



Province of the
EASTERN CAPE
EDUCATION

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

**2023 PRE-TRIAL
EXAMINATION**

ACCOUNTING P1

MARKS: 150

TIME: 2 hours

This Question Paper consists of 10 pages, an Answer Book of 10 pages and a Financial Indicator Formula Sheet

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 back of this Question paper, for your reference.
4. Show ALL workings to earn part-marks.
5. You may use a non-programmable calculator.
6. You may use a dark pencil or black/blue ink to answer the questions.
7. Where applicable, show all calculations to ONE decimal point.
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	Company financial statements	60	45
2	Cash Flow Statement and Financial Indicators	40	30
3	Interpretation of financial information	35	35
4	Corporate governance issues	15	10
TOTAL		150	120



QUESTION 1: FINANCIAL STATEMENTS OF COMPANIES**(60 marks; 45 minutes)**

The information relates to Banana Ltd, a business that sells toys. The financial year ended on the 28 February 2023.

REQUIRED:**1.1 Refer to Information A**

Calculate the missing amounts denoted by (i) to (iv) on the Fixed Asset note. (17)

1.2 Calculate the correct the NET PROFIT AFTER TAX for the year ended 28 February 2023. Show all workings on the table provided. (11)

1.3 Prepare the Retained Income Note on 28 February 2023. (7)

1.4 Complete the Statement of Financial Position on 28 February 2023. (25)

INFORMATION:**A. Extract of the Fixed Asset Note**

	Buildings	Vehicles	Equipment
Carrying value on 1 March 2022	(i)	419 900	317 440
Cost			
Accumulated depreciation		(464 100)	(302 560)
Movements:			
Additions	864 200		0
Disposals	0	0	(iii)
Depreciation		(144 400)	(iv)
Carrying value on 28 February 2023	7 690 200	(ii)	
Cost		1 120 000	
Accumulated depreciation			

Depreciation policy:

- Vehicles are depreciated at 15% p.a. on cost.
- Equipment is depreciated at 20% p.a. on carrying value.

Movement of assets during the year:

- Old storage facilities not in use were disposed in July 2022.
- A new vehicle was purchased on 31 October 2022.
- Equipment was sold on 1 January 2023.

Details of the equipment sold are as follows:

Cost of equipment sold	R90 000
Accumulated depreciation on 1 March 2022	R38 160
Proceeds on sale	R50 000

**** All relevant entries regarding fixed assets were taken into account.**

B. Extract of balances and totals on 28 February:

Ordinary share capital	R 8 330 000
Retained income (1 March 2022)	246 900
Loan: ORA Bank	?
Fixed deposit	?
Trading stock	726 040
Net trade debtors	546 330
Creditors control	388 790
SARS: Income tax (provisional payments)	340 000
Cash and cash equivalents	?
Consumable stores	117 600
Audit fees	88 740
Rent income	109 600
Insurance	45 050
Ordinary share dividends (31 August 2022)	241 500

- C.** The bookkeeper calculated the net profit before tax as **R1 243 000**.
He however, did not take into account **only** the following adjustments:

(i)	Unused consumable stores on 28 February 2023, R12 440.
(ii)	Toys with a selling price of R15 050 was donated to a children's home. The mark-up % is 75% on cost.
(iii)	Only 90% of the audit fees was paid. The balance will be paid next year.
(iv)	Rent income for January and February 2023 were not yet received. The tenant occupies the premises from 1 May 2022.
(v)	Insurance included premiums up to 31 March 2023. Note that the monthly premiums increased by 5% p.a. from 1 November 2022.

- D.** The correct income tax for the year (after taking into account all adjustments) amounted to R380 350.

E. Share capital and dividends:

1 March 2022	There were 920 000 shares in issue
30 May 2022	130 000 additional shares were issued.
31 August 2022	An interim dividend was paid.
1 December 2022	70 000 shares were repurchased. An EFT for R679 000 was paid to the estate of the shareholder. They do not qualify for final dividends.
28 February 2023	A final dividend of 30c per share was declared.

F. Loan: ORA Bank

- Balance on 1 March 2022, R1 075 200.
- Fixed instalments of R22 400 per month, including interest capitalised, were paid and recorded.
- The loan statement reflected interest capitalised of R123 600 for the year ended 28 February 2023. This was duly recorded.
- A part of the loan balance will be repaid in the next financial year.

- G.** After all adjustments, the **current ratio** was correctly calculated at **1,8 : 1**.

QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS**(35 marks; 30 minutes)**

The information relates to Thafeni Ltd the financial year ended 28 February 2023.

REQUIRED:

- 2.1 Calculate the following amounts for the Cash Flow Statement:
- Income tax paid (5)
 - Dividends paid (3)
 - Proceeds from the sale of fixed assets (5)
- 2.2 Complete the CASH EFFECTS OF FINANCING ACTIVITIES section of the Cash Flow Statement (10)
- 2.3 Calculate the following financial indicators:
- 2.3.1 % operating expenses on sales (2)
 - 2.3.2 Total dividends per share (DPS) (5)
 - 2.3.3 % return on average shareholders' equity (5)

INFORMATION:**A. Information extracted from the Statement of Comprehensive Income for the financial year ended 28 February 2023:**

Sales	R 10 400 000
Depreciation	476 000
Operating expenses	2 080 000
Interest expenses	595 000
Net profit after tax	857 500
Income tax rate	30%

B. Figures extracted from the Statement of Financial Position and Notes:

	28 Feb 2023 R	28 Feb 2022 R
Fixed assets (carrying value)	16 032 100	11 721 200
Non-current liabilities	6 000 000	2 500 000
Current assets	2 185 000	2 055 600
Current liabilities	1 524 600	1 029 800
Shareholders' equity	10 892 500	10 447 000
Ordinary share capital	10 235 000	9 460 000
Retained income	657 500	987 000
Inventories	1 213 000	835 600
Cash and cash equivalents	6 000	344 000
SARS: Income tax	25 600 (Cr)	15 800 (Cr)
Shareholders for dividends	437 000	330 000
Bank overdraft	286 000	0

C. Share Capital

- 300 000 additional shares were issued on 1 May 2022.
- 250 000 shares were re-purchased on 1 December 2022 at 10,50 per share. The average share price at the time was R8,90. These shareholders did not qualify for final dividends.
- There were 1 150 000 shares in issue on 28 February 2023.

D. Dividends

- Interim dividends of R350 000 was paid on 31 August 2022, to all shares on the share register.
- A final dividend was declared on 28 February 2023.

E. Fixed assets:

- Additions to the buildings were constructed during the year at a cost of R4 909 900.
- Old equipment was sold at carrying value.



QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION**(40 marks; 35 minutes)**

The information was extracted from the records of Winter Ltd for the financial year ended 28 February 2023.

REQUIRED:

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

3.1 Liquidity:

Comment on whether the company is able to meet its short term debts in the next financial year. Quote and explain TWO financial indicators.

(6)**3.2 Risk and gearing:**

Some of the directors were concerned about the large increase in the loan.

- Comment on the effect of the increase in loan on the financial risk of the company. Quote ONE financial indicator.

(3)

- Explain whether the directors concern is justified or not. Quote ONE other financial indicator (apart from the one mentioned above).

(4)**3.3 Returns and dividends:**

- If you were a shareholder, explain whether you would be concerned about the return on your investment or not. Quote ONE financial indicator.

(4)

- Gloria, a shareholder, is happy with the dividends she received. Comment on whether she is justified to feel this way. Provide TWO points. Quote TWO financial indicators, with figures, to support your answer.

(4)

- Provide TWO possible reasons why the directors decided on the dividend pay-out policy they adopted for the current financial year.

(4)**3.4 Share price:**

- Explain why the market price per share is an important indicator to shareholders.

(2)

- Quote and explain TWO financial indicators that will indicate why shareholders may be concerned about the share price on the stock exchange.

(4)**3.5 Shareholding of Jingleheimer Smit:**

Jingleheimer Smit owns 540 500 shares in Winter Ltd. The company plans to issue 300 000 additional shares in the next financial year. Jingleheimer is interested in becoming the majority shareholder.

- Calculate the number of shares he would have to buy to achieve his objective. Note that the company's shares are only available in batches of 100 shares.

(5)

- Provide TWO different reasons why he may want to be the majority shareholder.

(4)

INFORMATION:**A. Financial indicators and additional information.**

	28 Feb 2023	28 Feb 2022
Debt / equity ratio	0,6 : 1	0,2 : 1
Current ratio	1,4 : 1	2,0 : 1
Acid-test ratio	0,6 : 1	1,2 : 1
Stock turnover rate	6,4 times	8,4 times
Debtors average collection period (days)	57 days	48 days
Earnings per share (EPS)	67 cents	98 cents
Dividends per share (DPS)	63 cents	45 cents
Dividend pay-out rate	94%	46%
% Return on average shareholders' equity	8,0%	10,3%
% Return on average capital employed	12,2%	14,3%
Net asset value per share (NAV)	947 cents	950 cents
Market price of shares (cents)	938 cents	962 cents
Interest rate on loan	14%	14%
Interest on fixed deposit	6,5%	7%

B. Shareholding of Jingleheimer Smit:

Shares in issue	1 150 000 shares
Shares owned by Jingleheimer	540 500 shares
% shareholding	47%



QUESTION 4: AUDIT REPORT AND CORPORATE GOVERNANCE**(15 marks; 10 minutes)**

An extract of an article from a recent publication is presented. Use the information, as well as your general knowledge on companies to answer the questions.

REQUIRED:

- 4.1 South African Institute of Chartered Accountants (SAICA) is a professional body that is responsible for the delivery of quality accountancy skills.

Explain why its members must be qualified Chartered Accountants. (2)

- 4.2 Provide ONE reason why SAICA would treat this matter with such seriousness. (2)

- 4.3 State TWO reasons why directors are expected to have the qualities that Mango is accused of not possessing (having). (2)

- 4.4 If you were a shareholder of Orange Ltd, provide THREE different questions that you would raise at a meeting of shareholders concerning this matter. In EACH case, state a reason for your question. (9)

INFORMATION:**“SAICA ACTS ON CFO”**

O. Mango, the former Chief Financial Officer (CFO) of Orange Ltd was heavily implicated in corrupt activities involving billions of Rand. Two years after an official complaint by a lobby group, SAICA found Mango guilty of 15 charges and formally terminating his membership, effectively striking him from the roll and preventing him from practicing as a Chartered Accountant (CA). Mango refused to attend any of the disciplinary hearings.

The charges against Mango related to his role in procuring (the purchase) over 1 000 diesel vehicles for field workers, which started in 2016. These vehicles were “overpriced” and the company lost billions of Rand to corruption. It was established that Mango was hands-on throughout this deal, often negotiating with the service providers. He got the deal approved at R25 billion, then after the contracts were signed, he inflated this by an additional R15 billion.

SAICA found Mango to be grossly negligent, dishonest, and lacked accountability. These were considered to be a serious breach of the SAICA code of conduct while holding a senior position at the company, resulting in them experiencing a substantial financial loss.

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	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales / Credit Purchases}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income before tax + Interest on loans}}{\text{Average shareholders' equity + Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit – Variable costs per unit}}$	
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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GRADE 12

PRE-TRIAL 2023

**ACCOUNTING P1
ANSWER BOOK**


QUESTION	MAXIMUM MARKS	MARKS OBTAINED	MODERATED MARK
1			
2			
3			
4			
TOTAL			


This Answer Book consists of 10 pages.




QUESTION 1:

1.1 Calculate:

Carrying value of Buildings on 1 March 2022		
	WORKINGS	ANSWER
		<div>2</div>
Carrying value of vehicles on 28 February 2023		
	WORKINGS	ANSWER
		<div>5</div>
Carrying value of equipment sold		
	WORKINGS	ANSWER
		<div>5</div>
Total depreciation on equipment		
	WORKINGS	ANSWER
		<div>5</div>



1.2 Calculate the correct Net Profit after Income Tax:

NET PROFIT BEFORE TAX before errors & omissions		1 243 000
(i)		
(ii)		
(iii)		
(iv)		
(v)		
NET PROFIT BEFORE TAX		
Income tax		
6	NET PROFIT AFTER TAX	

11

1.3 RETAINED INCOME

Balance on 1 March 2022	246 900
Ordinary share dividends	
Interim dividends	241 500
Balance on 28 February 2023	

7



1.4 STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2023

ASSETS	
NON-CURRENT ASSETS	
Fixed / Tangible Assets	8 414 180
Fixed deposit	
CURRENT ASSETS	
Inventories	
Trade and other receivables	
TOTAL ASSETS	
EQUITIES AND LIABILITIES	
SHAREHOLDERS EQUITY	
Ordinary share capital	8 330 000
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	872 500
Trade and other payables	


25

TOTAL MARKS	60	
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QUESTION 2:

2.1 Calculate:

Income tax paid	
WORKINGS	ANSWER
	

5

Dividends paid	
WORKINGS	ANSWER

3

Proceeds from the sale of fixed assets	
WORKINGS	ANSWER

5

2.2


CASH EFFECTS OF FINANCING ACTIVITIES	
Proceeds from shares issued	

10



2.3

2.3.1 Calculate: % operating expenses on sales

WORKINGS		ANSWER
		

2

2.3.2 Calculate: Total dividends per share (DPS)

WORKINGS		ANSWER

5

2.3.3 Calculate: % return on average shareholders' equity

WORKINGS		ANSWER

5

TOTAL MARKS	35	
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QUESTION 3:**3.1**

Comment on whether the company is able to meet its short term debts in the next financial year. Quote and explain TWO financial indicators, with figures and trends.



6

3.2

Comment on the effect of the increase in loan on the financial risk of the company. Quote ONE financial indicator, with figures and trends.

3

Explain whether the directors concern is justified or not. Quote ONE other financial indicator (apart from the one mentioned above), with figures and trends.

4

3.3

If you were a shareholder, explain whether you would be concerned about the return on your investment or not. Quote ONE financial indicator, with figures and trends.



4

Gloria, a shareholder, is happy with the dividends she received. Quote **TWO** financial indicators, with figures, to indicate that she should be concerned.



4

Provide **TWO** possible reasons why the directors decided on the dividend pay-out policy they adopted for the current financial year.

4

3.4

Explain why the market price per share is an important indicator to shareholders.

2

Quote and explain **TWO** financial indicators (with figures and trends) that will indicate why shareholders may be concerned about the share price on the stock exchange.



4

- 3.5 Jingleheimer Smit owns 540 500 shares in Winter Ltd. The company plans to issue 300 000 additional shares in the next financial year. Jingleheimer is interested in becoming the majority shareholder.

Calculate the number of shares he would have to buy to achieve his objective. Note that the company's shares are only available in batches of 100 shares.



5

Provide TWO different reasons why he may want to be the majority shareholder.

4

TOTAL MARKS

40



QUESTION 4:

4.1 Explain why its members must be qualified Chartered Accountants.



2

4.2 Provide ONE reason why SAICA would treat this matter with such seriousness.

2

4.3 State TWO reasons why directors are expected to have the qualities that Mango is accused of not possessing.

2

4.4 If you were a shareholder of Orange Ltd, provide THREE different questions that you would raise at a meeting of shareholders concerning this matter. In EACH case, state a reason for your question.

Questions to be raised at meeting	Reason for raising the question

9

TOTAL MARKS	15	
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TOTAL: 150



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GRADE 12

2023 PRE-TRIAL EXAMINATION

ACCOUNTING P1 MARKING GUIDELINE

MARKS: 150

MARKING PRINCIPLES:



1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no 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).
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 and at least one part must be correct before awarding the mark.
9. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
10. Be aware of candidates who provide valid alternatives beyond the marking guideline.
11. Codes: f = foreign item; p = placement/presentation.

This marking guideline consists of 10 pages.





QUESTION 1:

1.1 Calculate:

Carrying value of Buildings on 1 March 2022		
WORKINGS	ANSWER	
 $7\,690\,200 - 864\,200$	6 826 000 ✓✓	2
Carrying value of vehicles on 28 February 2023		
WORKINGS	ANSWER	
$1\,120\,000 - 884\,000$ $419\,900 \checkmark + 236\,000 \checkmark\checkmark - 144\,400 \checkmark$ OR: $1\,120\,000 - 608\,500$ <small>one mark three marks</small>	$511\,500 \checkmark$ <small>one part correct</small>	5
Carrying value of equipment sold		
WORKINGS	ANSWER	
$(90\,000 - 38\,160) - 51\,840 \times 20\% \times 10/12$ $51\,840 \checkmark\checkmark - 8\,640 \checkmark\checkmark$	$43\,200 \checkmark$ <small>one part correct</small>	5
Total depreciation on equipment.		
WORKINGS	ANSWER	
$317\,440 - 51\,840$ see above $(265\,600 \checkmark\checkmark \times 20\% \checkmark) + 8\,640 \checkmark$ <small>53 120 three marks</small> OR $620\,000 - 90\,000 - 302\,560 - 38\,160$ $(530\,000 - 264\,400) \times 20\%$ $53\,120 + 8\,640$	$61\,760 \checkmark$ <small>one part correct</small> 	5

1.2 Calculate the correct Net Profit after Income Tax:

NET PROFIT BEFORE TAX before errors & omissions		1 243 000	
(i)  Consumable stores		+ 12 440	✓
(ii)  Donation 15 050 x 100/175		– 8 600	✓✓
(iii) Audit fees 88 740 x 10/90		– 9 860	✓✓
(iv) Rent income 109 600 x 2/8		+ 27 400	✓✓
(v) Insurance 45 050 x 105/1325		+ 3 570	✓✓
NET PROFIT BEFORE TAX		1 267 950	
Income tax		– 380 350	✓
6 NET PROFIT AFTER TAX		887 600	☑

11

-1 for foreign items (max -2)

If signs are incorrect, allocate ONE mark if figure is correct.

* one part correct

1.3 RETAINED INCOME

Balance on 1 March 2022	246 900	
Net profit after tax see 1.2	887 600	☑
Shares repurchased 70 000 x 1,20 ✓✓ or 679 000 – 595 000 two marks	(84 000)	☑
Ordinary share dividends	(535 500)	
Interim dividends	241 500	
Final dividends 980 000 x 0,3 one part correct	294 000	✓☑
Balance on 28 February 2023 must subtract SBB and OSD	515 000	☑

7



1.4 STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2023

	ASSETS	
	NON-CURRENT ASSETS TA - CA	8 937 500 <input checked="" type="checkbox"/>
	Fixed / Tangible Assets	8 414 180
2	Fixed deposit balancing figure	523 320 <input checked="" type="checkbox"/>
	CURRENT ASSETS 872 500 x 1,8	1 570 500 ✓✓
	Inventories 726 040 – 8 600 <input checked="" type="checkbox"/> + 12 440 ✓	729 880 <input checked="" type="checkbox"/>
	Trade and other receivables 546 330 + 27 400 ✓ + 3 570 ✓	577 300 <input checked="" type="checkbox"/>
	Cash and cash equivalents balancing figure	263 320 <input checked="" type="checkbox"/>
10	TOTAL ASSETS see E + L	10 508 000 <input checked="" type="checkbox"/>
	EQUITIES AND LIABILITIES	
	SHAREHOLDERS EQUITY	8 845 000 <input checked="" type="checkbox"/>
	Ordinary share capital	8 330 000
2	Retained income see 1.3	515 500 <input checked="" type="checkbox"/>
	NON-CURRENT LIABILITIES	790 500
4	Loan: ORT Bank current portion below 1 075 200 – 268 800 ✓ + 123 600 ✓ - 139 500 <input checked="" type="checkbox"/>	790 500 <input checked="" type="checkbox"/>
	CURRENT LIABILITIES	872 500
	Trade and other payables 388 790 + 9 860 <input checked="" type="checkbox"/>	398 650 ✓
	Shareholders for dividends see RI note above	294 000 <input checked="" type="checkbox"/>
	SARS: Income tax 380 350 – 340 000	40 350 ✓✓
	Current portion of loan balancing figure	139 500 <input checked="" type="checkbox"/>
7		10 508 000 <input checked="" type="checkbox"/>


25

* one part correct

TOTAL MARKS	60	
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QUESTION 2:**2.1 Calculate:**

Income tax paid		
WORKINGS	ANSWER	
 $857\,500 \times 30/70$ $367\,500 \checkmark\checkmark + 15\,800 \checkmark - 25\,600 \checkmark$ Accept alternative arrangements such as signs reversed, use of brackets or ledger account format	$357\,700 \checkmark$ one part correct	5
Dividends paid		
WORKINGS	ANSWER	
$330\,000 \checkmark + 350\,000 \checkmark$ Accept alternative arrangements such as signs reversed, use of brackets or ledger account format	$680\,000 \checkmark$ one part correct	3
Proceeds from the sale of fixed assets		
WORKINGS	ANSWER	
$11\,721\,200 \checkmark + 4\,909\,900 \checkmark - 476\,000 \checkmark - 16\,032\,100 \checkmark$ Accept alternative arrangements such as signs reversed, use of brackets or ledger account format	$123\,000 \checkmark$ one part correct	5

2.2


CASH EFFECTS OF FINANCING ACTIVITIES	ANSWER	
	$3\,875\,000 \checkmark$ one part correct	
Proceeds from shares issued $10\,235\,000 \checkmark + 2\,225\,000 \checkmark\checkmark - 9\,460\,000 \checkmark$ $(250\,000 \times 8,90)$	$3\,000\,000 \checkmark$ one part correct	
Funds used to re-purchase shares $(250\,000 \times 10,50)$	$(2\,625\,000) \checkmark\checkmark^*$	
Increase / or change in loan $(6\,000\,000 - 2\,500\,000)$	$3\,500\,000 \checkmark\checkmark^*$	10

* award ONE mark if incorrect use of brackets



2.3

2.3.1 Calculate: % operating expenses on sales

WORKINGS	ANSWER
 $\frac{2\,080\,000}{10\,400\,000} \times 100$	20% ✓✓ % sign not necessary

2

2.3.2 Calculate: Total dividends per share (DPS)

WORKINGS	ANSWER
$\frac{350\,000}{1\,400\,000} = 25 \text{ cent } \checkmark\checkmark$ $+ \frac{437\,000}{1\,150\,000} = 38 \text{ cents } \checkmark\checkmark$	63 cents ✓ Accept R0,63

5

2.3.3 Calculate: % return on average shareholders' equity

WORKINGS	ANSWER
$\frac{857\,500 \checkmark}{\frac{1}{2}(10\,447\,000 \checkmark + 10\,892\,500 \checkmark)} \times 100$ <p>10 669 750 two marks</p>	8 % ✓ one part correct

5

TOTAL MARKS	35	
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QUESTION 3:**3.1**

Comment on whether the company is able to meet its short term debts in the next financial year. Quote and explain TWO financial indicators, with figures and trends.

Financial indicators ✓ ✓ comparative figures ✓ ✓ Valid comment ✓✓
part marks for incomplete / partial / unclear responses

Current ratio decreased from 2,0 : 1 to 1,4 : 1

Acid test ratio decreased from 1,2 : 1 to 0,6 : 1

Stock turnover rate dropped from 8,4 times to 6,4 times

Liquidity shows a declining trend / the business is holding too much stock (stock piling) / stock is not moving as desired / slow sales / cash tied up in stock / may experience cash flow problems in the future.

6

3.2

Comment on the effect of the increase in loan on the financial risk of the company. Quote ONE financial indicator, with figures and trends.

Financial indicator ✓ figures with trend ✓ comment on risk ✓

- Debt/equity ratio increased from 0,2 : 1 to 0,6 : 1
- Company moved from a position of low risk to a more financially risky position/
- An indication that the company makes use of more borrowed capital this year / a large % of capital employed is made up of loans.

3

Explain whether the directors concern is justified or not. Quote ONE other financial indicator (apart from the one mentioned above), with figures and trends.

Financial indicator ✓ figures and trend ✓ comment of gearing & comparison with interest rate ✓✓

- ROTCE decreased from 14,3% to 12,2%
- The business is now negatively geared because the return is less than the interest rate of 14%.

4

3.3

If you were a shareholder, explain whether you would be concerned about the return on your investment or not. Quote ONE financial indicator, with figures and trends.

Financial indicator ✓ figures and trend ✓
comment on alternative investment and interest rate ✓✓

- ROSHE dropped from 10,3% to 8,0%
- Although this is still better than interest on safer alternative investment (fixed deposit is offering 6,5%), the downward trend is concerning

4

Gloria, a shareholder, is happy with the dividends she received. Quote TWO financial indicators, with figures, to indicate that she should be concerned.

Comment ✓ on dividends per share ✓

Comment ✓ on dividend pay-out policy / or EPS ✓

- In time of poor performance, the directors increased the DPS from 45c to 63c per share.
- The decision to pay high dividends may be considered irresponsible because EPS dropped from 98c to 67c per share.
- The directors retained 54% of the earnings in 2022, but only retain 6% of the EPS in 2023 which is a clear indication that they do not place the company's interest first.

4

Provide TWO possible reasons why the directors decided on the dividend pay-out policy they adopted for the current financial year.

TWO possible reasons ✓✓ ✓✓ part marks for incomplete / partial / unclear responses

- Directors retained 54% of the earnings last year, but did not apply that effectively to improve profitability / or achieve the objectives they may have communicated to shareholders / or to use that for expansion
- They decided to give shareholders a greater portion of the earnings to possibly keep them satisfied; not to draw attention to the poor profitability.
- They do not have plans for growth, exposing poor management /
- Higher dividends may be an attempt to deceive shareholders into believing that all is well at the company.

4

3.4

Explain why the market price per share is an important indicator to shareholders.

ONE valid point ✓✓ part marks for incomplete / partial / unclear responses

It is an indication of the performance of their shares on the stock exchange / higher MP means that shares are popular, there is a demand for shares / the company has a positive image. Lower or dropping MP indicates that something is wrong / could be low profitability or bad publicity about the company.

2

Quote and explain TWO financial indicators (with figures and trends) that will indicate why shareholders may be concerned about the share price on the stock exchange.

Financial indicators and figures ✓ ✓ Valid comment ✓✓

part marks for incomplete / partial / unclear responses

In 2022, MP of 962 cents was better than the NAV of 950 cents – business was doing well / shares were in demand / prospective investors were interested. In 2023, MP dropped to 938c, below that of the NAV of 947 – demand for shares dropped, causing a drop in share price. Both NAV and MP dropped from 2022 to 2023 – a clear indication that directors are not managing the company effectively – issue with corporate governance.

4

- 3.5 Jingleheimer Smit owns 540 500 shares in Winter Ltd. The company plans to issue 300 000 additional shares in the next financial year. Jingleheimer is interested in becoming the majority shareholder.

Calculate the number of shares he would have to buy to achieve his objective. Note that the company's shares are only available in batches of 100 shares.

$$1\,150\,000 + 300\,000$$

$$1\,450\,000 \checkmark \div 2 = 725\,000 \checkmark$$

Jingleheimer must have 725 100 to be the majority shareholder.

$$725\,100 \checkmark - 540\,500 \checkmark = 184\,600 \checkmark$$

5

Provide TWO different reasons why he may want to be the majority shareholder.

TWO valid reasons ✓✓ ✓✓

- He wants to gain control of the Board of Directors
- He would be the sole decision-maker
- He would decide on the appointment of directors / people on key management positions
- He probably sees potential in the company and feels that he can make an impact if he is in control
- He does not have confidence in certain directors and want to get rid of them
- He has inside information about incompetent managers and feels he can expose them
- He will be able to use his contacts in the business environment to the benefit of the company.

4

TOTAL
MARKS

40



QUESTION 4:**4.1****Explain why its members must be qualified Chartered Accountants.**

Valid explanation ✓✓ part marks for incomplete / partial / unclear responses

It is a professional body that is in control of the financial report sector of a country. They make the rules, training and develop prospective candidates and maintain very high standards. / they must also be current with modern trends and be fully aware of world trends, and other developments that will affect the body.

2

4.2**Provide ONE reason why SAICA would treat this matter with such seriousness.**

Explanation ✓✓ part marks for incomplete / partial / unclear responses

They uphold high moral and ethical standards / they interact with professionals / they would always want to maintain their reputation / portray behaviour of high standards / impartial in dealing with all matters / transparent so that all members are aware of consequences.

2

4.3**State TWO reasons why directors are expected to have the qualities that Mango is accused of not possessing (having).**

TWO reasons ✓ ✓

Hold positions of authority / employees and colleagues must trust them / their decisions affect a chain of people or stakeholders / they must uphold the law / the king code prescribes that they engage in ethical behaviour and always keep all role-players informed / they manage public investments

2

4.4**If you were a shareholder of Orange Ltd, provide THREE different questions that you would raise at a meeting of shareholders concerning this matter. In EACH case, state a reason for your question.****Questions to be raised at meeting**

Any THREE valid questions ✓✓ ✓✓ ✓✓

- Why do the board and other directors appear to be negligent or careless in not detecting this corruption earlier?
- What measures will the board put in place to prevent corruption in future?
- How has the financial stability or profitability of the company been affected by this incident?
- What disciplinary action will the board take against the CFO?
- Was there any collusion between the Board and external auditors?

Reason for raising the question

Same reason may relate to different questions ✓ ✓ ✓

- The board and other directors could lay themselves open to legal claims for negligence / failure to monitor and keep the CFO accountable.
- Transparency / accountability / improving controls.
- Corrupt activities could negatively affect the company's sustainability
- Auditors should be impartial and trustworthy, breach of code of ethics
- CFO must be charged and there must be ways to recover the lost funds.

9

**TOTAL
MARKS****15****TOTAL: 150**