



GAUTENG PROVINCE

EDUCATION

REPUBLIC OF SOUTH AFRICA

JUNE EXAMINATION GRADE 12

2023

ACCOUNTING (PAPER 1)

ACCOUNTING P1



C2711E

TIME: 2 hours

MARKS: 150

13 pages + 1 formula sheet

X05



INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

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

| QUESTION | TOPIC | MARKS | MINUTES |
|--------------|---|------------|------------|
| 1 | Statements of Comprehensive Income and Financial Position | 65 | 52 |
| 2 | Cash Flow Statement and Financial Indicators | 40 | 32 |
| 3 | Interpretation of Financial Statements and Audit reports | 35 | 28 |
| 4 | Corporate Governance | 10 | 8 |
| TOTAL | | 150 | 120 |

QUESTION 1: FINANCIAL STATEMENTS**(65 marks; 52 minutes)**

- 1.1 Choose ONE concept for each of the following descriptions. Write only the words next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

Net salary; Operating efficiency; Non-current asset; Gross salary;
Current asset; Risk and gearing

- 1.1.1 Consumable stores on hand are a ...
- 1.1.2 An employee was omitted from the salary journal. His ... salary must be credited to the Trade and other payables in the Statement of Financial Position.
- 1.1.3 The way in which a company manages loans or borrowed capital (3)

1.2 CASSIE LTD

You are provided with information for the financial year ended 28 February 2023.

REQUIRED:

Complete the following for the year ended 28 February 2023:

- 1.2.1 Calculate the depreciation on vehicles. (4)
- 1.2.2 Calculate the profit/loss with the sale of asset. Indicate whether it is a profit or a loss. (4)
- 1.2.3 Statement of Comprehensive Income (Income Statement) (26)
- 1.2.4 Statement of Financial Position (Balance Sheet) (28)



INFORMATION:**A. Balances and totals extracted from the records on 28 February 2023**

| | DEBIT | CREDIT |
|--|-----------|-----------|
| Balance Sheet Accounts Section | R | R |
| Ordinary share capital (1 200 000 shares) | | 1 320 000 |
| Retained income | | ? |
| Mortgage loan: Pride Bank | | 306 240 |
| Land and buildings | 1 810 000 | |
| Vehicles @ carry value (See information B) | ? | |
| Equipment | 115 000 | |
| Accumulated depreciation on equipment | | 17 250 |
| Debtors' control | 71 829 | |
| Creditors' control | | 16 680 |
| Trading stock | 79 750 | |
| Bank | | 90 040 |
| Deposit on water and electricity | 1 500 | |
| SARS (Income tax) | 350 145 | |
| Provision for bad debts | | 3 100 |
| Shareholders for dividends | | 44 500 |
| Nominal Accounts Section | | |
| Stationery | 17 630 | |
| Discount received | | 2 090 |
| Depreciation | 17 250 | |
| Bad debts | 1 350 | |
| Bad debts recovered | | 550 |
| Insurance | 22 800 | |
| Bank charges | 5 770 | |
| Rent income | | 165 600 |
| Salaries and wages | 164 430 | |
| Audit fees | 131 470 | |
| Directors' fees | 768 000 | |
| Interest on bank overdraft | 1 300 | |
| Ordinary share dividends | 109 500 | |

B. Vehicles:

- The business has two vehicles. The following details appeared in the Fixed Assets Register on 1 March 2022:

| | Vehicle 1 | Vehicle 2 |
|--------------------------|-----------|-----------|
| Cost Price | 240 000 | 312 000 |
| Accumulated depreciation | (225 000) | (62 400) |
| Carrying value | 15 000 | 249 600 |

- Vehicle 2 was sold on 1 July 2022 for R210 000 cash.

Equipment:


- Cassie Ltd. bought new equipment on 1 March 2022 for R115 000. This transaction was properly recorded. The depreciation for the year of R17 250, was accurately calculated and recorded.

The business provides for depreciation on its fixed assets as follows:

- On vehicles at 25% p.a. on cost price
- On equipment at 15% p.a. on the diminishing value method

- C. A physical stocktaking on 28 February 2023 revealed the value of stock on hand as R79 900.
- D. The rent received from the tenant included the rent for March and April 2023. The rent was increased by 10% per month from 1 January 2023.
- E. A debtor, Z. Bendor, whose debt had previously been written off, paid R150. The bookkeeper incorrectly credited the amount to the Debtors' Control Account.
- F. Provision for bad debt must be adjusted to R3 500.
- G. An annual insurance premium of R15 600, was paid on 1 October 2022.
- H. The bank statement was received after the above balances and totals were recorded. The following still needs to be taken into account:
- Bank charges R140
- I. A debtor, V. Madrik, has a credit balance of R1 350 in the Debtor's ledger. It must be transferred to his account in the Creditor's ledger.
- J. The company has three directors, earning the same monthly fees. One director was only appointed on 1 June 2022, and he still needs to be paid for February 2023.

- K. Interest is capitalised on the mortgage loan. The annual loan statement from Pride Bank reflected the following:



| PRIDE BANK LOAN STATEMENT ON 28 FEBRUARY 2023 | |
|--|---------|
| Balance on 1 March 2022 | 422 400 |
| Interest capitalised | ? |
| Repayments, including interest | 116 160 |
| Balance on 28 February 2023 | 369 600 |

- The accountant did not take the interest into account when submitting the balances/totals.
 - The total amount for the repayment of the loan will remain the same over the next financial year.
- L. A final dividend was declared by the directors and the amount was accurately recorded by the accountant.
- M. Income tax for the year is calculated at 30% of the net profit. The net profit after tax is R1 050 455 after adjustments.
- N. The Net Asset Value (NAV) on 28 February 2023 is 120 cents per share.



QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS**(40 marks; 32 minutes)**

- 2.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number (2.1.1 to 2.1.3).

| | |
|-------|---|
| 2.1.1 | The internal auditors are responsible for preparing the financial statements of a company. |
| 2.1.2 | The external auditor prepares relevant control measures for accounting procedures and ensures that they are followed. |
| 2.1.3 | Depreciation is added back into the Cash Flow Statement, as it is regarded as a 'non-cash' expense. |

(3)

2.2 BENFORCE LTD.

The information below relates to Benforce Ltd.

REQUIRED:

- 2.2.1 Prepare the Ordinary Share Capital Note on 28 February 2023. (7)
(See information C)
- 2.2.2 Calculate the following figures that will appear on the Cash Flow Statement:
- Income tax paid (4)
 - Net change in cash and cash equivalents. Indicate whether this is a net inflow or net outflow of cash. (5)
- 2.2.3 Complete the section of the Cash Flow Statement for cash effects of investing activities. (8)
- 2.2.4 Calculate the following for the financial year ended 28 February 2023:
- Percentage operating profit on sales (3)
 - Current ratio (3)
 - Stock turnover rate (3)



INFORMATION:**A. Extract from the Income Statement for the year ended 28 February 2023**

| | |
|-----------------------|------------|
| Sales | R2 790 000 |
| Cost of sales | 1 860 000 |
| Depreciation | 420 100 |
| Operating profit | 450 000 |
| Interest expense | 160 000 |
| Net profit before tax | 1 900 000 |
| Net profit after tax | 1 330 000 |

B. Figures from the Balance Sheet and notes:

| | 28 FEBRUARY 2023 | 28 FEBRUARY 2022 |
|----------------------------------|---------------------|---------------------|
| Fixed assets (carrying value) | R4 010 500 | R2 690 000 |
| Financial assets (fixed deposit) | 550 000 | 700 000 |
| CURRENT ASSETS | 584 440 | 598 200 |
| Inventory | 322 000 | 345 000 |
| Trade and other receivables | 245 000 | 228 000 |
| SARS: Income tax | 8 400 | 9 200 |
| Cash and cash equivalents | 9 040 | 16 000 |
| SHAREHOLDERS' EQUITY | ? | ? |
| Ordinary share capital | 5 292 000 | ? |
| Retained income | ? | 147 370 |
| NON-CURRENT LIABILITIES | 1 200 000 | 500 000 |
| CURRENT LIABILITIES | 620 500 | 555 800 |
| Trade and other payables | 323 000 | 555 800 |
| Shareholders for dividends | 187 500 | 108 000 |
| Bank overdraft | 110 000 | — |

C. Share capital and dividends

- The authorised share capital comprises 1 200 000 ordinary shares.
- On 1 March 2022, 900 000 ordinary shares were issued.
- The company issued 150 000 ordinary shares at R6,30 per share on 1 May 2022.
- On 30 August 2022, 70 000 ordinary shares were repurchased from shareholders. EFT payments for R437 500 were authorised for these shares.

D. Fixed assets:

- Additional property was purchased for R1 400 000. No other fixed assets were purchased.
- One of the vehicles was sold at carrying value.

2.3 PETER LTD.

You are presented with the Cash Flow Statement of Peter Ltd. for the year ended 30 April 2023.

REQUIRED:

List the TWO most significant decisions that the directors made during the year. Quote figures from the Cash Flow Statement in each case.

(4)

| CASH FLOW STATEMENT FOR THE YEAR ENDED 30 APRIL 2023 | |
|--|-------------|
| | 738 000 |
| Cash generated from operations | 1 370 000 |
| Interest paid | (210 000) |
| Income tax paid | (132 000) |
| Dividends paid | (290 000) |
| | (4 348 000) |
| Fixed assets purchased | (4 858 000) |
| Fixed assets sold for cash | 370 000 |
| | 140 000 |
| | 3 580 000 |
| Proceeds of issued shares | 980 000 |
| Loans raised | 2 600 000 |
| | |
| Net change in cash and cash equivalents for the year | (30 000) |
| Cash and cash resources at the beginning of the year | 50 000 |
| Cash and cash resources at the end of the year | 20 000 |

40



QUESTION 3: INTERPRETATION OF COMPANY INFORMATION AND AUDIT REPORTS
(35 marks; 28 minutes)

Your friend, Mary Brown, owns shares in a company called Dobi Ltd. She wants to invest more money in shares. She asks you for advice and presents you with the following financial indicators of Dobi Ltd. and another company, Lemi Ltd. The two companies are of similar size, and they have issued the same number of shares.

INFORMATION:

| A. | | Dobi Ltd. | Lemi Ltd. |
|----|---|-----------|-----------|
| | Market price per share on the JSE | 905 cents | 740 cents |
| | Net asset value per share | 755 cents | 775 cents |
| | Earnings per share | 720 cents | 179 cents |
| | Dividends per share | 650 cents | 182 cents |
| | % return on shareholders' equity | 9,5% | 5,5% |
| | % return on total capital employed (before tax) | 13,6% | 9,4% |
| | Debt/Equity ratio | 0,3 : 1 | 2,1 : 1 |
| | Current ratio | 5,7: 1 | 1,9 : 1 |
| | Acid-test ratio | 3,5 : 1 | 0,9 : 1 |
| | Period for which enough stock is on hand | 120 days | 60 days |
| | Debtors' average collection period | 59 days | 26 days |

| | | |
|----|---|---------|
| B. | Interest rate on Fixed Deposit: HD Bank | 6,80 % |
| | Interest rate on loan: Vivi Bank | 10,50 % |

REQUIRED:

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

3.1.1 **LIQUIDITY:**

Explain why the liquidity of Lemi Ltd. is better than that of Dobi Ltd. Quote THREE financial indicators to support your answer.

(9)

3.1.2 **RISK AND GEARING:**

Which company uses more loans? In each case, quote a financial indicator to support your answer.

Explain whether this is a good idea or not. Quote a financial indicator to support your answer.

(6)

3.1.3 SHARE PRICE:

The market price of the shares of Dobi Ltd. is doing much better than that of Lemi Ltd. Explain, quoting TWO financial indicators to support this opinion.

(4)

3.1.4 RETURNS, EARNINGS AND DIVIDENDS:

Dobi Ltd. has a better percentage of returns, earnings, and dividends than Lemi Ltd. Explain by quoting THREE financial indicators to support this opinion.

(9)

3.2 AUDIT REPORTS

You are provided with extracts from the independent audit reports of Dobi Ltd. and Lemi Ltd.

Extract from audit report of Dobi Ltd:

In our opinion, the financial statements fairly present, in all material respects, the financial position of this company on 28 February 2023 and the results of their operations and cash flow for the year ended in accordance with International Financial Reporting Standards, and according to the requirements of the Companies Act of South Africa.

Extract from audit report of Lemi Ltd:

We found that internal control procedures were not adhered to and that documentation did not exist for a significant portion of the transactions tested.

Because of the significance of the matter described in the previous paragraph we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements for the year ended 28 February 2023.

REQUIRED:

Comment on the audit reports of Dobi Ltd. and Lemi Ltd. In each case, explain how the report will affect Mary's decision concerning the shares that she wishes to purchase in the company.

(4)



3.3 NUMBER OF SHARES

Shareholding of Mary Brown in Dobi Ltd:

| | DOBI LTD. |
|---|------------------|
| Number of shares bought in 2020 | 605 000 shares |
| Total shares issued by Dobi Ltd. | 1 250 000 shares |
| Mary's % shareholding before buying additional shares | 48,4% |

After taking all information into account, Mary decided to rather buy extra shares in Dobi Ltd. Calculate the number of shares that she must buy to become the majority shareholder of Dobi Ltd.

(3)

35

QUESTION 4: CORPORATE GOVERNANCE**(10 marks; 8 minutes)**

“Corporate governance is the system of rules, practices and processes by which a company is directed and controlled.”

Former Wall Street Journal reporter, R. Foster Winans was found guilty of securities fraud for using his knowledge of what would appear in the business-oriented newspaper, to his advantage, to make money on the stock market.

Loose lips indeed sink ships and in the case of R. Foster Winans, they engulfed him in an insider trading scandal. In his own words, Winans explained what happened.

“In the early 1980s when I was a stock market columnist at The Wall Street Journal, I stupidly agreed to tell a stockbroker what I was writing about that was scheduled to appear in the next day’s edition.

He made more than \$700 000 of which I received \$31 000, for trading in advance of the short-term effect that the column in the newspaper had on the prices of stocks mentioned.”

Winans served nine months in prison for his role in the fraud.

[Article extracted from *The Washington Post*]

REQUIRED:

Study the extract above and answer the following questions on corporate governance.

- 4.1 What is *insider trading*? Explain in your own words. (2)
- 4.2 How does good corporate governance benefit the company? (2)
- 4.3 What are the roles and responsibilities of the remunerations committee? Explain briefly. (2)
- 4.4 There are seven primary characteristics of good governance. Name any TWO characteristics. (2)
- 4.5 Corporates are managed by a board of directors and the directors are divided into executive and non-executive directors. Briefly explain why it is important for a company to include non-executive as well as executive directors on the board of directors. (2)

10

TOTAL: 150

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET

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

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.



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JUNE EXAMINATION GRADE 12

2023

ACCOUNTING

(PAPER 1)

ANSWER BOOK

| | |
|-------------------|--|
| NAME AND SURNAME: | |
| NAME OF SCHOOL: | |

| QUESTION | MARKS OBTAINED | MODERATED MARK |
|----------|----------------|----------------|
| 1 | | |
| 2 | | |
| 3 | | |
| 4 | | |
| TOTAL | | |

11 pages



QUESTION 1

1.1

| | |
|-------|--|
| 1.1.1 | |
| 1.1.2 | |
| 1.1.3 | |

3

1.2.1

| Calculate: Depreciation on vehicles | |
|-------------------------------------|--------|
| WORKINGS | ANSWER |
| Vehicle 1: | |
| Vehicle 2: | |

4

1.2.2

| Calculate: Profit/Loss from sale of vehicle 2 | |
|---|---|
| WORKINGS | ANSWER |
| | Profit OR Loss (Circle your choice.) |

4

NOTE: The amounts calculated above must be transferred to
Question 1.2.3, the Statement of Comprehensive Income.



1.2.3 Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2023

| | |
|--------------------------------|-----------|
| Sales | |
| Cost of sales | |
| Gross profit | |
| Other income | |
| Discount received | 2 090 |
| Rent income (165 600 | |
| | |
| | |
| | |
| Gross operating income | |
| Operating expenses | |
| Salaries and wages | 164 430 |
| Audit fees | 131 470 |
| Stationery | 17 630 |
| Insurance (22 800 | |
| Bank charges (5 770 | |
| Directors' fees (768 000 | |
| | |
| | |
| | |
| | |
| Operating profit | |
| Interest income | |
| Profit before interest expense | |
| Interest expense (1 300 | |
| Net profit before tax | |
| Income tax | |
| Net profit after tax | 1 050 455 |


1.2.4 Statement of financial position (Balance sheet) on 28 February 2023

| | |
|--------------------------------------|-----------|
| ASSETS | |
| NON-CURRENT ASSETS | |
| Fixed assets | |
| Fixed Deposit | |
| CURRENT ASSETS | |
| Inventory | |
| Trade and other receivables (71 829) | |
| Cash and Cash equivalents | |
| TOTAL ASSETS | |
| EQUITY AND LIABILITIES | |
| SHAREHOLDERS' EQUITY | |
| Ordinary share capital | 1 320 000 |
| Retained income | |
| NON-CURRENT LIABILITIES | |
| | |
| CURRENT LIABILITIES | |
| Trade and other payables | |
| | |
| | |
| Bank overdraft (90 040) | |
| TOTAL EQUITY AND LIABILITIES | |

28

QUESTION 2

2.1

| | | |
|-------|---|--|
| 2.1.1 |  | |
| 2.1.2 | | |
| 2.1.3 | | |

3

2.2 BENFORCE LTD.

2.2.1 Ordinary Share Capital

| | | |
|---------|-------------------------------------|-----------|
| 900 000 | Ordinary shares on 1 March 2022 | |
| | | |
| | | |
| | Ordinary shares on 28 February 2023 | 5 292 000 |

7

2.2.2

Calculate income tax paid.

4

Calculate net change in cash and cash equivalents.


Indicate whether this is a net inflow or net outflow of cash by circling your choice.



5

2.2.3

Cash effects of investing activities

| | |
|---|--|
|  | |
| | |
| | |

| |
|---|
| |
| 8 |

2.2.4

Calculate the percentage operating profit on sales.

| WORKINGS | ANSWER |
|----------|--------|
| | |


| |
|---|
| |
| 3 |

Calculate the current ratio.

| WORKINGS | ANSWER |
|----------|--------|
| | |

| |
|---|
| |
| 3 |

Calculate the stock turnover rate.

| WORKINGS | ANSWER |
|----------|---|
| |  |

| |
|---|
| |
| 3 |

2.3

List the TWO most significant decisions that the directors made during the year. Quote figures from the Cash Flow Statement in each case.



4

40



QUESTION 3

3.1.1

Explain why the liquidity of Lemi Ltd. is better than that of Dobi Ltd. Quote **THREE** financial indicators to support your answer.



9

3.1.2

Which company uses more loans? In each case, quote a financial indicator to support your answer.

Explain whether this is a good idea or not. Quote a financial indicator to support your answer.



6

3.1.3

The market price of the shares of Dobi Ltd. is doing much better than that of Lemi Ltd. Explain, quoting TWO financial indicators to support the opinion.



4

3.1.4

Dobi Ltd has a better percentage of returns, earnings, and dividends than Lemi Ltd. Explain by quoting THREE financial indicators to support this opinion.

9

3.2

Comment on the audit reports of Dobi Ltd and Lemi Ltd. In each case, explain how the report will affect Mary's decision concerning the shares she wishes to purchase in the company.



4

3.3

Calculate the number of shares that Mary must buy to become the majority shareholder of Dobi Ltd.

|  | WORKINGS | ANSWER |
|---|----------|--------|
| | | |

3

35



QUESTION 4:

- 4.1 What is *insider trading*? Explain in your own words.



2

- 4.2 How does good corporate governance benefit the company?

2

- 4.3 What are the roles and responsibilities of the remunerations committee? Explain briefly.

2

- 4.4 There are seven primary characteristics of good governance. Name any TWO characteristics.

2

- 4.5 Briefly explain why it is important for a company to include non-executive as well as executive directors on the board of directors.



2

10



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EDUCATION

REPUBLIC OF SOUTH AFRICA

JUNE EXAMINATION GRADE 12

2023

MARKING GUIDELINES

ACCOUNTING (PAPER 1)

12 pages

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. Unless otherwise stated, give full marks for correct answer. If answer is incorrect, mark workings.
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. If candidates provide more than the required number of responses, inspect all responses to give benefit to the candidate. Penalties may be applied for foreign entries if candidates earn full marks on a question (max. -2 per Q).
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, marker must inspect reasonableness of the answer.
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. Note that one comment could contain different aspects.
14. Codes: f = foreign item; p = placement/presentation.

QUESTION 1

1.1

| | |
|-------|--------------------|
| 1.1.1 | Current Asset ✓ |
| 1.1.2 | Net salary ✓ |
| 1.1.3 | Risk and gearing ✓ |

3

1.2.1

| Calculate: Depreciation on vehicles | |
|---|--|
| WORKINGS | ANSWER |
| Vehicle 1: $15\,000 - 1$ $= 14\,999 \checkmark \checkmark$ | Two marks Two marks $(14\,999 + 26\,000)$ |
| Vehicle 2: $\frac{312\,000}{1} \times \frac{25}{100} \times \frac{4}{12}$ $= 26\,000 \checkmark \checkmark$ | 40 999 (Four marks) |

4

1.2.2

| Calculate: Profit/Loss with sale of vehicle 2 | |
|--|---|
| WORKINGS | ANSWER |
| $249\,600 \checkmark - 26\,000 \checkmark$ see 1.2.1 $= 223\,600 - 210\,000 \checkmark$ One mark one mark one m mark Or $312\,000 - 210\,000 - 88\,400$ 62 400 + 26 000 Accept T- account | 13 600 <input checked="" type="checkbox"/> one part correct Profit OR Loss (Circle your choice) |

4

NOTE: The amounts calculated above must be transferred to Question 1.2.3, the Statement of Comprehensive Income.




1.2.3 Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2023

| | |
|--|--------------|
| Sales | |
| Cost of sales | |
| Gross profit | |
| Other income | |
| Discount received | 2 090 |
| Rent income (165 600 – 25 300 ✓✓) | 140 300 ✓ |
| Trading stock surplus (79 900 – 79 750) | 150 ✓ |
| Bad Debt recovered (550 + 150) | 700 ✓✓ |
| 6 | |
| Gross operating income | |
| Operating expenses | |
| Salaries and wages | 164 430 |
| Audit fees | 131 470 |
| Stationary | 17 630 |
| Insurance (22 800 – 9 100 ✓✓) | 13 700 ✓ |
| Bank charges (5 770 + 140) | 5 910 ✓ |
| Directors' fees (768 000 + 24 000 ✓✓) or (768 000 + (768 000 x 1/32)) | 792 000 ✓ |
| Loss with sale of asset | 13 600 ✓ |
| Depreciation (40 999 ✓ see 1.2.1 + 17 250 ✓) | 58 249 ✓ |
| Bad Debt | 1 350 ✓ |
| Provision for bad debt adjustment (3 500 – 3 100) 13 | 400 ✓ |
| Operating profit | |
| Interest income | |
| Profit before interest expense must be NPBT + IE | 1 565 310 ✓ |
| Interest expense (1 300 + 63 360 ✓✓) Ignore brackets | (64 660) ✓ |
| Net profit before tax must be NPAT + Tax | 1 500 650 ✓ |
| Income tax Ignore brackets | (450 195) ✓✓ |
| Net profit after tax 7 | 1 050 455 |

** If calculated as profit in 1.2.2 award method mark under op. income
(only if it is any other figure than 13 600)

-1 Foreign items. Max -2

1.2.4 Statement of financial position (balance sheet) on 28 February 2023

| | | |
|--|--|---|
| ASSETS | | |
| NON-CURRENT ASSETS | | |
|  (115 000 – 17 250) one mark, must see both Fixed assets (1 810 000 ✓ + 97 750 ✓ + 1 ✓) | 1 907 751 <input checked="" type="checkbox"/> | 4 |
| Fixed Deposit | | |
| CURRENT ASSETS | | |
| Inventory | 79 900 ✓ | |
| Trade and other receivables see insurance (71 829 + 150 ✓ – 3 500 ✓ + 1 350 ✓ + 9 100 <input checked="" type="checkbox"/> + 1 500 ✓) | 80 429 <input checked="" type="checkbox"/> | |
| Cash and Cash equivalents | | |
| TOTAL ASSETS same as Total equity and Liabilities | 2 111 660 <input checked="" type="checkbox"/> | 8 |
| EQUITY AND LIABILITIES | | |
| SHAREHOLDERS' EQUITY 120c x 1 200 000 | 1 440 000 ✓✓ | |
| Ordinary share capital | 1 320 000 | |
| Retained income SHE - OSC | 120 000 <input checked="" type="checkbox"/> | 3 |
| NON-CURRENT LIABILITIES | 316 800 | |
| 116 160 one mark – 63 360 one mark, see interest expense Loan: Pride Bank (369 600 ✓ – 52 800 ✓ <input checked="" type="checkbox"/> 306 240 + 63 360 must see both for 1 mark | 316 800 <input checked="" type="checkbox"/> | 4 |
| CURRENT LIABILITIES | 354 860 <input checked="" type="checkbox"/> | |
| Trade and other payables (16 680 or 25 300 or 1 350 or 24 000) (2 method marks for any one of the figures) | 67 330 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> | |
| Shareholders for dividends | 44 500 ✓ | |
| Current portion of loan see NCL | 52 800 <input checked="" type="checkbox"/> | |
| SARS Income tax (450 195 see I/S – 350 145) | 100 050 <input checked="" type="checkbox"/> ✓ | |
| Bank overdraft (90 040 + 140) | 90 180 ✓ | |
| TOTAL EQUITY AND LIABILITIES | 2 111 660 <input checked="" type="checkbox"/> | 9 |

QUESTION 2

2.1

| | |
|-------|---------|
| 2.1.1 | False ✓ |
| 2.1.2 | False ✓ |
| 2.1.3 | True ✓ |

3

2.2 BENFORCE LTD.

2.2.1 Ordinary Share Capital

| | | |
|-----------|--|---|
| 900 000 | Ordinary shares on 1 March 2022 Balancing figure; check that repurchase added back and issue deducted back (bottom to top) | 4 725 000 ✓ |
| 150 000 ✓ | Shares issued on 1 May 2022 @ R6,30 each | 945 000 ✓ |
| (70 000) | Shares repurchased @ R5,40 ✓ ✓ average price 5 292 000 / 980 000 no part marks 5 670 000 / 1 050 000 | (378 000) Ignore brackets, one part correct ✓ i.e. 70 000 or R5,40; do not accept 437 500 as final answer |
| 980 000 ✓ | Ordinary shares on 28 February 2023 | 5 292 000 |

7

2.2.2

Calculate income tax paid.

$$\begin{aligned} & (1\,900\,000 - 1\,330\,000) \\ & 9\,200 \checkmark - 570\,000 \checkmark - 8\,400 \checkmark = 569\,200 \checkmark \text{ One part correct} \\ & \text{or} \\ & 570\,000 + 8\,400 - 9\,200 = 569\,200 \end{aligned}$$

Also accept alternative calculations like ledger account

4



Calculate net change in cash and cash equivalents.

| Bottom up | OR | Top down |
|--------------|----|-------------------------------|
| 16 000 ✓ | | (116 960) <i>one m method</i> |
| (100 960) ✓✓ | | 16 000 <i>one mark</i> |
| (116 960) ✓ | | (100 960) <i>one mark</i> |
| | | |
| 16 000 | | 116 960 |
| 100 960 | | |

| | |
|---|---|
| Cash beginning of year | 16 000 ✓ |
| Cash end of the year (9 040 – 110 000) | (100 960) ✓✓ |
| Net change in cash and cash equivalents | (116 960) ✓ <i>One part correct Ignore brackets</i> |

Indicate whether this is a net inflow or net outflow ✓ of cash by circling your choice.

5



2.2.3

| | |
|--|---|
| Cash effects of investing activities Correct use of brackets is important when awarding marks | (1 590 600) or (909 400) ✓ one part correct |
| Purchase of Fixed asset (property) | (1 400 000) ✓ |
| Fixed assets sold/purchased (if negative, could add with 1 400 000 as one figure) (2 690 000 ✓ + 1 400 000 ✓ – 4 010 500 ✓ – 420 100 ✓) | 340 600 Accept in brackets |
| Fixed deposit matured/redeemed (700 000 – 550 000) | 150 000 ✓✓ |

8

2.2.4

| Calculate the percentage operating profit on sales | |
|---|--|
| Workings | Answer |
| $\frac{450\,000}{2\,790\,000} \times \frac{100}{1}$ ✓ | 16,1% ✓ One part correct. Must be calculated as a percentage, but sign not necessary, also accept 16% and 16,13% x 100 not one part correct |

3

| Calculate the current ratio | |
|-----------------------------|--|
| Workings | Answer |
| 584 440 ✓ : 620 500 ✓ | 0,9:1 ✓ One part correct. Must be calculated as x:1, also accept 0,94:1 |

3

| Calculate the stock turnover rate | |
|--|---|
| Workings | Answer |
| $\frac{1\,860\,000}{\frac{1}{2}(322\,000 + 345\,000)}$ ✓ 333 500 one mark | 5,6 times ✓ one part correct, also accept 5,57 Times not necessary |

3

2.3

List the TWO most significant decisions that the directors made during the year. Quote figures from the Cash Flow Statement in each case.

Any two of the following decisions. Two marks each. Must include figures.

✓✓ ✓✓ no part marks

- Fixed assets purchased for R4 858 000
- Loans were raised for R2 600 000
- Shares were issued for R980 000

4

40



QUESTION 3

3.1.1

Explain why the liquidity of Lemi Ltd. are better than those of Dobi Ltd. Quote **THREE** financial indicators to support your answer.

Quoting of indicator ✓ ✓ ✓ Figures of Lemi ✓ ✓ ✓ Comparison ✓ ✓ ✓

- **Current ratio** of Lemi is 1,9 : 1 (and of Dobi is 5,7:1). Lemi has enough current assets to cover its current liabilities whereas Dobi Ltd is holding too much of his funds in the form of current assets which may not result in a return for the business.
- **Acid-test ratio** of Lemi is 0,9 : 1 (compared to Dobi's of 3,5 : 1). Even if Lemi is not able to sell all of its trading stock they should still be able to cover the short term debt. Dobi is holding much of its current assets in the form of trading stock (stock piling).
- **Period for which enough stock is on hand** for Lemi is 60 days (and for Dobi it is double (120 days/4 months)). Lemi has enough stock for 2 months which is sufficient. Dobi is holding stock for too long, stock can become obsolete, or even a risk of theft.
- **Debtors are paying** Lemi Ltd. much sooner than the debtors of Dobi is paying them. Debtors' collection period (for Dobi is 59 days) whereas Lemi is collecting from their debtors within 26 days.

9

3.1.2

Which company uses more loans? In each case, quote a financial indicator to support your answer.

Lemi Ltd. ✓

Debt/equity ratio ✓ 2,1 : 1 ✓

Explain whether this is a good idea or not. Quote a financial indicator to support your answer.

It is not a good idea. ✓

Return on Capital Employed (ROTCE) ✓ for Lemi is 9,4% which means that the return he is earning is lower than the interest he is paying on the loan, 10,5%/(negative gearing) ✓

6



3.1.3

The market price of the shares of Dobi Ltd. is doing much better than that of Lemi Ltd. Explain, quoting TWO financial indicators to support the opinion.

Comparing market price and NAV of Dobi ✓✓

Comparing market price and NAV of Lemi ✓✓

Market price of Dobi Ltd. is 905 cents which is higher than the Net Asset Value (NAV) of 755 cents OR market price is 150 cents higher than the Net Asset Value. Dobi Ltd. is thus able to fetch a price higher than the value of the shares in the books of the company.

Market price of Lemi Ltd. is 740 cents which is lower than the Net Asset Value (NAV) of 775 cents OR market price is 35 cents lower than the Net Asset Value (NAV).

Response for one mark only

The market price of Dobi is 905 cents compared to Lemi's market price of 740 cents/The market price of Dobi is 165 cents higher than that of Lemi.

4

3.1.4

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

Financial indicator ✓ ✓ ✓ Figures ✓ ✓ ✓

Explanation ✓ ✓ ✓

- % returns on capital of Dobi is higher (9,5%) than that of Lemi (5,5%) and it is higher than the interest rate on fixed deposit of 6,8%
- EPS for Dobi is 720 cents whereas Lemi is only earning 179 cents per share./EPS of Dobi is 541 cents higher than that of Lemi.
- DPS for Dobi is 650 cents whereas for Lemi it is only 182 cents per share./DPS for Dobi is 468 cents higher than that of Lemi.

OR

For six marks (Two marks per yield per company, two marks for explanation)

- The dividend yield of Dobi is 90,2% compared to Lemi's of 101%. Although Lemi's is higher, it means that retained income is used to pay for dividends and this will have a negative impact on future growth of the company.

OR

Dobi's earnings per share = 720 and dividends per share 650.

Retained 70 cent/share in business for capital growth. Lemi earnings per share = 179 and dividends per share 182. Retained income is used to pay for dividends and this will have a negative impact on future growth of company.

(3 cent/share more dividends than earnings per share.)

9

- 3.2 Comment on the audit reports of Dobi Ltd. and Lemi Ltd. In each case, explain how the report will affect Mary's decision concerning the shares she wishes to purchase in the company.

Dobi Ltd: Comment on ✓ Explanation ✓

Dobi Ltd. received an unqualified report which means that Mary can rely on the financial information in the financial statements in order to make a decision about purchasing the shares.

Lemi Ltd: Comment on ✓ Explanation ✓

This company received a disclaimer audit report. This means that Mary cannot rely fully on the financial statements in making a decision about investing in this company.

4

- 3.3 Calculate the number of shares that Mary must buy to become the majority shareholder of Dobi Ltd.

| Workings | Answer |
|--|---|
| $\frac{1\,250\,000}{2} = 625\,000 \text{ (50\% of the shares)}$ $625\,000 \checkmark - 605\,000 \checkmark$ $= 20\,000 \text{ shares} + 1 \text{ (Accept + 100)}$ $= 20\,001 \text{ shares (Accept 20 100)}$ <p>OR</p> $\frac{1\,250\,000}{1} \times 51\% = 637\,500 \text{ shares}$ $637\,500 - 605\,000 = 32\,500 \text{ shares}$ <p>one mark one mark</p> <p>OR</p> $51\% - 48.4\% = 2.6\% \times 1\,250\,000$ | <p>20 001 shares ✓ one part correct</p> <p>OR</p> <p>32 500 shares One mark</p> |

3

35



QUESTION 4:

4.1 What is insider trading? Explain in your own words.

✓✓ part marks for unclear/partially correct answer

The illegal practice of trading on the stock exchange to one's own advantage through having access to confidential information

2

4.2 How does good corporate governance benefit the company?

✓✓ part marks for unclear/partially correct answer

Helps the company to regulate risk and reduce the opportunity for corruption.

2

4.3 What is the role and responsibilities of the remunerations committee? Explain briefly.

✓✓ part marks for unclear/partially correct answer. Any one of the following answers:

Review salaries, bonuses, and other earnings.

To prevent directors from paying themselves very high salaries.

They must approve and give advice on the proposed fees, bonuses etc.

2

4.4 There are seven primary characteristics of good governance. Name any TWO characteristics.

✓✓ Any two of the following answers:

- Social responsibility
- Transparency
- Accountability
- Responsible management
- Discipline
- Independence
- Fairness

2



4.5

Briefly explain why it is important for a company to include non-executive as well as executive directors on the board of directors.

✓ ✓ one mark each

- Executive directors are involved with internal functioning (operations) of the company/hands-on/decisions may be based on a narrow view.
- Non-executive directors have a wider perspective of the business environment, and act in the best interest of the company.
- The non-executive directors would exercise a watch-dog role; keep executive directors in check.
- More regular inputs than an internal auditor or other directors.
- Their inputs should be unbiased and independent.
- They share accountability with the other directors/more people have the interests of the company in mind.
- Executive directors would be more vigilant and professional in their duties/not tempted to engage in unethical activities.
- The more directors there are, the more opinions will be generated, which could benefit the company.
- The non-executive directors can be paid less than the other directors (because they do not work permanently in the company).

2

10

