



# NATIONAL SENIOR CERTIFICATE

**GRADE 12**

**JUNE 2023**

**ACCOUNTING P1**

**MARKS: 150**

**TIME: 2 hours**



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This question paper consists of 11 pages, a formula sheet and  
a 12-page answer book.

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**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 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 Financial Indicator Formula Sheet attached 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.

<b>QUESTION</b>	<b>TOPIC</b>	<b>MARKS</b>	<b>TIME (minutes)</b>
1	Statement of Comprehensive Income and Statement of Financial Position	60	45
2	Notes to Financial Statements, Cash flow Statement and Financial Indicators	40	30
3	Interpretation of Financial Statements	35	30
4	Corporate Governance	15	15
<b>TOTAL</b>		<b>150</b>	<b>120</b>

**QUESTION 1: STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF FINANCIAL POSITION****(60 marks; 45 minutes)**

The information relates to Midros Ltd for the financial year ended on 28 February 2023.

**REQUIRED:****1.1 Refer to Information B (i) and (ii).**

Calculate:

1.1.1 The profit/loss on the trade-in of the old vehicle (4)

1.1.2 The total depreciation for the year (4)

**1.2 Complete the following for the year ended 28 February 2023:**

1.2.1 Statement of Comprehensive Income (Income statement) (36)

1.2.2 Equity and Liabilities section of the Statement of Financial Position (Balance sheet) (16)

**NOTE:** Some amounts are provided in the ANSWER BOOK.

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

	2023 (R)	2022 (R)
Vehicles	?	1 350 000
Accumulated depreciation on vehicles	?	855 000
Equipment	1 022 500	1 022 500
Accumulated depreciation on equipment	923 260	800 900
Fixed deposit: River Bank	1 500 000	
Provision for bad debts	?	15 950
SARS: Income tax (provisional tax payments)	196 040	
Mortgage loan: Somerville Bank	?	2 205 500
Ordinary share capital	?	
Retained income	970 750	
Creditors control	448 725	
Net sales	11 724 000	
Cost of sales	7 363 500	
Salaries and wages	982 290	
Employer's contributions	63 620	
Directors' fees	1 925 000	
Rent income	174 675	
Bad debts	15 090	
Sundry expenses (balancing figure)	?	

**B. Adjustments and additional information:**

- (i) The following transaction was not recorded:

An old vehicle, cost price R270 000, was traded-in on 28 February 2023 for a newer model which cost R616 500. The accumulated depreciation on the trade-in date was R111 240. The trade-in value for the old vehicle was R105 000.

Depreciation on vehicles is calculated at 20% p.a. on the diminishing balance.

- (ii) Depreciation for the year:
- Depreciation on equipment was brought into account.
  - Make provision for depreciation on vehicles.
- (iii) An invoice for R28 800 issued to a debtor for goods purchased on 26 February 2023 was incorrectly recorded as a credit note. The mark-up on these goods were 60%.
- (iv) An amount of R3 230 which was not received from the insolvent estate of a debtor, must be written-off as irrecoverable.
- (v) The provision for bad debts must be decreased by R2 000.

- (vi) Rent increased by 10% per month with effect from 1 September 2022, as per the lease agreement. Rent is received until March 2023.
- (vii) Extract from the salaries journal for February 2023:

Deductions	Net salary	Contributions
R15 600	R47 330	R7 550

The total for gross salaries was not posted to the general ledger. All the relevant payments for salaries were made.

- (viii) The company had five directors until one resigned on 30 June 2022. The one who resigned was only replaced on 1 October 2022. All directors are on the same fee structure. The fees for two directors for February 2023 are still outstanding.
- (ix) Income tax for the financial year was calculated as R242 040. This is 30% of the net profit before tax.
- (x) The Loan statement received from Somerville Bank reflects the following:

Balance at the beginning of the financial year	R2 205 500
Interest capitalised	?
Repayments including interest	1 260 000
Balance at the end of the financial year	1 125 000

The loan balance will be reduced by R625 000 in the next financial year.

- (xi) **Dividends:**
- Total dividends for the year amounted to R410 000, which includes an interim dividend of R160 000 paid on 31 August 2022.

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

2.1 Choose the correct word from those given in brackets. Write only the word next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.

2.1.1 An increase in inventory represents an (inflow/outflow) of cash.

2.1.2 A decrease in accounts payable represent an (inflow/outflow) of cash.

2.1.3 An adjustment for (depreciation / income tax) should be made when calculating the cash effects of operating activities.

(3 x 1) (3)

**2.2 EAGLES LTD**

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

**REQUIRED:**

2.2.1 Prepare the Retained Income note on 28 February 2023. (8)

2.2.2 Complete the Cash Flow Statement on 28 February 2023. (18)

**NOTE:** Some amounts are provided in the ANSWER BOOK.

2.2.3 Calculate the following financial indicators on 28 February 2023.

- Acid-test ratio (3)
- % Return on average shareholders' equity (ROSHE) (4)
- Dividends per share (4)



**INFORMATION:**

- A. **Extract: Statement of Comprehensive Income for the year ended 28 February 2022:**

Sales	R 2 450 000
Depreciation	567 490
Profit before interest expense	1 208 200
Net profit before tax	1 120 000
Net profit after tax	784 000

- B. **Income tax** was calculated at 30% for the current financial year.
- C. **Items extracted from Statement of Financial Position on 28 February:**

	2023	2022
<b>Fixed deposit</b>	<b>144 450</b>	<b>277 550</b>
<b>Current assets</b>	<b>2 175 600</b>	<b>2 003 790</b>
<b>Current liabilities</b>	<b>753 065</b>	<b>719 800</b>
Inventories	1 469 700	1 431 000
Trade debtors	603 400	557 340
Cash and cash equivalents	92 840	15 450
SARS: Income tax	9 660 <b>Dr</b>	20 020 <b>Cr</b>
Shareholders for dividends	207 070	150 000
Bank overdraft	0	28 480
<b>Non-current liabilities</b>	<b>735 000</b>	<b>980 000</b>
<b>Ordinary share capital</b>	<b>?</b>	<b>9 520 000</b>
<b>Ordinary shareholders equity</b>	<b>11 887 820</b>	<b>9 814 000</b>

- D. **Share capital and dividends:**

1 March 2022	1 190 000 shares were in issue.
30 June 2022	85 000 shares repurchased at R2 above the average share price. These shares do not qualify for dividends.
30 August 2022	Interim dividends of 12 cents per share paid.
1 November 2022	R2 479 500 received for additional shares issued.
28 February 2023	1 380 500 shares were in issue.
28 February 2023	A final dividend was declared.

**QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS****(35 marks; 30 minutes)**

- 3.1 Choose an explanation in COLUMN B that matches a term in COLUMN A. Write only the letters (A–D) next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK.

COLUMN A		COLUMN B	
3.1.1	Return	A	Total liabilities exceeding total assets
3.1.2	Current asset	B	Vehicle used in operating the business
3.1.3	Insolvent	C	The percentage net income on equity
		D	Fixed deposit matures in the next financial year

(3 x 1) (3)

**3.2 ROCK LTD and WILLS LTD.**

The information relates to two companies which operate in the same industry. The financial year ends on 28 February each year.

**REQUIRED:**

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

- 3.2.1 Identify the company with the better profitability financial indicators. Quote TWO financial indicators. (3)
- 3.2.2 Identify and explain which company is managing its liquidity more efficiently. Quote TWO financial indicators. (6)
- 3.2.3 Comment on the dividend pay-out policy of each company. Provide a possible reason why each company decided on the policy adopted. Quote figures. (6)
- 3.2.4 The directors of Wills Ltd decided to increase the loan during the current financial year. Explain whether this was a good decision or not. Quote TWO financial indicators. (6)
- 3.2.5 The shareholders of Rock Ltd are satisfied with the market price of their shares, whereas the shareholders of Wills Ltd are not satisfied. Explain by quoting a financial indicator for EACH company. (6)
- 3.2.6 **Refer to Information C.**

Wills Ltd will issue a further 300 000 shares during the new financial year. The Mentoor family is interested to buy 180 000 of these shares.

- Calculate the % percentage shareholding of the Mentoor family if they buy these shares. (2)
- As a shareholder, why would you be concerned about the interest shown by the Mentoor family? Provide THREE points. (3)



**INFORMATION:****A. Financial indicators calculated on 28 February 2023:**

	ROCK LTD	WILLS LTD
Mark-up % achieved	45%	52%
% Operating expenses on sales	25,5%	18,3%
% Operating profit on sales	7,4%	10,3%
Current ratio	1,5 : 1	4,2 : 1
Acid-test ratio	0,7 : 1	1,2 : 1
Average debtors' collection period	28 days	45 days
Debt/equity ratio	0,3 : 1	0,6 : 1
% return on average shareholders' equity	22,3%	14,2%
% return on average capital employed	15,9%	9,5%
Dividends per share	117 cents	190 cents
Earnings per share	390 cents	250 cents
Dividend pay-out rate	30%	76%
Net asset value per share	784 cents	652 cents

**B. Additional information on 28 February 2023:**

	ROCK LTD	WILLS LTD
Market price per share on stock exchange	838 cents	515 cents
Interest on fixed deposits	6%	6%
Interest on loans	11%	11%

**C. Extracts from the accounting records on 28 February 2023:**

	ROCK LTD	WILLS LTD
Number of shares in issue	2 000 000	1 600 000
% shareholding of the Mentoor family	23,9%	50,5%



**QUESTION 4: CORPORATE GOVERNANCE****(15 marks; 15 minutes)**

4.1 The following extract represent a certain type of audit report.

In our opinion the financial statements present fairly, in all material respects, the financial position of the company as at 28 February 2023.

**REQUIRED:**

4.1.1 Identify the type of audit report in the extract above and give a reason for your answer. (2)

4.1.2 Explain the effect of this type of report for the image of the company. Provide ONE point. (2)

4.2 The following information was extracted from a local publication. It relates to a company listed on the JSE.

The JSE has imposed the maximum fine on former CEO (Chief Executive Officer) of Millo Ltd, as well as barring her from serving as a director on the board of any JSE listed company, for ten years. The JSE stated that it had imposed the above penalty for the following reasons:

- The release of financial statements that did not comply with listing requirements.
- The financial statements contained incorrect, false and misleading information.
- Fictitious source documents that falsely inflated income by millions of rands, were also discovered.

**REQUIRED:**

4.2.1 Provide TWO possible reasons why the CEO was fined, and not the company. (4)

4.2.2 Provide TWO points why the JSE took this action. (4)

4.2.3 Identify ONE other party (stakeholder) that could also be accountable for allowing this situation. Provide a reason. (3)

**15****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)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
<b>NOTE:</b>	
* In this case, if there is a change in the number of issued shares during a financial year, the weighted average number of shares is used in practice.	



Name:

**NATIONAL  
SENIOR CERTIFICATE**

**GRADE 12**

**JUNE 2023**

**ACCOUNTING P1  
ANSWER BOOK**

QUESTION	MAX. MARKS	MARKS OBTAINED	MODERATED MARKS
<b>1</b>	<b>60</b>		
<b>2</b>	<b>40</b>		
<b>3</b>	<b>35</b>		
<b>4</b>	<b>15</b>		
	<b>150</b>		

This answer book consists of 12 pages.

**QUESTION 1**

1.1.1 **Calculate: The profit/loss on the trade-in of the old vehicle**

<b>WORKINGS</b>	<b>ANSWER</b>

4

1.1.2 **Calculate: The total depreciation for the year**

<b>Depreciation on equipment</b>	
<b>Depreciation on vehicles</b>	

4

**NOTE:** The amounts calculated above must be transferred to QUESTION 1.2.1, the Statement of Comprehensive Income.



1.2.1 Statement of Comprehensive Income for the year ended 28 February 2023

<b>Sales</b>	
<b>Cost of sales</b>	
<b>Gross profit</b>	
<b>Other income</b>	
<b>Discount received</b>	<b>32 400</b>
<b>Gross operating income</b>	
<b>Operating expenses</b>	
<b>Audit fees</b>	<b>180 060</b>
<b>Insurance</b>	<b>56 920</b>
<b>Sundry expenses</b>	
<b>Operating profit</b>	
<b>Interest income</b>	<b>120 000</b>
<b>Profit before interest expense</b>	
<b>Net profit before tax</b>	
<b>Income tax</b>	<b>(242 040)</b>
<b>Net profit after tax</b>	

1.2.2 Extract: Statement of Financial Position on 28 February 2023

<b>EQUITY AND LIABILITIES</b>		
ORDINARY SHAREHOLDERS' EQUITY	5 870 750	
<b>NON-CURRENT LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables		
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>16</b>

<b>TOTAL MARKS</b>
<b>60</b>



**QUESTION 2**

2.1

2.1.1	
2.1.2	
2.1.3	

3

**2.2.1 Retained Income**

Balance on 1 March 2022	
Net profit after tax	784 000
Ordinary share dividends	
Final dividends	207 070
Balance on 28 February 2023	

8





## 2.2.2 Cash Flow Statement for the year ended on 28 February 2023.

Information is NOT required in shaded areas.

<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
Cash generated from operations	
Interest paid	
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	
<b>CASH AND CASH EQUIVALENTS AT BEGINNING</b>	
<b>CASH AND CASH EQUIVALENTS AT END</b>	<b>92 840</b>

2.2.3 Calculate the following financial indicators on 28 February 2023.

<b>Acid-test ratio</b>		
<b>WORKINGS</b>	<b>ANSWER</b>	
		<b>3</b>
<b>% Return on average shareholders' equity (ROSHE)</b>		
<b>WORKINGS</b>	<b>ANSWER</b>	
		<b>4</b>
<b>Dividend per share</b>		
<b>WORKINGS</b>	<b>ANSWER</b>	
		<b>4</b>

<b>TOTAL MARKS</b>
<b>40</b>

**QUESTION 3**

3.1	3.1.1	
	3.1.2	
	3.1.3	

3

3.2.1 Identify the company with the better profitability financial indicators. Quote TWO financial indicators.

3

3.2.2 Identify and explain which company is managing its liquidity more efficiently. Quote TWO financial indicators.



6

3.2.3

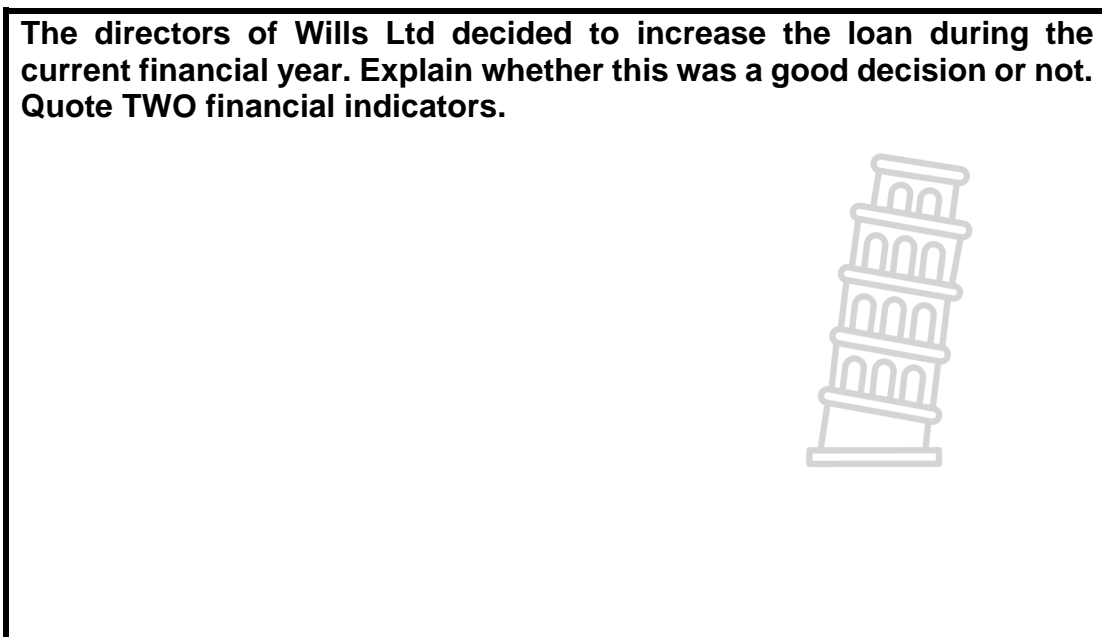
Comment on the dividend pay-out policy of each company. Provide a possible reason why each company decided on the policy adopted. Quote figures.

	Comment	Explanation
Rock Ltd		
Wills Ltd		

6

3.2.4

The directors of Wills Ltd decided to increase the loan during the current financial year. Explain whether this was a good decision or not. Quote TWO financial indicators.



6

3.2.5 The shareholders of Rock Ltd are satisfied with the market price of their shares, whereas the shareholders of Wills Ltd are not satisfied. Explain by quoting a financial indicator for EACH company.

ROCK LTD	
WILLS LTD	

6

3.2.6 Calculate the % percentage shareholding of the Mentoor- family if they buy these shares.

WORKINGS	ANSWER

2

As a shareholder, why would you be concerned about the interest shown by the Mentoor family? Provide TWO points.

3

<b>TOTAL MARKS</b>
35

**QUESTION 4**

**4.1.1 Identify the type of audit report in the extract above and give a reason for your answer.**

Type of report:

Reason:

2

**4.1.2 Explain the effect of this type of report for the image of the company. Provide ONE point.**

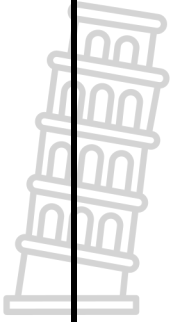
2

**4.2.1 Provide TWO possible reasons why the CEO was fined, and not the company.**

4

4.2.2

Provide TWO points why the JSE took this action.



4

4.2.3

Identify ONE other party (stakeholder) that could also be accountable for allowing this situation. Provide a reason.

3

<b>TOTAL MARKS</b>
15



**TOTAL: 150**



Province of the  
**EASTERN CAPE**  
EDUCATION

# NATIONAL SENIOR CERTIFICATE

## GRADE 12

## JUNE 2023

# ACCOUNTING P1 MARKING GUIDELINE

**MARKS: 150**

### MARKING PRINCIPLES:

1. Unless otherwise stated in the marking guideline, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no 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 as working for that figure (not the method mark for the answer). NOTE: If figures are stipulated in marking guideline 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 penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
10. 'Operation' means 'Check operation'. 'One part correct' means 'Operation and one part correct'. NOTE: check operation must be +, -, x, ÷, as per candidate's calculation (if valid) or per memorandum.
11. In calculations, do not award marks for workings if numerator and 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 by 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.

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This marking guideline consists of 12 pages.

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**QUESTION 1**

1.1.1

<b>Calculate: The profit/loss on the trade-in of the old vehicle</b>	
<b>WORKINGS</b>	<b>ANSWER</b>
270 000 ✓ – 111 240 ✓ – 105 000 ✓	53 760 ✓

4
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1.1.2

<b>Calculate: The total depreciation for the year</b>	
<b>Depreciation on equipment</b> 923 260 – 800 900	122 360 ✓
<b>Depreciation on vehicles</b> $\frac{(1\,350\,000 - 855\,000)}{495\,000} \times 20\%$	99 000 ✓ one part correct
	221 360 ✓ one part correct

4
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**NOTE:** The amounts calculated above must be transferred to QUESTION 1.2.1, the Statement of Comprehensive Income.



### 1.2.1 Statement of Comprehensive Income for the year ended 28 February 2023

<b>Sales</b>	(28 800+28 800) 11 724 000 ✓ + 57 600 ✓	11 781 600	<input checked="" type="checkbox"/> *	
<b>Cost of sales</b>	(18 000 + 18 000) 7 327 500 ✓ + 36 000 ✓✓	(7 363 500)	<input checked="" type="checkbox"/> *	
<b>Gross profit</b>	Sales – CoS	4 418 100	<input checked="" type="checkbox"/>	8
<b>Other income</b>		195 055	No mark	
<b>Discount received</b>		<b>32 400</b>		
Provision for bad debts-adjustment		2 000	✓	
Rent income	174 675 ✓ – 14 025 ✓✓	160 650	<input checked="" type="checkbox"/> *	
<b>Gross operating income</b>	GP + OI	4 613 150	<input checked="" type="checkbox"/>	6
<b>Operating expenses</b>	GOI – OP	(3 746 850)	<input checked="" type="checkbox"/>	
<b>Audit fees</b>		<b>180 060</b>		
<b>Insurance</b>		<b>56 920</b>		
Loss on sale of vehicle	see 1.1.1 above	53 760	<input checked="" type="checkbox"/>	
Depreciation	see 1.1.2 above	221 360	<input checked="" type="checkbox"/>	
Bad debts	15 090 + 3 230	18 320	✓✓	
Salaries and wages	982 290 ✓ + 62 930 ✓✓	1 045 220	<input checked="" type="checkbox"/> *	
Directors' fees	1 925 000 ✓ + 70 000 ✓✓	1 995 000	<input checked="" type="checkbox"/> *	
Employer's contribution		63 620	✓	
<b>Sundry expenses</b>	balancing figure	112 590	<input checked="" type="checkbox"/>	
<b>Operating profit</b>	PBIE – Int inc	866 300	<input checked="" type="checkbox"/>	16
<b>Interest income</b>		<b>120 000</b>		
<b>Profit before interest expense</b>	NPBT + Int exp	986 300	<input checked="" type="checkbox"/>	
Interest expense	1 260 000 + 1 125 000 – 2 205 500	(179 500)	✓ <input checked="" type="checkbox"/> *	
<b>Net profit before tax</b>	242 040 x 100/30	806 800	✓✓	6
<b>Income tax</b>		<b>(242 040)</b>		
<b>Net profit after tax</b>	NPBT – Tax OR 242 040 x 70/30	564 760	<input checked="" type="checkbox"/>	<b>36</b>

-1 foreign items (max. -2)  
For misplaced items mark workings

\*one part correct

1.2.2 Extract: Statement of Financial Position on 28 February 2023

<b>EQUITY AND LIABILITIES</b>			
<b>ORDINARY SHAREHOLDERS' EQUITY</b>		<b>5 870 750</b>	
Ordinary share capital	OSHE – RI	4 900 000	<input checked="" type="checkbox"/>
Retained income		970 750	<input checked="" type="checkbox"/>
<b>NON-CURRENT LIABILITIES</b>			
Mortgage loan 1 125 000 – 625 000		500 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *
<b>CURRENT LIABILITIES</b>		1 965 250	No mark
<b>Trade and other payables</b>		1 044 250	<input checked="" type="checkbox"/> *
(616 500 – 105 000) Rent Inc. D fees 448 725 ✓ + 511 500 ✓✓ + 14 025 <input checked="" type="checkbox"/> + 70 000 <input checked="" type="checkbox"/>			
SARS: Income tax (242 040 – 196 040)		46 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
Current portion of loan		625 000	<input checked="" type="checkbox"/>
Shareholders for dividends (410 000 – 160 000)		250 000	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8 336 000</b>	<input checked="" type="checkbox"/>

2

2

12

**16**

-1 F foreign items (max. -2)  
For misplaced items mark workings only  
-1 P max. (if no, or inappropriate details)

\*one part correct

**TOTAL MARKS 60**



**QUESTION 2**

2.1

2.1.1	Outflow ✓
2.1.2	Outflow ✓
2.1.3	Depreciation ✓

<b>3</b>

**2.2.1 Retained Income**

<b>Balance on 1 March 2022</b>	9 814 000 – 9 520 000	294 000 ✓✓
<b>Net profit after tax</b>		<b>784 000</b>
Shares repurchased	85 000 x R2	(170 000) ✓☑
<b>Ordinary share dividends</b>		(339 675) ☑
Interim dividends	(1 190 000 – 85 000) x 12c	132 600 ✓✓
<b>Final dividends</b>		<b>207 070</b>
<b>Balance on 28 February 2023</b>		568 320 ☑

<b>8</b>



## 2.2.2 Cash Flow Statement for the year ended on 28 February 2023.

Information is NOT required in shaded areas.

<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
<b>Cash generated from operations</b>	
<b>Interest paid</b>	
Income tax paid 20 020 ✓ + 336 000 ✓✓ + 9 660 ✓ Be aware of signs reversed and use of brackets	(365 680) ✓*
Dividends paid 150 000 ✓ + 132 600 ✓ Be aware of signs reversed and use of brackets	(282 600) ✓*
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
<b>CASH FLOW FROM FINANCING ACTIVITIES</b> operation	1 384 500 ✓
Proceeds from issue of new shares	2 479 500 ✓
Repurchase of shares (680 000 + 170 000) OR 85 000 x R10 ✓ ✓	(850 000) ✓*
Loan repaid	(245 000) ✓✓
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	105 870 ✓ CCE end + CCE beg
<b>CASH AND CASH EQUIVALENTS AT BEGINNING</b> (15 450 – 28 480)	(13 030) ✓✓
<b>CASH AND CASH EQUIVALENTS AT END</b>	<b>92 840</b>

\*one part correct; in brackets  
If no brackets, award marks for workings only

2.2.3 Calculate the following financial indicators on 28 February 2023.

Acid-test ratio		
WORKINGS	ANSWER	
$\frac{2\,175\,600 - 1\,469\,700}{705\,900 \checkmark} : 753\,065 \checkmark$	0,9 : 1 <input checked="" type="checkbox"/> one part correct; in the form x : 1	<div style="border: 1px solid black; width: 30px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> <div style="border: 1px solid black; width: 15px; height: 15px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 15px; height: 15px; margin: 0 auto; text-align: center;">3</div> </div>
% Return on average shareholders' equity (ROSHE)		
WORKINGS	ANSWER	
$\frac{784\,000 \checkmark}{\frac{1}{2}(11\,887\,825 \checkmark + 9\,814\,000 \checkmark)} \times 100^*$ <p style="text-align: center; margin-left: 40px;">two marks</p> <p>NOTE: * 100 is not one part correct</p>	7,2% <input checked="" type="checkbox"/> one part correct and must use average (½) % sign not necessary	<div style="border: 1px solid black; width: 30px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> <div style="border: 1px solid black; width: 15px; height: 15px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 15px; height: 15px; margin: 0 auto; text-align: center;">4</div> </div>
Dividend per share		
WORKINGS	ANSWER	
$12 \text{ cents } \checkmark + \frac{207\,070}{1\,380\,500} \times 100$ <p style="text-align: center; margin-left: 40px;">one part correct with division</p>	27 cents <input checked="" type="checkbox"/> one part correct;	<div style="border: 1px solid black; width: 30px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> <div style="border: 1px solid black; width: 15px; height: 15px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 15px; height: 15px; margin: 0 auto; text-align: center;">4</div> </div>

<b>TOTAL MARKS</b>	<b>40</b>
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## QUESTION 3

3.1

3.1.1	C ✓
3.1.2	D ✓
3.1.3	A ✓

3

3.2.1

**Identify the company with the better profitability financial indicators. Quote TWO financial indicators.**

Wills Ltd ✓

If wrong company identified, allocate marks for relevant financial indicators only (max. 2 marks)

Financial Indicators (with figure)

% Operating expenses on sales – 18,3% ✓ (compared to 25,5% of Rock Ltd)

% Operating profit on sales – 10,3% ✓ (compared to 17,4% of Rock Ltd)

\* Mark-up % is a deliberate decision; ignore if mentioned

Max. -1 for superfluous additional financial indicators mentioned.

3

3.2.2

**Identify and explain which company is managing its liquidity more efficiently. Quote TWO financial indicators.**

TWO financial indicators of Rock Ltd ✓✓ comparative figures ✓✓ explanation ✓✓

If figures are shown for Wills Ltd, award marks for correct financial indicators identified. (max. 2 marks)

- **Current ratio:**  
Rock Ltd is 1,5 : 1 compared to Wills Ltd of 4,2 : 1  
The current assets of Rock Ltd are enough to cover current liabilities /  
Wills Ltd keep too much cash tied-up in stock (stockpiling)
- **Debtors' collection period:**  
Rock Ltd is 28 days compared to 45 days of Wills Ltd.  
Constant inflow of cash from debtors who pay within the acceptable credit terms

6

3.2.3

<b>Comment on the dividend pay-out policy of each company. Provide a possible reason why each company decided on the policy adopted. Quote figures.</b>		
	<b>Comment</b> ✓ ✓ (with figures)	<b>Explanation</b> ✓✓ ✓✓ part marks for incomplete / partial / unclear responses
<b>Rock Ltd</b>	Paid out 30% of earnings as dividends / Retained 70% of earnings	The company retained more profit to focus on growth / expansion / long-term sustainability of the business.
<b>Wills Ltd</b>	Paid out 76% of earnings as dividends / Retained 24% of earnings	The company wants to keep shareholders happy to distract attention from poor performance of the company.

6
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3.2.4

<p><b>The directors of Wills Ltd decided to increase the loan during the current financial year. Explain whether this was a good decision or not. Quote TWO financial indicators.</b></p> <p><b>Indicator and figure:</b> Debt/equity ratio is 0,6 : 1 ✓</p> <p><b>Indicator and figure:</b> % return on average capital employed is 9,5% ✓</p> <p><b>Explanation:</b></p> <ul style="list-style-type: none"> <li>• The company is highly geared / high financial risk / rely too much on borrowed capital ✓✓</li> <li>• The company is negatively geared / ROTCE is lower than the interest rate of 11% / does not make effective use of loan to generate profits ✓✓</li> </ul>
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6
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3.2.5

The shareholders of Rock Ltd are satisfied with the market price of their shares, whereas the shareholders of Wills Ltd are not satisfied. Explain by quoting a financial indicator for EACH company.

**ROCK LTD**

Comparison of MP to NAV ✓✓  
Figures ✓

Market price per share of 838c is higher than the Net asset value of 784c / Market price per share is 54c higher than the NAV.

**WILLS LTD**

Comparison of MP to NAV ✓✓  
Figures ✓

Market price per share of 515c is lower than the Net asset value of 652c / Market price per share is 137c lower than the NAV.

6

3.2.6

Calculate the % percentage shareholding of the Mentoor-family if they buy these shares.

WORKINGS	ANSWER
$\frac{808\ 000 + 180\ 000}{1\ 900\ 000} \times \frac{100}{1}$ <p>(1 600 000 + 300 000)</p>	52% ✓✓ % sign not necessary

2

As a shareholder, why would you be concerned about the interest shown by the Mentoor family? Provide THREE points.

Any THREE valid and separate points ✓ ✓ ✓

**NOTE:**

The family was the majority shareholders during the past financial year and most of the financial indicators were not encouraging.

- Their control over major decisions / Influence over decisions did not benefit the company much, e.g. The company should have retained funds for expansion but pay 76% as dividends. / The company paid 76% of earnings to keep shareholders happy for poor performance.
- Their past experience in directing the company: their skills and knowledge.
- The effect on the future of the company e.g. losing shareholders / attracting new investors / possibility of instability.

3

**TOTAL MARKS 35**

**QUESTION 4**

**4.1.1 Identify the type of audit report in the extract above and give a reason for your answer.**

**Type of report:** Unqualified report ✓

**Reason:** ONE valid reason ✓

- No issues found with information on the financial statements
- Financial statements “present fairly” the financial position of the company
- This it is a clean (good) report “in all material respects”

2

**4.1.2 Explain the effect of this type of report for the image of the company. Provide ONE point.**

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

- This will impact positively on the share price / demand for shares
- Potential investors would be interested to buy shares
- Directors appointed are reliable; shareholders are confident in their ability to continue good governance.
- Employees and other role players would recognise that good internal controls are employed and continue to maintain this.

2

**4.2.1 Provide TWO possible reasons why the CEO was fined, and not the company.**

TWO valid and different points ✓✓ ✓✓ part marks for incomplete / partial answers

- Is the highest-ranking executive of the company.
- Guides company practices and procedures.
- Oversee company operations.
- Communicating between board of directors and other executives.
- Making important decisions, which affect the company’s image.

4

**4.2.2 Provide TWO points why the JSE took this action.**

TWO valid and different points ✓✓ ✓✓ part marks for incomplete / partial answers

- They will not deceive the public as it is their role to ensure that sound business management practices are in place / do not want to cast doubts about their operations.
- Would want to avoid any legal action against the JSE for misleading shareholders / Reputation of JSE may become questionable.
- JSE is a vital organisation in facilitating capital funds that stimulate the economy / leads to creation of jobs / public relies on credible information JSE competes with international stock markets / need to guard their activities / ensure adherence to rules and regulations.

4

**4.2.3 Identify ONE other party (stakeholder) that could also be accountable for allowing this situation. Provide a reason.**

ONE valid party ✓ Reason ✓✓ part marks for incomplete / partial answers

- Board of directors: Plays a supervisory role / overseeing corporate activities and assessing performance / look after shareholders' interest.
- CFO (Chief financial officer): Managing the financial actions of the company / overseeing all aspects of its financial success.
- Audit and risk committee: Monitoring the financial reporting processes / the compliance processes / the performance of auditors / overseeing the audit program.

3

TOTAL MARKS

15

TOTAL MARKS: 150

