	30

QUESTION 4

4.1 KIM LTD AND CHEVY LTD

4.1.1

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

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

Responses for 2 marks:

- It shows public confidence in the company
- It can be compared to other companies / an external indicator
- Shareholders will want to have capital growth on their investment
- Directors will be judged on the performance of the shares as this reflects the performance of the company

2

Calculate the number of additional shares in Kim Ltd that Mike was able to buy on the JSE in 2022.

Workings

Answer

$$\begin{array}{cc} \checkmark & \checkmark \\ 840\,000 \div & 16,80 \end{array}$$

☒ one part correct
50 000 shares

3

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

Accept two different comments for Kim Ltd OR Chevy Ltd

Compare price paid to Nav ✓ Figures ✓ Reasons ✓✓ ✓✓

KIM:

JSE Price exceeds NAV by 180 cents (R16,80 – R15)

Valid reasons for KIM:

- He wants to be the majority shareholder
- More influence over decisions by board of directors
- JSE price reflects public demand for the shares
- Potential for high returns in future

CHEVY:

JSE Price is lower than NAV by 90 cents (R8,90 – R8,00)

Valid reasons for CHEVY Ltd:

- The JSE price is a good deal compared to NAV
- Chevy is earning higher returns for him

6

4.1.2

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

Choice: Either Kim OR Chevy Ltd ✓

Reason: Either retaining funds OR rewarding shareholders ✓

Figures: Kim Ltd pays out 67% (130c of 194c earned) ✓✓ quote two figures or %

While Chevy Ltd pays out 96% (160c of 166c earned) ✓✓ quote two figures or %

be aware of alternative ways of explanation and calculation e.g. amount or % retained

6

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

Kim Ltd earns 6,2% ✓ Award two marks for the difference 12%

Chevy earns 18,2% ✓

Comparison (may be implied) ✓

Compare to interest rate (6,5%) ✓

4

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

Quote EPS of Kim Ltd 194 cents ✓

Quote EPS of Chevy Ltd 166 cents ✓

Compare EPS of both companies to:

Share value **OR** to number of shares owned **OR** % ROSHE **OR** Net Profit ✓

Identify figures for any one comparison below ✓✓

	Kim Ltd	Chevy Ltd
•	Cost of shares is high 1500c or 1680c (earnings yield is 12,9% or 11,5%)	Cost of shares is low 890c or 800c (earnings yield is 18,7% or 20,8%)
•	EPS is earned on 580 000 shares	EPS is earned on 1 430 000 shares
•	% ROSHE is 6,2%	% ROSHE is 18,2%
•	NP after tax is R2 405 600 (194c x 1 240 000 shares)	NP after tax is R4 316 000 (166c x 2 600 000 shares)

5

4.1.3

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

Decision: TWO valid decisions ✓ ✓ Figures ✓ ✓

- Sold fixed assets R3 600 000 / No new fixed assets bought (R0)
- Did not issue new shares (R0)
- Investments (reduced) R1 800 000
- Loan (repaid R3 200 000)

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

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

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

Response for 1 mark:

- Saving on interest / less risk

6

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

Decision: TWO valid decisions ✓ ✓ Figures ✓ ✓

- Loan (increased) R7 600 000
- Shares (issued) R400 000
- Shares repurchased R0

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

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

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

8

TOTAL MARKS

40