



# PAPER 1 TOPICS

# NOTES AND QUESTIONS

# ACCOUNTING GRADE 12

ENGLISH



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SUMMARY OF ACCOUNTING CONTENT ACROSS TWO PAPERS			
Grade 12 Implementation date: 2020			
GRADE 12: PAPER 1		GRADE 12: PAPER 2	
Recording, Reporting and Evaluation of Financial Information & Corporate Governance		Manufacturing, Forecasting & Internal Auditing and Control	
12.1.1	Concepts relating to companies	12.2.1	Analysis & interpretation of reconciliations: bank, debtors, creditors, age-analysis
12.1.2	Concepts relating to GAAP & IFRS	12.2.2	Value Added Tax - Input, Output & calculations
12.1.3	Unique ledger accounts of companies & interpretation thereof	12.2.3	Manufacturing concepts
12.1.4	Accounting equation of companies	12.2.4	Manufacturing: Production Cost Statement & Notes; Abridged (short-form) Income Statement & Notes
12.1.5	Adjustments & final accounts of companies; Trial balances	12.2.5	Analysis & interpretation of cost information, unit costs & break-even point
12.1.6	Income Statement (Statement of Comprehensive Income) of companies	12.2.6	Analysis & interpretation of Cash Budget for sole traders and companies
12.1.7	Balance Sheet (Statement of Financial Position) & Notes of companies	12.2.7	Analysis & interpretation of Projected Income Statement for sole traders and companies
12.1.8	Cash Flow Statement of companies	12.2.8	Application of internal control & audit processes: cash, fixed assets, inventories, debtors, creditors, income & expenses (including salaries/wages) & including financial indicators #
12.1.9	Analysis and interpretation of financial statements of companies *	12.2.9	Recording & control of fixed assets including depreciation & asset disposal
12.1.10	Analysis and interpretation of published financial statements & audit report of companies	12.2.10	Perpetual and periodic stock systems; valuation and control of inventories
12.1.11	Valuation of fixed assets for reporting purposes including additions, depreciation & disposal	12.2.11	Ethical behaviour in financial environments
12.1.12	Ethical behaviour and corporate governance in financial environments		
12.1.13	Inventory valuation for reporting purposes (FIFO, WA & Specific Identification)		
12.1.14	Professional bodies & Code of conduct		
12.1.15	Legislation governing companies (overview only)		
12.1.16	Close corporations (not examinable)		
* Financial Indicators for Financial Reporting (Grade 12 Paper 1)		# Financial Indicators for Internal Control (Grade 12 Paper 2)	
Gross profit on sales; Gross profit on cost of sales; Net profit on sales; Operating expenses on sales; Operating profit on sales; Current ratio; Acid test ratio; Stock turnover rate; Stock holding period; Average debtors' collection period; Average creditors' payment period; Solvency ratio; Debt equity ratio (gearing); Return on shareholders' equity; Return on total capital employed; Net asset value per share; Dividends per share; Earnings per share; Dividend pay-out rate		<b>Profitability</b> - Gross profit on cost of sales; Net profit on sales; Operating expenses on sales; Operating profit on sales <b>Liquidity</b> - Stock turnover rate; Stock holding period; Average debtors' collection period; Average creditors' payment period	



# INCOME STATEMENT AND NOTES



## CONTENT ON COMPANIES FINANCIAL STATEMENTS – INCOME STATEMENT

**Income Statement** reflects the trading results in the form of **Profit** or **Loss** for a specific accounting period, usually a year. The net income or net loss is obtained by subtracting expenses from the revenue.

In grade 10 the financial statements of the **Sole Trader** were introduced, in grade 11 the **Partnership** and grade 12 the **Companies** are introduced.

**NOTE:** The structure of the *trading section* and *operating activities* (income and expenses) are similar for all the three forms of ownership

FORMAT OF STATEMENT OF COMPREHENSIVE INCOME (INCOME STATEMENT)		
	Notes	R
Sales		xxxx
Cost of sales		( xxx )
<b>Gross Profit</b>		<b>xxxxx</b>
<b>Other Operating Income</b>		<b>xxxxx</b>
Discount received		
Rent income		xxx
Profit on sales of assets		xx
Bad debts recovered		xxx
Provision for bad debts adjustment (if decreased)		xxx
Etc.		xxx
<b>Gross Operating Income</b>		<b>xxxxx</b>
<b>Operating Expenses</b>		<b>(xxx)</b>
Advertising		xxx
Salaries and wages		xxx
Insurance		xxx
Provision for bad debts adjustment (if increased)		xxx
Bad debts		xxx
Sundry expenses		
<b>Audit fees</b>		xxx
<b>Directors fees</b>		xxx
Trading stock deficit		xxx
Depreciation		xxx
Loss on sale of assets		xxx
Etc.		xxx
<b>Operating Profit (Loss)</b>		<b>xxxxx</b>
Interest Income	1	xxx
<b>Profit (loss) before interest expense / finance cost</b>		<b>xxxxx</b>
Interest expense / Finance cost	2	(xxx)
<b>Profit (Loss) before tax</b>		<b>xxxxx</b>
<b>Taxation</b>		(xxx)
<b>Net Profit (Loss) for the year</b>	9	<b>xxxxx</b>

Trading Section

Operating income

Operating expenses

New expense accounts unique to companies

Income tax is subtracted

**DIFFERENCE BETWEEN THE COMPANY AND TWO FORMS OF OWNERSHIP**

<b>Sole Trader /Partnership</b>		
<b>Operating Profit (Loss)</b>		xxxx x
Interest Income	1	xxx
<b>Profit (loss) before interest expense</b>		xxxx x
Interest expense / Finance cost	2	(xxx)
<b>Net Profit (Loss) for the year</b>		xxxx x

<b>Company</b>		
<b>Operating Profit (Loss)</b>		xxxxx
Interest Income	1	xxx
<b>Profit (loss) before interest expense</b>		xxxxx
Interest expense / Finance cost	2	(xxx)
<b>Profit (Loss) before tax</b>		xxxxx
Taxation		(xxx)
<b>Net Profit (Loss) for the year</b>	9	xxxxx



**ACTIVITY 1****(ASC JUNE 2019)****INCOME STATEMENT AND NOTES****71 Marks**

- 4.1 Choose a term in COLUMN B that matches an explanation in COLUMN A. Write only the letters (A– E) next to the question numbers (4.1.1 to 4.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
4.1.1	Reflects the financial position of the business on a specific date	A	Audit report
4.1.2	Shows whether the business made a profit or loss	B	Cash Flow Statement
4.1.3	Provides details about the movement of money with regard to operating, investing and financing activities	C	Balance Sheet
4.1.4	Provides an unbiased opinion on the reliability of the financial statements of a business	D	Income Statement
		E	Directors' report

(4 x 1) (4)

4.3 **MVVS LTD**

The information relates to the financial year ended 31 March 2019.

**REQUIRED:**

- 4.3.1 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 31 March 2019. (53)
- 4.3.2 Complete the following notes to the Balance Sheet:
- Fixed/Tangible Asset Note (8)
  - Ordinary share capital (6)



**INFORMATION:**

Figures extracted from the Pre-adjustment Trial Balances on 31 March:

	2019	2018
	R	R
Ordinary share capital	9 300 000	4 800 000
Mortgage loan: Sapphire Bank	1 430 200	1 658 000
Land and buildings	12 500 000	12 500 000
Vehicles	1 377 000	750 000
Equipment	?	398 000
Accumulated depreciation on vehicles	?	475 000
Accumulated depreciation on equipment	?	117 500
Provision for bad debts	?	30 100
Trading stock	364 200	
Debtors' control	578 000	
Sales	10 563 280	
Cost of sales	6 236 000	
Rent income	99 500	
Directors' fees	1 262 100	
Water and electricity	218 000	
Telephone	75 600	
Audit fees	104 000	
Sundry expenses	61 001	
Salaries and wages	1 280 000	
Employer's contributions (medical, pension and UIF)	316 000	
Bad debts	22 300	
Consumable stores	53 200	
Interest income	?	
Insurance	79 500	
Depreciation (on equipment sold)	1 750	
Interest on loan	?	
Bad debts recovered	6 000	
Ordinary share dividends (interim)	375 000	

**Adjustments and additional information:**

- A. A credit invoice for R36 720 (after deducting a 10% trade discount) issued on 31 March 2019, was not recorded. Goods are marked up at 70% on cost.
- B. The physical stock count on 31 March 2019 revealed the following on hand:
  - Trading stock, R334 500
  - Consumable stores, R3 400
- C. Debtor S Magnum was declared insolvent. His estate paid R2 000, which was 20% of his debt. The difference must be written off as a bad debt.
- D. R1 800 was received from a debtor, J Misting, whose debt had previously been written off. The bookkeeper incorrectly credited the amount to the Debtors' Control Account. Correct the error.
- E. Adjust the provision for bad debts to R28 500.



**F.** Insurance includes an annual premium of R51 000 paid for the period 1 January 2019 to 31 December 2019.

**G.** An employee was left out of the Salaries Journal for March 2019. The following details are applicable:

- Net salary of the employee, R9 100
- The deductions by the employer totalled 30% of the gross salary
- Employer's contributions were R2 200

**H.** Interest on loan is capitalised. A fixed monthly repayment (including interest) of R25 400 was paid for the financial year.

**I.** Fixed assets and depreciation:

(i) Vehicles:

- Details for the three vehicles are as follows:

	<b>Cost price</b>	<b>Accumulated depreciation 31 March 2018</b>	<b>Date purchased</b>
1	R350 000	R315 000	1 October 2013
2	R400 000	R160 000	1 April 2016
3	R627 000		30 November 2018

- Vehicles are depreciated at 20% p.a. on cost.

(ii) Equipment:

- Equipment was sold for R9 600 cash on 31 August 2018. Only the following entries in respect of this sale were processed:

Cost price	28 000
Accumulated depreciation at the date of disposal	21 500
Depreciation for the current financial year	1 750

- Depreciation on the remaining equipment is calculated at R92 500 after taking all of the above into account.

**J.** Interest income is the missing figure in the Income Statement.

**K.** Income tax is calculated at 28% of the net profit. The net profit before tax was R691 000.

**L.** Shares and dividends:

- The company has an authorised share capital of 8 000 000 shares.
- The company had 1 200 000 shares in issue on 1 April 2018.
- 150 000 shares were repurchased on 30 November 2018. EFT payments totalling R825 000 were made for these shares.
- 850 000 additional shares were issued on 30 September 2018.

**71 Marks**

**ACTIVITY 1: ANSWER SHEET**

**INCOME STATEMENT AND NOTES**

4.1

4.1.1		4.1.3	
4.1.2		4.1.4	

4

4.3 **MVVS LTD**

4.3.1 **Statement of Comprehensive Income (Income Statement) for the year ended 31 March 2019**

<b>Sales</b>	
<b>Cost of sales</b>	
<b>Gross profit</b>	
<b>Operating income</b>	
<b>Rent income</b>	<b>99 500</b>
<b>Gross operating income</b>	
<b>Operating expenses</b>	
<b>Directors' fees</b>	<b>1 262 100</b>
<b>Water and electricity</b>	<b>218 000</b>
<b>Telephone</b>	<b>75 600</b>
<b>Audit fees</b>	<b>104 000</b>
<b>Sundry expenses</b>	<b>61 001</b>
<b>Operating profit</b>	
<b>Interest income</b>	
<b>Profit before interest expense</b>	
<b>Interest expense</b>	
<b>Net profit before tax</b>	<b>691 000</b>
<b>Income tax</b>	
<b>Net profit after tax</b>	

53



4.3.2 NOTES TO THE BALANCE SHEET

Fixed/Tangible Assets

	Land and buildings	Vehicles	Equipment
Carrying value at beginning of financial year	12 500 000	275 000	280 500
Cost	12 500 000	750 000	398 000
Accumulated depreciation	-	(475 000)	(117 500)
<b>Movements</b>			
Additions at cost	-		-
Disposals at carrying value	-	-	
Depreciation	-		(94 250)
Carrying value at end of financial year	12 500 000		
Cost	12 500 000	1 377 000	
Accumulated depreciation	-		

8

Ordinary share capital

<b>Authorised:</b>		
8 000 000 shares		
<b>Issued:</b>		
1 200 000	shares in issue at beginning	

6

<b>TOTAL MARKS</b>
71



**ACTIVITY 2**  
**CONCEPTS, INCOME STATEMENT AND NOTES**
**NSC NOV 2018**

- 3.1 Indicate where EACH of the following items would be placed in the financial statements by choosing a term from the list below. Write only the answer next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

non-current assets; current assets; equity;  
operating expenses; operating income

- 3.1.1 Trade and other receivables
- 3.1.2 Adjustments of provision for bad debts (decrease)
- 3.1.3 Fixed deposit maturing in three years' time
- 3.1.4 Trading stock deficit (4)

**3.2 TEMBISO LTD**

You are provided with information for the financial year ended 28 February 2018.

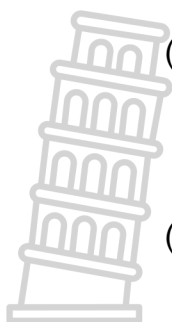
**REQUIRED:**

Complete the following for the year ended 28 February 2018:

- 3.2.1 Income Statement (Statement of Comprehensive Income) (28)
- 3.2.2 Notes to the Balance Sheet (Statement of Financial Position) for:
- Ordinary share capital (7)
  - Retained income (7)

**INFORMATION:**
**A. Balances/Totals on 28 February:**

	2018	2017
Ordinary share capital	8 816 000	6 976 000
Retained income	384 600	376 600
Loan: LSO Bank	?	1 725 500
Trade creditors	414 120	
SARS: Income tax (provisional payments)	341 800	
Sales	?	
Cost of sales	4 856 000	
Total operating income	879 440	
Salaries and wages	501 200	
Audit fees	65 400	
Rent expense	79 240	
Directors' fees	497 800	
Sundry expenses	91 680	
Interest on fixed deposit	?	
Interest on loan	242 500	

**B. Adjustments and additional information:**

- (a) **Sale of goods:**  
The company maintains a mark-up of 40% on cost. Note that old goods costing R96 000 (included in cost of sales) were sold at 10% below cost price.
- (b) **Audit fees:**  
75% of the annual fees have been paid.
- (c) **Directors' fees:**  
The company has three directors who earn the same fee. One director was paid two months in advance.
- (d) **Rental:**  
A storeroom was rented from 1 June 2017 at R11 200 per month. Rent increased by 7,5% on 1 December 2017. Provide for outstanding rent.
- (e) **Loan: LSO Bank**
- Fixed monthly repayments, including interest, are R31 600.
  - Capitalised interest amounted to R242 500 for the year ended 28 February 2018.
  - Interest for the next financial year is expected to be R162 000.
  - Part of the loan will be repaid within the next financial year.
- (f) **Income tax for 2018:**
- R31 300 is still due to SARS.
  - The correct net profit after tax is R959 400.
- (g) **Share capital and dividends:**

Authorised share capital: 1 600 000 ordinary shares

1 March 2017	80% of the shares were in issue.
1 May 2017	300 000 shares were repurchased at R465 000 above the average share price.
31 August 2017	Interim dividends paid: 30 cents per share.
31 October 2017	Additional shares were issued.
28 February 2018	Final dividends were declared.

**CONCEPTS, INCOME STATEMENT AND NOTES**

3.1

3.1.1		
3.1.2		
3.1.3		
3.1.4		

4

3.2.1 **TEMBISO LTD****INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018**

Sales	
Cost of sales	(4 856 000)
Gross profit	
Other operating income	879 440
Gross income	
Operating expenses	
Salaries and wages	501 200
Operating profit	
Interest income	
Net profit before interest expense	
Interest expense	
Net profit before tax	
Income tax	
Net profit after tax	959 400

28

**3.2.2 ORDINARY SHARE CAPITAL**

**AUTHORISED SHARE CAPITAL**

<b>1 600 000 ordinary shares</b>
----------------------------------

**ISSUED SHARE CAPITAL**

<b>1 480 000</b>	<b>Ordinary shares on 28 February 2018</b>	<b>8 816 000</b>	<b>7</b>

**RETAINED INCOME**

<b>Balance on 1 March 2017</b>	<b>376 600</b>	
<b>Ordinary share dividends</b>		<b>7</b>
<b>Balance on 28 February 2018</b>		

<b>TOTAL MARKS</b>
<b>46</b>



**ACTIVITY 3****ASC JUNE 2017****CONCEPTS, TANGIBLE ASSETS AND INCOME STATEMENT**

- 4.1 Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–D) next to the question number (4.1.1–4.1.4) in the ANSWER BOOK, for example 4.1.5 E.

COLUMN A		COLUMN B	
4.1.1	Income Statement	A	reflects the source of funds and how they were used
4.1.2	Balance Sheet	B	reflects the opinion on the reliability of the financial statements
4.1.3	Cash Flow Statement	C	reflects the financial position of a business on a particular date
4.1.4	Independent Audit Report	D	reflects profit or loss for a financial period

(4 x 1) (4)

4.2 **MTOMBENI LTD**

The information relates to Mtombeni Limited for the financial year ended 28 February 2017.

**REQUIRED:**4.2.1 **Refer to Information A and B and calculate:**

- Carrying value of the vehicle sold on 30 November 2016 (5)
- Total depreciation on equipment on 28 February 2017 (7)

## 4.2.2 Prepare the Income Statement (Statement of Comprehensive Income) for the year ended 28 February 2017. (54)



**INFORMATION:**

Information extracted from the Pre-adjustment Trial Balance on 28 February 2017:

<b>Balance Sheet Accounts Section</b>	
Land and buildings	1 600 000
Vehicles	?
Equipment	250 000
Accumulated depreciation on equipment (01/03/2016)	85 000
Trading stock	386 500
Debtors' control	88 500
Provision for bad debts	3 650
Mortgage loan: Quick Bank	1 056 000
<b>Nominal Accounts Section</b>	
Sales	5 500 000
Cost of sales	3 150 000
Debtors' allowances	32 500
Directors' fees	380 000
Audit fees	54 000
Bad debts	13 600
Rent income	169 500
Interest on loan	?
Insurance	19 220
Salaries and wages	475 000
Bad debts recovered	4 750
Consumable stores	67 500
Bank charges	7 760
Sundry expenses	140 085
Interest income	?

**Adjustments and additional information:**

- A.** No entries were made for a vehicle sold on 30 November 2016 for R97 700 cash. Details of the vehicle:
- Cost price, R190 000
  - Accumulated depreciation (1 March 2016), R72 000
  - Depreciation rate: 20% p.a. on cost
- B.** Provide for depreciation as follows:
- On remaining vehicles – R138 000 for the financial year
  - On equipment at 10% p.a. on the diminishing-balance method
- NOTE:** New equipment costing R32 000 was purchased and recorded on 1 September 2016.
- C.** Goods sold on credit to debtor, J Gander, for R15 000 were not recorded. The mark-up is 60% on cost price.
- D.** A physical stocktaking on 28 February 2017 reflected trading stock of R374 000.
- E.** Consumable stores used during the financial year amounted to R61 700.

F. The account of debtor, L Maseko, must be written off as irrecoverable, R1 900.

G. Entries on the February 2017 Bank Statement not yet recorded in the books of the company:

- Bank charges, R870
- Debit order payment for the monthly insurance premium, R1 780

H. Provision for bad debts must be adjusted to R4 030.

I. Loan statement received reflected the following:

Balance: 1 March 2016	1 356 000
Interest	?
Repayment during the financial year	300 000
Balance: 28 February 2017	1 200 000

J. An employee, H Brooks, who commenced work on 1 February 2017, was omitted from the Salaries Journal. Details of his salary for February 2017 are:

GROSS SALARY	DEDUCTIONS			CONTRIBUTIONS	
	PAYE	PENSION FUND	UIF	PENSION FUND	UIF
13 500	2 190	1 080	135	1 620	135

**NOTE:** All contributions are recorded as part of salaries and wages.

K. The rent income was increased by R1 500 per month from 1 November 2016. The tenant has not paid the rent for February 2017 yet.

L. Interest income is the missing figure in the Income Statement.

M. Income tax is calculated at 28% of net profit.

N. Net profit after tax amounted to R864 000.

**ACTIVITY3**

**ASC JUNE 2017**

**CONCEPTS , TANGIBLE ASSETS AND INCOME STATEMENT**

4.1

4.1.1	
4.1.2	
4.1.3	
4.1.4	

4

4.2

**MTOMBENI LTD**

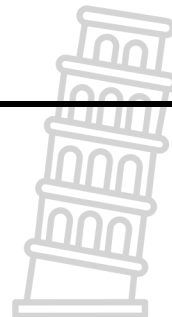
4.2.1

**Calculate: Carrying value of the vehicle sold on 30 November 2016**

5

**Calculate: Total depreciation on equipment on 28 February 2017**

7



## 4.2.2 MTOMBENI LTD

Income Statement (Statement of Comprehensive Income) for the year ended 28 February 2017:

Sales (5 500 000)	
Cost of sales (3 150 000)	
<b>Operating expenses</b>	
Directors' fees	380 000
Audit fees	54 000
<b>Operating profit</b>	
<b>Interest income</b>	
<b>Net profit after interest income</b>	
<b>Net profit before tax</b>	
<b>Income tax</b>	
<b>Net profit after tax</b>	864 000

**ACTIVITY 4****ASC JUNE 2015****4.1 CONCEPTS – GAAP PRINCIPLES ,INCOME STATEMENT AND NOTES****REQUIRED:**

Choose an explanation from COLUMN B that matches a concept in COLUMN A. Write only the letter (A–E) next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

<b>COLUMN A (CONCEPT)</b>	<b>COLUMN B (EXPLANATION)</b>
4.1.1 Historical cost	A Figures used in financial statements should be realistic (conservative).
4.1.2 Matching	B All important items should be shown separately in financial statements.
4.1.3 Going concern	C Income and expenses must be recorded in the correct financial year.
4.1.4 Materiality	D Financial statements are prepared with the understanding that the company will continue operating in the future.
	E All assets are recorded at their original cost price.

(4 x 1) (4)

**4.2 PRINCE LIMITED**

You are provided with information for the financial year ended 28 February 2015.

**REQUIRED:**

- 4.2.1 Complete the Income Statement for the year ended 28 February 2015. (42)
- 4.2.2 Prepare the Ordinary Share Capital Note. (8)
- 4.2.3 Prepare the Retained Income Note. (11)

**INFORMATION:  
EXTRACT FROM THE PRE-ADJUSTMENT TRIAL BALANCE ON  
28 FEBRUARY 2015**

<b>Balance Sheet Accounts Section</b>	<b>Dr</b>	<b>Cr</b>
Ordinary share capital		6 800 000
Retained income (1 March 2014)		1 368 000
Loan: Y-Lend Bank		1 609 000
Trading stock	1 910 000	
Bank	626 200	
Petty cash	6 605	
Debtors' control	792 000	
Creditors' control		974 600
SARS (Income tax)	523 600	
Provision for bad debts		43 600
Fixed deposit: Money Bank (8%)	990 000	
<b>Nominal Accounts Section</b>		
Sales		?
Cost of sales	14 974 000	
Rent income		374 950
Interest on fixed deposit		53 260
Bad debts recovered		4 150
Audit fees	147 600	
Advertising	960 000	
Salaries and wages	1 300 000	
Directors' fees	1 130 000	
Packing material	76 200	
Sundry expenses	?	
Bad debts	24 000	
Ordinary share dividends	?	

**ADJUSTMENTS AND ADDITIONAL INFORMATION:**

- A. Selling prices are determined by using a mark-up of 40% on cost. However, trade discounts of R53 600 were allowed to special customers during the financial year.
- B. The physical stocktaking on 28 February 2015 reflected the following stock on hand:
  - Trading stock           R1 890 000
  - Packing material        R8 500
- C. An amount of R20 500 is still outstanding to a director for his fees.
- D. Total depreciation for the year is R299 200.
- E. A debtor, B Khozo, with an outstanding balance of R42 000, has left the country. His account must be written off as irrecoverable.
- F. The provision for bad debts must be adjusted to 5% of the outstanding debtors.

- G.** One of the employees was on sick leave and was omitted from the Salary Journal for February 2015. His salary details are as follows:

Gross salary	Deductions	Net salary	Employers' contribution
?	R5 000	R12 000	R3 000

All employers' contributions are debited to the Salaries and Wages Account.

- H.** Make provision for the outstanding interest on fixed deposit. The fixed deposit has not changed during the financial year. Interest is not capitalised.
- I.** The rent income includes rent received for March 2015. The rent income increased by R1 425 on 1 September 2014.
- J.** The loan statement received from Y-Lend Bank on 28 February 2015 indicated the following:

	R
Balance at beginning of financial year	2 509 000
Repayments during financial year	900 000
Interest capitalised	?
Balance at end of financial year	1 984 000

- K.** Income tax for the financial year was calculated as R540 000. This is 30% of the net profit before tax.
- L.** The figure for sundry expenses is the balancing figure in the Income Statement.
- M.** Shares and dividends:
- The authorised ordinary share capital consists of 1 000 000 ordinary shares of which 70% was issued before 1 March 2014.
  - Interim dividends of 80 cents per share was declared and paid on 1 September 2014.
  - During October 2014 a further 100 000 shares were issued at R12 each. This was properly recorded.
  - On 28 February 2015 a final dividend of 65 cents per share was declared.
  - On 28 February 2015 it was decided to buy back 160 000 shares from a dissatisfied shareholder at R9,10 per share. This transaction has not been recorded yet.



**CONCEPTS – GAAP PRINCIPLES ,INCOME STATEMENT AND NOTES**

4.1 Write only the letter (A– E) next to the question number.

4.1.1	
4.1.2	
4.1.3	
4.1.4	

4

4.2.1 See Income Statement on the next page.

4.2.2 Ordinary Share Capital Note

<b>Authorised</b> 1 000 000 ordinary shares		
<b>Issued</b>		
	Shares in issue on 1 Mar. 2014	
	Shares issued during the year at R12 each	
	Shares bought back (average issued price of _____)	
	Shares in issue on 28 Feb. 2015	

8

4.2.3 Retained Income Note

<b>Balance at beginning of financial year</b>	
<b>Dividends</b>	
<b>Balance at end of financial year</b>	

11



**ACTIVITY 5****NSC, NOV 2016****3.1 CONCEPTS AND INCOME STATEMENT**

Choose the correct term to complete each of the following statements. Write only the term next to the question number (3.1.1– 3.1.4) in the ANSWER BOOK.

cash and cash equivalents; current asset; non-current asset; income;  
net working capital; expense; current liability; non-current liability

- 3.1.1 Interest on a bank overdraft is a/an ...
- 3.1.2 Consumable stores on hand are a/an ...
- 3.1.3 The portion of a loan to be paid during the next financial year is regarded as a/an ...in the Balance Sheet.
- 3.1.4 The difference between current assets and current liabilities is known as ... (4 x 1) (4)



3.3 **INCOME STATEMENT**

You are provided with information relating to Fralezi Ltd for the financial year ended 30 June 2016.

**REQUIRED:**

Complete the Income Statement for the financial year.

(60)

**INFORMATION:**

Figures extracted from the Pre-adjustment Trial Balance on 30 June 2016:

	R
<b>Balance Sheet Accounts</b>	
Mortgage loan: Parys Bank	333 200
Bank (favourable)	482 000
Debtors' control	116 500
Trading stock	209 500
Provision for bad debts	3 732
<b>Nominal Accounts</b>	
Sales (less allowances)	4 777 300
Cost of sales	?
Directors' fees	375 000
Salaries and wages	365 540
Sundry expenses	?
Depreciation	124 260
Audit fees	23 000
Repairs	100 000
Rent income	101 900
Interest income	?
Bad debts recovered	10 540
Packing material	13 600
Advertising	20 596
Loss of computer due to theft	9 300
Ordinary share dividends	200 000

**Adjustments and additional information:**

- A. A credit note for R35 700 issued to a debtor, dated 27 June 2016, was not recorded. The cost price of these goods was R21 000. The goods were placed back into stock.
- B. The business prices its goods at a mark-up of 70% on cost. Trade discount of R297 200 was allowed on invoices to certain customers.
- C. Adjust the provision for bad debts of debtors to 4%.

D. Stock counts on 30 June 2016 revealed the following on hand:

- Trading stock, R225 500
- Packing material, R3 700

E. External auditors are owed a further R7 250.

F. Interest on the loan is capitalised and has not been recorded yet. The loan statement from Parys Bank on 30 June 2016 reflected a closing balance of R372 920.

G. Corrections must be made in respect of a computer that was stolen on 31 March 2016.

The bookkeeper completed the following page in the Fixed Assets Register, using the incorrect method of depreciation:

SUNCREST COMPUTER	COST	DEPRECIATION	BOOK VALUE
1 July 2014	R42 000		R42 000
30 June 2015		R8 400	R33 600
31 March 2016		R6 300	R27 300
Insurance pay-out	R18 000		
Loss of computer due to theft	R9 300		

Depreciation on this asset should have been calculated at 20% p.a. on the diminishing-balanced method.

- H. The monthly rent did not change during the year. During April 2016 the tenant paid R6 000 for repairs to the premises. He deducted this from his rent for May 2016, as repairs are the responsibility of the company. The repairs were not recorded. The rent for July 2016 was received and deposited during June 2016.
- I. Advertising consists of a monthly contract with the local newspaper for the entire financial year. Advertising was paid for 11 months only. From 1 April 2016, the contract rate was decreased by R152 per month.
- J. Net profit after tax is R504 000.

Use the following percentages to calculate certain missing figures:

- Operating profit on sales: 15%
- Income tax rate: 28% of net profit

**CONCEPTS AND INCOME STATEMENT**

3.1

3.1.1	
3.1.2	
3.1.3	
3.1.4	

4





**ACTIVITY 6**

( Extracted from DBE Training Manual 2020)

Using Financial Indicators to complete the Income Statement

**REQUIRED**

Calculate the missing amounts to complete the abridge Income Statement below.

A. **Relevant financial indicators:**

Profit mark-up on cost (gross profit)	75%
% operating income on sales	16%
% operating profit on sales	22%
Income tax rate	28%

B. **Incomplete Income Statement:**

<b>Sales</b>	<b>7 612 500</b>
Cost of sales	
<b>Gross profit</b>	
Operating income	
<b>Gross operating income</b>	
Operating expenses	
<b>Operating profit</b>	
Interest income	<b>22 250</b>
<b>Profit before interest expense</b>	
Interest expense	
<b>Net profit before income tax</b>	
Income tax	<b>(448 000)</b>
<b>Net profit after income tax</b>	





### How to earn easy marks when completing the Income Statement

- You must know the **FORMAT** of the Income Statement.
- Always **start with the PRE ADJUSTMENT FIGURES FROM TRIAL BALANCE** or information extracted when preparing the income statement.
- Start with **NOMINAL ACCOUNTS ITEMS**
- **RECORD THE FIGURES IN INCOME STATEMENT** to earn part/free marks
- **START WITH ADJUSTMENTS** – you will also have to consider amounts in the Balance Sheet Section
- [More marks are allocated to adjustments]**
- Income received in advance and prepaid expenses are **DEDUCTED**
- Accrued income and accrued expenses are **ADDED**
- Remember to **DEDUCT** debtors  allowances from sales
- If goods are returned ,cost of sales must also **REDUCE**



**ALWAYS SHOW** your **WORKINGS IN BRACKETS** to earn part marks

### Easy marks – Income statement

- Gross Profit, Other income, Gross income, operating expenses, operating profit, net profit before tax, net profit after tax. **METHOD MARKS** [maximum of 7 marks]
- Learners will earn **METHOD MARKS** for the correct **\*OPERATION** on expenses and income items- workings will benefit learners whose final answers are **NOT ACCURATE**

**\*OPERATION**-refers to the following signs: division, subtraction, addition and multiplication





## **CALCULATE THE CORRECT NET PROFIT**



## ACTIVITY 1

NSC, NOV 2019

## TANGIBLE ASSETS AND CALCULATION OF CORRECT NET PROFIT AFTER TAX

## 4.2 VISIV LTD

The financial year ended on 28 February 2019.

**REQUIRED:**

## 4.2.1 Calculate:

- Amounts for **(i)** and **(ii)** in the Fixed Assets Register (5)
- Profit/Loss on sale of asset (2)
- Fixed assets carrying value on 28 February 2019 (4)

4.2.2 Calculate the correct net profit **after tax** for the year ended 28 February 2019. Indicate (+) for increase and (–) for decrease. (9)

**INFORMATION:****A. Fixed assets:**

A delivery vehicle was sold on 31 October 2018 but no entries were made to record this transaction.

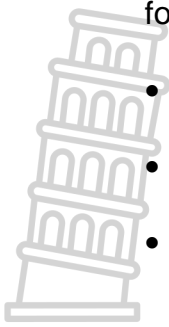
Details of vehicle sold:

<b>Delivery Vehicle X43</b>			
<b>Date purchased:</b> 1 March 2016			
<b>Date sold:</b> 31 October 2018		<b>Sold for:</b> R195 000	
(cash)			
<b>Depreciation rate:</b> 25% p.a. (diminishing-balance method)			
	<b>COST</b>	<b>DEPRECIATION</b>	<b>CARRYING VALUE</b>
28 February 2017	R400 000	R100 000	R300 000
28 February 2018		75 000	225 000
31 October 2018		<b>(i)</b>	<b>(ii)</b>

**B. List of balances/totals on 28 February 2019 (before taking into account all adjustments below):**

Ordinary share capital	R8 152 000
Retained income (1 March 2018)	865 300
Mortgage loan: Prati Bank	1 758 000
Fixed assets (carrying value)	10 190 000
Fixed deposit: Prati Bank (balancing figure)	?
Trading stock	1 102 000
Net trade debtors	1 090 000
Bank (favourable)	?
SARS: Income tax (provisional tax payments)	155 000
Creditors' control	1 906 800

C. Net profit before tax, R822 700, was calculated **before** correcting the following:



- Provision for bad debts must be increased by R65 000.
- R9 800 of an advertising contract applies to the next financial year.
- A tenant paid rent of R334 000 for the period 1 March 2018 to 31 March 2019. Rent was increased by R3 000 per month from 1 January 2019.
- Depreciation and profit/loss on the vehicle sold must be recorded.
- A further R43 000 is owed for income tax.



ACTIVITY 1

NOV 2019

4.2 VISIV LTD

4.2.1

<b>(i) Calculate: Depreciation for the current year</b>	
<b>Workings</b>	<b>Answer</b>
<b>(ii) Calculate: Carrying value of vehicle sold</b>	
<b>Workings</b>	<b>Answer</b>
<b>Calculate: Profit/Loss on sale of asset</b>	
<b>Workings</b>	<b>Answer</b>
<b>Calculate: Fixed assets carrying value on 28 February 2019</b>	
<b>Workings</b>	<b>Answer</b>

5

2

4

4.2.2 Calculate the correct net profit after tax for the year ended 28 February 2019. Indicate (+) for increase and (–) for decrease.

Workings	Answer
Incorrect net profit before tax	822 700
Correct net profit after tax	

9

TOTAL MARKS
20



**ACTIVITY 2: CALCULATION OF CORRECT NET PROFIT AFTER TAX  
(NOV 2015)**
**3.1 PRIDONA LIMITED**

The following information relates to Pridona Limited. The financial year ended on 30 June 2015. The business uses the perpetual (continuous) inventory system.

**REQUIRED:**
**3.1.1 Refer to Information B.**

Calculate the correct net profit after tax for the year ended 30 June 2015. Indicate a + for increase and a – for decrease.

**(13)**
**INFORMATION:**
**A. List of balances/totals on 30 June 2015:**

<b>BALANCE SHEET ACCOUNTS SECTION</b>	
Ordinary share capital	R5 600 000
Retained income (1 July 2014)	2 700 000
Mortgage loan: Custom Bank	262 200
Fixed assets	8 950 000
Trading stock	203 200
Debtors' control	316 000
Provision for bad debts (1 July 2014)	11 400
Cash and cash equivalents (balancing figure)	?
SARS: Income tax (provisional tax payments)	725 000
Income receivable (accrued)	5 200
Creditors' control	261 000

**B. Net profit before tax of R2 493 600 was determined BEFORE taking into account the following information:**

- (i) Trading stock on 30 June 2015 was valued at R191 900.
- (ii) Provision for bad debts must be adjusted to R9 000.
- (iii) Rent for July 2015, R2 800, had been received in advance.
- (iv) An annual insurance premium of R6 000 was paid for the period 1 April 2015 to 31 March 2016.
- (v) The auditor discovered that the profit on disposal of a vehicle, R6 800, was incorrectly shown as a loss.
- (vi) Income tax amounts to R750 000 for the year.

**13**





ACTIVITY 2

NSC 2015 NOV

3.1 PRIDONA LIMITED

3.1.1

<b>Calculation of the correct net profit after tax</b>	
Incorrect net profit	2 493 600
<b>Correct net profit before tax</b>	
<b>Income tax</b>	
<b>Net profit after tax</b>	

13
----

<b>TOTAL MARKS</b>
13



**ACTIVITY 3****PRELIM KZN 2019****WESTVILLE LTD**

The following information relates to Westville Ltd. The financial year ended 28 February 2019.

**REQUIRED:**

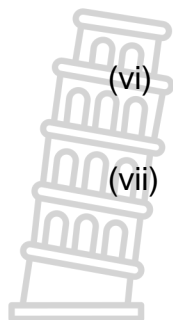
- 3.2 Calculate the correct Net Profit after tax for the financial year ended 28 February 2019. (19)

**INFORMATION:**

- A. The following items appeared in the Pre-Adjustment Trial Balance on 28 February 2019:

Ordinary share capital (180 000 shares) 28 February 2019	R 909 000
Retained income (4 December 2018)	130 000
Loan: M.G.M Bank	1 140 000
Fixed asset at carrying value	?
Fixed deposit	700 000
SARS: Income Tax (Provisional tax payment) (Dr)	267 000
Creditors control	43 000
Debtors control	44 800
Provision for bad debts	1 700
Trading stock	92 400
Consumable stores on hand (Packing material)	12 000
Bank overdraft	5 000
Petty cash	1 500

- B. On 4 December 2018, the directors approved the repurchase of 20 000 shares at R9.00 each. This transaction was properly recorded.
- C. The net profit before tax was incorrectly calculated as R1 449 200.
- D. The following information **was not** taken into account:
- The director's fees of R625 000 was paid to two directors. One of the two directors requested his fees for March 2019 be paid in February 2019, due to financial problems. All two directors receive the same monthly salary.
  - 80% of the packing material were used during the financial year.
  - A debtor B. Zulu, who owes R1 200, has been declared insolvent his estate paid R480. This amount was received and not recorded. Write off the balance.
  - Rent income of R177 600 was received for 14 months. The rent was increased on 1 September 2018 by 10%.



- (v) An interim dividend of R55 820 was paid on 1 September 2018, but was debited incorrectly to the salaries account.
- (vi) A debtor with a credit balance of R1 000 on 28 February 2019 must be transferred to the Creditors ledger.
- (vii) The loan statement from KZN Bank reflected the following:

Balance at beginning of financial year	R 1 500 000
Repayment during the year (was recorded)	?
Interest capitalised	157 500
Balance at the end of financial year	1 140 000

The capital portion of the repayment of the loan for the next financial year remains the same as the current financial year.

- (viii) Outstanding cheque on the Bank Reconciliation Statement on 28 February 2019 included:

Cheque No.	Date of Cheque	Name of payee	Reason for cheque	Amount
401	21 Feb 2019	BB Stores	On account	R3 000

- (ix) Income tax amount to R255 000 and is equal to 30% of the net profit before tax.
- (x) A final dividend of 75 cents per share was declared on 28 February 2019.



**ACTIVITY 3**

**KZN 2019**

3.2

<b>Net profit before tax</b>	<b>1 449 200</b>
<b>Operating profit before interest expense</b>	
<b>Interest expense</b>	
<b>Net profit before tax</b>	
<b>Income tax</b>	
<b>Net profit after tax</b>	

<b>19</b>

<b>TOTAL MARKS</b>
<b>19</b>



**ACTIVITY 4****PRELIM GP 2017****3.2 AMARA LIMITED**

The following information relates to Amara Limited. The financial year ended on 28 February 2017.

**REQUIRED:**

- 3.2.1 Refer to Information B.  
Calculate the Net Profit after Tax.

(10)

**INFORMATION:****A. Extract of a list of Balances/Totals on 28 February 2017**

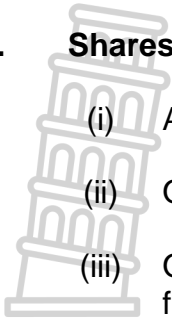
<b>Balance Sheet Accounts Section</b>	<b>R</b>
Ordinary share capital	?
Retained income (1 March 2016)	540 000
Land and Buildings	5 002 000
Equipment (1 March 2016)	700 000
Accumulated depreciation on equipment (1 March 2016)	263 750
Fixed Deposit: GP Bank	260 000
Trade and other receivables	696 000
Cash float	12 000
Loan: GP Bank	1 140 000
Creditors' Control	294 600
Bank Overdraft	52 000
SARS: Income Tax	300 000
<b>Nominal Accounts Section</b>	
Rent income	177 600
Dividends on ordinary shares	96 000

**B. Net Profit for the year**

The Internal Auditor found that the following adjustments were NOT taken into account when the Net Profit before Tax, R1 024 400 was calculated.

- The telephone account, R3 000 for February 2017 was not yet paid.
- Insurance amount of R4 500 was prepaid.
- Rent Income for March and April 2017 was already received. The rent was increased on 1 September 2016 by 10%. The Rent Income account showed an amount of R177 600 in the General Ledger.
- Stationery of R500 was on hand on 28 February 2017.
- The Income Tax for the year is calculated at 28% of net profit before tax.

### C. Shares and Dividends



- (i) Authorised share capital comprises 400 000 ordinary shares.
- (ii) On 1 March 2016: 160 000 shares for R4 000 000 were in issue.
- (iii) On 31 August 2016: The directors decided to buy back 50 000 shares from the family of a deceased shareholder, at R30 per share. These shares are NOT entitled to final dividends.
- (iv) On 1 January 2017: 100 000 shares were issued at R17,50 each.
- (v) The directors declared a final dividend of 80 cents per share on 28 February 2017.

### D. Fixed Assets

- (i) Equipment, R250 000 was purchased on 1 December 2016. No equipment was sold during the year.
- (ii) The depreciation account was debited with a total amount of R76 250 for the year.

### E. Non-current Liabilities

The loan statement from GP Bank reflected the following:

Balance at beginning of financial year	R1 500 000
Repayments during the year	R?
Interest capitalised	R157 500
Balance at end of financial year	R1 140 000

The capital portion of the repayment of the loan for the next financial year remains the same as the current financial year.



10
----

**3.2 AMARA LIMITED**

**3.2.1 Calculate the Net Profit after Tax.**

	R
<b>Incorrect Net Profit before Tax</b>	<b>1 024 400</b>
<b>Net profit before tax</b>	
<b>Income Tax</b>	
<b>Net Profit after tax</b>	

<b>10</b>

<b>TOTAL MARKS</b>
<b>10</b>



The information relates to ENG Limited for the financial year ended 30 June 2017.

**REQUIRED:**

- 3.1 Calculate the correct **NET PROFIT AFTER TAX** for the financial year ended 30 June 2017. (12)

**INFORMATION:**

- A The following items appeared in the Pre-adjustment Trial Balance on 30 June 2017:

		R
Ordinary share capital		?
Retained income (4 January 2017)		126 100
Loan: TG Bank		72 400
Fixed Assets at carrying value		?
SARS (Income tax)	Dr	108 000
SARS (PAYE)	Cr	5 800
Creditors for salaries		13 000
Debtors' Control		34 000
Provision for bad debts		1 900
Consumable Stores on hand (packing material)		12 000
Trading stock		98 000
Creditors' control		23 700
Bank overdraft		3 400
Petty cash		300

- B The net profit before tax was incorrectly calculated as R324 000.



C The following information were not taken into account by the bookkeeper:

(i) The directors fees of R21 000 and audit fees of R5 000 for June 2017 were not paid yet.

(ii) Stock to the value of R5 600 was destroyed in a fire. The insurance company agreed to pay R4 800.

(iii) 80% of the packing material were used during the financial year.

(iv) According to the loan agreement an instalment of R20 000 and interest, will be paid annually to TG Bank. The bookkeeper correctly recorded the amount paid to TG Bank on 30 June 2017 as follows:

Debit:	Loan: TG Bank	R37 600
	Credit: Bank	R37 600

(v) Outstanding cheques on the Bank Reconciliation Statement on 30 June 2017 include:

Cheque no.	Date of cheque	Name of payee	Reason for cheque	Amount
362	24 June 2017	Eskom	Electricity	R2 400
375	25 July 2017	Waytons	On account	R1 500

(vi) An interim dividend of R30 000 was paid on 1 December 2016, but was debited incorrectly to the salaries account.

(vii) Debtors with credit balances totalling R700 on 30 June 2017 must be transferred to the Creditors' Ledger.

(viii) Provide for income tax at 28% of the net profit.

(ix) **SHARE CAPITAL** : (all entries were recorded)

- The company is registered with an authorized share capital of 600 000 ordinary shares.
- On 1 July 2016, 125 000 shares were in issue. The average share price at this time was R4,00.
- On 25 September 2016, the company issued an additional 75 000 shares at R6,80 each.
- On 4 January 2017, the directors approved the repurchase of 20 000 shares at R9,00 each.

(x) **FINAL DIVIDENDS:**

- A final dividend of 75 cent per share was declared on 30 June 2017.
- Only shares in issue on 30 June 2017 qualified for these dividends.

## ACTIVITY FIVE

## PRELIM NC 2017 , QUESTION 3

- 3.1 Calculate the correct NET PROFIT AFTER TAX for the year ended 30 June 2017.

Incorrect profit before tax	R324 000

12
----

TOTAL MARKS
12





# BALANCE SHEET

**BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**



The Balance Sheet is a Financial Statement that is usually prepared at the end of an accounting period (a financial year) to show the financial position of a business in terms of its assets, liabilities and equity.

Balance sheet has been introduced in previous grades, the diagram below indicates progression in different grades. The Equity section of the Balance sheet is the only difference in different grades.

Grade 10			Grade 11			Grade 12		
Owner' Equity		xxxx	Partners' Equity		xxxx	Shareholders' Equity		xxxx
Capital	7	xxxx	Capital	7	xxxx	Ordinary Share Capital	7	xxxx
			Current Account	8	xxxx	Retained Income	8	xxxx

COMPANIES STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)		
	Notes	R
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
Tangible/ Fixed assets	3	xxxxx
<b>Financial assets</b>		
Fixed deposits		xxxxx
<b>CURRENT ASSETS</b>		
Inventories	4	xxx
Trade and other debtors	5	xxx
Cash and cash equivalents <i>(Include fixed deposit maturing in 12 months )</i>	6	xxx
<b>TOTAL ASSETS</b>		<b>xxxxx</b>
<b>EQUITY AND LIABILITIES</b>		
<b>CAPITAL AND RESERVES / SHAREHOLDERS' EQUITY</b>		
Ordinary share capital	7	xxx
Retained income	8	xxx
<b>NON-CURRENT LIABILITIES</b>		
Mortgage bond (maturation period longer than 12 months)		xxx
<b>CURRENT LIABILITIES</b>		
Trade and other creditors	9	xxx
Bank overdraft		xxx
Short-term loans (portion of long term loan payable within 12 months)		xxx
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>xxxxx</b>

Equity accounts

Creditors include SARS-income tax payable and Shareholders for dividends

ACTIVITY 1

NSC NOV 2019

**BALANCE SHEET****70 marks**

- 4.1 Choose an explanation in COLUMN B that matches the term in COLUMN A. Write only the letters (A–E) next to the question numbers (4.1.1 to 4.1.5) in the ANSWER BOOK.

COLUMN A	COLUMN B
4.1.1 Internal auditor	A appointed by shareholders to manage a company
4.1.2 Memorandum of incorporation (MOI)	B the body responsible for registration of all companies
4.1.3 Limited liability	C employed by a company to ensure good internal control procedures
4.1.4 Director	D indicates that a company has a legal personality of its own
4.1.5 Companies and Intellectual Property Commission (CIPC)	E the document that establishes the rules and procedures of a company

(5 x 1) (5)

4.2 **VISIV LTD**

The financial year ended on 28 February 2019.

**REQUIRED:**

4.2.1 Calculate:

- Amounts for **(i)** and **(ii)** in the Fixed Assets Register (5)
- Profit/Loss on sale of asset (2)
- Fixed assets carrying value on 28 February 2019 (4)

4.2.2 Calculate the correct net profit **after tax** for the year ended 28 February 2019. Indicate (+) for increase and (–) for decrease. (9)

4.2.3 Refer to Information A–H. Prepare the following on 28 February 2019:

- Retained Income Note (9)
- Statement of Financial Position (Balance Sheet). (27)
- **NOTE:** Show workings. Certain figures are provided in the ANSWER BOOK.

**INFORMATION:****A. Fixed assets:**

A delivery vehicle was sold on 31 October 2018 but no entries were made to record this transaction.

Details of vehicle sold:

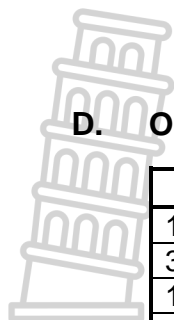
<b>Delivery Vehicle X43</b>			
Date purchased: 1 March 2016		Sold for: R195 000 (cash)	
Date sold: 31 October 2018			
Depreciation rate: 25% p.a. (diminishing-balance method)			
	<b>COST</b>	<b>DEPRECIATION</b>	<b>CARRYING VALUE</b>
28 February 2017	R400 000	R100 000	R300 000
28 February 2018		75 000	225 000
31 October 2018		(i)	(ii)

**B. List of balances/totals on 28 February 2019 (before taking into account all adjustments below):**

Ordinary share capital	R8 152 000
Retained income (1 March 2018)	865 300
Mortgage loan: Prati Bank	1 758 000
Fixed assets (carrying value)	10 190 000
Fixed deposit: Prati Bank (balancing figure)	?
Trading stock	1 102 000
Net trade debtors	1 090 000
Bank (favourable)	?
SARS: Income tax (provisional tax payments)	155 000
Creditors' control	1 906 800

**C. Net profit before tax, R822 700, was calculated **before** correcting the following:**

- Provision for bad debts must be increased by R65 000.
- R9 800 of an advertising contract applies to the next financial year.
- A tenant paid rent of R334 000 for the period 1 March 2018 to 31 March 2019. Rent was increased by R3 000 per month from 1 January 2019.
- Depreciation and profit/loss on the vehicle sold must be recorded.
- A further R43 000 is owed for income tax.

**D. Ordinary shares:**

DATE	DETAILS
1 March 2018	2 000 000 shares in issue; total book value R7 600 000
31 May 2018	360 000 shares repurchased at R4,10 each
1 October 2018	800 000 new shares issued
28 February 2019	2 440 000 shares in issue

**E. Dividends:**

- Interim dividends were paid in September 2018, R295 200.
- Final dividends of 20c per share were declared on 28 February 2019.

**F.** A creditor with a debit balance of R7 600 must be transferred to the Debtors' Ledger.

**G.** A cheque for R75 000, dated 30 April 2019, was issued to a supplier in February.

**H.** After processing all adjustments:

- The current ratio is 0,8 : 1.
- The current liabilities totalled R2 900 000.
- The current portion of the loan is the balancing figure.



ACTIVITY 1

NSC NOV 2019

QUESTION 4

4.1	4.1.1	
	4.1.2	
	4.1.3	
	4.1.4	
	4.1.5	

5

4.2 VISIV LTD

4.2.1	<b>(i) Calculate: Depreciation for the current year</b>	
	<b>Workings</b>	<b>Answer</b>
	<b>(ii) Calculate: Carrying value of vehicle sold</b>	
	<b>Workings</b>	<b>Answer</b>
	<b>Calculate: Profit/Loss on sale of asset</b>	
	<b>Workings</b>	<b>Answer</b>
	<b>Calculate: Fixed assets carrying value on 28 February 2019</b>	
	<b>Workings</b>	<b>Answer</b>

5

2

4



4.2.2 Calculate the correct net profit after tax for the year ended 28 February 2019. Indicate (+) for increase and (–) for decrease.

Workings	Answer
Incorrect net profit before tax	822 700
Correct net profit after tax	

9

4.2.3 **RETAINED INCOME NOTE:**

Balance at beginning	865 300
Ordinary share dividends	
Balance at end	

9

<b>VISIV LTD</b>	
<b>STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)</b>	
<b>ON 28 FEBRUARY 2019</b>	
<b>ASSETS</b>	
<b>Non-current assets</b>	
<b>Fixed assets</b>	
<b>Fixed deposit</b>	
<b>Current assets</b>	
<b>Inventories</b>	<b>1 102 000</b>
<b>Cash and cash equivalents</b>	
<b>TOTAL ASSETS</b>	
<b>EQUITY AND LIABILITIES</b>	
<b>Ordinary shareholders' equity</b>	
<b>Ordinary share capital</b>	<b>8 152 000</b>
<b>Non-current liabilities</b>	
<b>Current liabilities</b>	<b>2 900 000</b>
<b>Current portion of loan</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>	

27

**TOTAL MARKS**

70

**FINANCIAL STATEMENTS AND AUDIT REPORT****75 marks**

- 3.1 Indicate where EACH of the following items would be placed in the financial statements by choosing a term from the list below. Write only the answer next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

non-current assets; current assets; equity;  
operating expenses; operating income

3.1.1 Trade and other receivables

3.1.2 Adjustments of provision for bad debts (decrease)

3.1.3 Fixed deposit maturing in three years' time

3.1.4 Trading stock deficit (4)

3.2 **TEMBISO LTD**

You are provided with information for the financial year ended 28 February 2018.

**REQUIRED:**

Complete the following for the year ended 28 February 2018:

3.2.1 Income Statement (Statement of Comprehensive Income) (28)

3.2.2 Notes to the Balance Sheet (Statement of Financial Position) for:

- Ordinary share capital (7)
- Retained income (7)

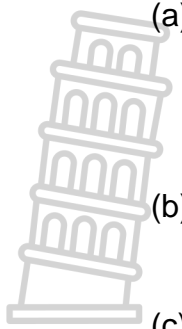
3.2.3 Equity and Liabilities section of the Balance Sheet (16)

**INFORMATION:**

**A. Balances/Totals on 28 February:**

	2018	2017
Ordinary share capital	8 816 000	6 976 000
Retained income	384 600	376 600
Loan: LSO Bank	?	1 725 500
Trade creditors	414 120	
SARS: Income tax (provisional payments)	341 800	
Sales	?	
Cost of sales	4 856 000	
Total operating income	879 440	
Salaries and wages	501 200	
Audit fees	65 400	
Rent expense	79 240	
Directors' fees	497 800	
Sundry expenses	91 680	
Interest on fixed deposit	?	
Interest on loan	242 500	

**B. Adjustments and additional information:**



- (a) **Sale of goods:**  
The company maintains a mark-up of 40% on cost. Note that old goods costing R96 000 (included in cost of sales) were sold at 10% below cost price.
- (b) **Audit fees:**  
75% of the annual fees have been paid.
- (c) **Directors' fees:**  
The company has three directors who earn the same fee. One director was paid two months in advance.
- (d) **Rental:**  
A storeroom was rented from 1 June 2017 at R11 200 per month. Rent increased by 7,5% on 1 December 2017. Provide for outstanding rent.
- (e) **Loan: LSO Bank**
- Fixed monthly repayments, including interest, are R31 600.
  - Capitalised interest amounted to R242 500 for the year ended 28 February 2018.
  - Interest for the next financial year is expected to be R162 000.
  - Part of the loan will be repaid within the next financial year.
- (f) **Income tax for 2018:**
- R31 300 is still due to SARS.
  - The correct net profit after tax is R959 400.
- (g) **Share capital and dividends:**

Authorised share capital: 1 600 000 ordinary shares

1 March 2017	80% of the shares were in issue.
1 May 2017	300 000 shares were repurchased at R465 000 above the average share price.
31 August 2017	Interim dividends paid: 30 cents per share.
31 October 2017	Additional shares were issued.
28 February 2018	Final dividends were declared.

<b>TOTAL MARKS</b>
--------------------

<b>75</b>
-----------

## QUESTION 3

3.1

3.1.1	
3.1.2	
3.1.3	
3.1.4	

4

## 3.2.1 TEMBISO LTD

## INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018

Sales	
Cost of sales	(4 856 000)
Gross profit	
Other operating income	879 440
Gross income	
Operating expenses	
Salaries and wages	501 200
Operating profit	
Interest income	
Net profit before interest expense	
Interest expense	
Net profit before tax	
Income tax	
Net profit after tax	959 400

28

**3.2.2 ORDINARY SHARE CAPITAL**

**AUTHORISED SHARE CAPITAL**

1 600 000 ordinary shares
---------------------------

**ISSUED SHARE CAPITAL**

1 480 000	Ordinary shares on 28 February 2018	8 816 000	7

**RETAINED INCOME**

Balance on 1 March 2017	376 600	
Ordinary share dividends		
Balance on 28 February 2018		7

**3.2.3 EQUITY AND LIABILITIES SECTION OF THE BALANCE SHEET**

<b>SHAREHOLDERS' EQUITY</b>		
Ordinary share capital	8 816 000	
Retained income		
<b>NON-CURRENT LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables		
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		16

**TOTAL MARKS:75**

**ACTIVITY 3****NSC 2017 , QUESTION 3****FIXED ASSETS, BALANCE SHEET****65 marks**

The following information relates to Odette Ltd. The financial year ended on 28 February 2017.

**REQUIRED:**

- 3.1 **Refer to Information B.**  
Calculate the missing amounts denoted by **(a)** to **(e)**. (22)
- 3.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2017. Show workings. (37)

**INFORMATION:****A. Amounts extracted from the records on 28 February 2017:**

<b>Balance Sheet accounts section</b>	<b>R</b>
Ordinary share capital	?
Retained income (28 February 2017)	520 000
Fixed assets (carrying value)	?
Loan from Beque Bank	284 000
Trading stock	408 880
Net trade debtors	67 200
Fixed deposit: Elze Bank	?
Bank (favourable)	?
SARS: Income tax (provisional payments)	209 000
Creditors' control	184 000
<b>Nominal accounts section (pre-adjustment amounts)</b>	
Insurance	30 200
Rent income	108 450
Electricity	42 000

**B. Fixed assets:**

	<b>LAND AND BUILDINGS</b>	<b>VEHICLES</b>	<b>EQUIPMENT</b>	<b>TOTAL</b>
Cost		350 000	460 000	
Accumulated depreciation		(315 000)		
Carrying value (01/03/2016)	<b>(a)</b>	35 000		
Movements:				
Additions	325 000	422 550	0	
Disposals	0	0	<b>(d)</b>	
Depreciation		<b>(b)</b>	(13 766)	
Carrying value (28/02/2017)	2 550 000	<b>(c)</b>	50 994	<b>(e)</b>
Cost		772 550	340 000	
Accumulated depreciation				

- Depreciation on vehicles is calculated at 20% p.a. on cost.

- The company has two vehicles on 28 February 2017. One of these vehicles was purchased on 1 September 2016.
- Extract from the Fixed Assets Register in respect of equipment sold:

<b>Fridge (Model X3)</b>			
<b>Date purchased:</b> 1 March 2014			
<b>Date sold:</b> 31 December 2016		<b>Sold for:</b> R81 250	
<b>Depreciation rate:</b> 10% p.a. (diminishing-balance method)			
	<b>COST</b>	<b>DEPRECIATION</b>	<b>BOOK VALUE</b>
28 February 2015	R120 000	R12 000	R108 000
29 February 2016		?	?
31 December 2016		?	?

- C. The electricity account for February 2017, R5 600, was still outstanding.
- D. The provision for bad debts must be increased by R270.
- E. An additional insurance policy was taken out on 1 November 2016. The annual premium of R10 200 was paid and recorded.
- F. The rent for February 2017 has not been received yet. The rent increased by 15% on 1 July 2016.
- G. Net profit after tax, R518 000, was calculated after taking into account all the adjustments above. Income tax is 30% of the net profit.
- H. 75% of the authorised share capital of 900 000 shares was in issue. The directors declared a final dividend of 24 cents per share on 28 February 2017.
- I. Extract from Beque Bank loan statement:

Balance on 1 March 2016	R376 000
Instalments (including interest)	R92 000
Interest capitalised	R48 000
Balance on 28 February 2017	?

**NOTE:**

- Interest has not been entered in the books.
  - R50 000 of the loan balance will be settled in the next financial year.
- J. The net asset value per share on 28 February 2017 is 620 cents.
- K. The current ratio is 2,1 : 1 on 28 February 2017.

<b>TOTAL MARKS: 65</b>
------------------------



## ACTIVITY THREE

## NSC 2017 , QUESTION 3

3.1

(a) Calculate the carrying value of Land and Buildings on 1 March 2016.

  
2

(b) Calculate the total depreciation on Vehicles on 28 February 2017.

  
6

(c) Calculate the carrying value of Vehicles on 28 February 2017.

  
4

(d) Calculate the carrying value of Equipment sold on 31 December 2016.

  
6

(e) Calculate the total carrying value of Fixed Assets on 28 February 2017.

  
4

3.2 BALANCE SHEET OF ODETTE LTD ON 28 FEBRUARY 2017

<b>ASSETS</b>	
<b>NON-CURRENT ASSETS</b>	
<b>CURRENT ASSETS</b>	
Inventory	408 880
Trade and other receivables	
Cash and cash equivalents	
<b>TOTAL ASSETS</b>	
<b>EQUITY AND LIABILITIES</b>	
<b>SHAREHOLDERS' EQUITY</b>	
Ordinary share capital	
Retained income	520 000
<b>NON-CURRENT LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>	

37
----

**TOTAL MARKS:65**

**ACTIVITY 4****NSC FEB 2018****BALANCE SHEET****58 Marks**

- 4.1 Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–E) next to the question number (4.1.1–4.1.5) in the ANSWER BOOK.

COLUMN A		COLUMN B	
4.1.1	Income Statement	A	an explanation of the operations of the company during a financial year
4.1.2	Balance Sheet	B	reflects whether or not the shareholders can rely on the financial statements
4.1.3	Cash Flow Statement	C	reflects the profit/loss of the company for the year
4.1.4	Directors' report	D	reflects the effect of the operating, financing and investing activities on the cash resources
4.1.5	Independent audit report	E	reflects the net worth of the company

(5 x 1) (5)

4.2 **ORBIT LTD**

Refer to the information from the records of Orbit Ltd for the financial year ended 30 June 2017.

**REQUIRED:**

- 4.2.1 Prepare the following notes to the Balance Sheet:
- (a) Ordinary share capital (8)
  - (b) Retained income (11)
- 4.2.2 Complete the Balance Sheet on 30 June 2017. Where notes are not required, show ALL workings in brackets. (28)
- 4.2.3 The CFO (chief financial officer), Barry Wright, has convinced the company to buy back a further 400 000 shares from his close relative during the next financial year. Barry currently owns 1 904 400 shares in this company, which is 46% of the issued shares.
- As a shareholder, explain your concern regarding the proposed buy-back of shares. Provide calculations to support your concern. (6)

**INFORMATION:****A. Extract from the books on 30 June 2017:**

Fixed/Tangible assets (carrying value)	?
Fixed deposit: Morocco Bank	380 000
Ordinary share capital (1 July 2016)	3 150 000
Retained income (1 July 2016)	874 000
Bank (favourable)	250 700
Loan: Helping Bank	302 400
Trading stock	478 000
Debtors' control	317 000
Creditors' control	239 800
Income received in advance	6 600
SARS: Income tax (provisional payments)	390 000
Dividends on ordinary shares (interim dividends)	630 000

**B. Share capital:**

- The business has an authorised share capital of 6 000 000 shares.
- 70% of the shares were in issue on 1 July 2016.
- 60 000 ordinary shares were repurchased from a disgruntled shareholder on 1 December 2016. The company paid R3,50 per share. This was paid and recorded on 1 December 2016.

**C.** A final dividend of 22 cents per share was declared on 30 June 2017. Only shares in the share register qualify for final dividends.

**D.** The following adjustments have not been taken into account yet:

- Provision for bad debts is set at 5% of the outstanding debtors.
- Insurance included an annual premium of R31 800, paid for the period 1 October 2016 to 30 September 2017.

**E.** The loan statement from Helping Bank reflected the following:

Balance on 1 July 2016	R480 000
Repayments during financial year (including interest)	R177 600
Interest capitalised	R57 600
Balance on 30 June 2017	?

R40 000 of the loan will be paid back in the next financial year.

**F.** Income tax for the year amounted to R408 800. This was calculated at 28% of the corrected net profit.

**QUESTION 4**

4.1

4.1.1		
4.1.2		
4.1.3		
4.1.4		
4.1.5		

5

4.2 ORBIT LTD

4.2.1

(a) ORDINARY SHARE CAPITAL

<b>Authorised</b>		
6 000 000 shares		
<b>Issued</b>		

8

(b) RETAINED INCOME

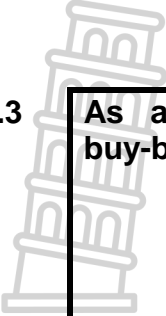
<b>Balance on 1 July 2016</b>	<b>874 000</b>
<b>Ordinary share dividends</b>	
<b>Balance on 30 June 2017</b>	

11

4.2.2 ORBIT LTD  
BALANCE SHEET ON 30 JUNE 2017

---

<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
Fixed/Tangible Assets		
Fixed deposit	380 000	
<b>CURRENT ASSETS</b>		
Inventory	478 000	
<b>TOTAL ASSETS</b>		
<b>EQUITY AND LIABILITIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Ordinary share capital		
Retained income		
<b>NON-CURRENT LIABILITIES</b>		
Loan: Helping Bank		
<b>CURRENT LIABILITIES</b>		
Trade and other payables		
<b>TOTAL EQUITY AND LIABILITIES</b>		28



4.2.3 As a shareholder, explain your concern regarding the proposed buy-back of shares. Provide calculations to support your concern.

6

<b>TOTAL MARKS</b>
65

**BALANCE SHEET****70 marks****4.1 CONCEPTS**

Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (4.1.1 to 4.1.5) in the ANSWER BOOK

- 4.1.1 A fixed deposit maturing within the next 12 months will be shown as cash and cash equivalent in the Balance Sheet.
- 4.1.2 Earnings per share are calculated using the net profit before tax.
- 4.1.3 Net current assets are also referred to as net working capital.
- 4.1.4 Provision for bad debts is a liability.
- 4.1.5 Total capital employed consists only of ordinary shareholders' capital and retained income. (5 x 1) (5)

**4.2 MODISE LTD**

The information below relates to Modise Ltd. The financial year ended on 28 February 2018.

**REQUIRED:**

- 4.2.1 Prepare the Retained Income Note to the Balance Sheet on 28 February 2018. (12)
- 4.2.2 Complete the Balance Sheet on 28 February 2018. Show ALL workings. (38)
- 4.2.3 The directors want to give R500 000 to a local school. Give TWO reasons why companies take such decisions. (4)

**INFORMATION:****A. Extract of balances on 28 February 2018:**

	R
Ordinary share capital	13 650 000
Retained income (1 March 2017)	567 000
Fixed assets at carrying value	?
Fixed deposit: Peoples Bank	?
Loan from director	630 000
Debtors' control	554 000
Provision for bad debts (1 March 2017)	31 300
Bank (favourable)	?
Trading stock	1 015 000
Consumable stores on hand	25 000
Creditors' control	?
Expenses prepaid	19 240
SARS: Income tax (provisional tax payments)	900 000

**B. Share capital:**





- The authorised share capital of Modise Ltd is 6 500 000 ordinary shares.
- On 20 February 2018, 250 000 shares were repurchased at 25 cents above the average share price. This has been recorded.
- On 28 February 2018, the ordinary share capital comprised 4 550 000 ordinary shares.

**C. Dividends:**

- Interim dividends of R672 000 were paid on 28 August 2017.
- A final dividend of 36 cents per share was declared on 28 February 2018. All shares (including the shares repurchased on 20 February 2018) qualify for final dividends.

**D. Net profit before tax:**

- After taking all relevant information into account, the net profit before tax was accurately calculated to be R3 400 000.
- Income tax at 27% of the net profit must be taken into account.

**E. Fixed deposit:**

The interest on the fixed deposit was R48 000. The fixed deposit was invested on 1 May 2017 at 8% p.a.

**F. Loan from director:**

- The interest-free loan was received on 1 September 2015.
- This loan is to be repaid over six years in equal monthly instalments. The first repayment was made on 30 September 2015. All payments have been made to date.

**G. Provision for bad debts:**

The provision for bad debts must be adjusted to 6% of the outstanding debtors.

**H. The current ratio calculated after all adjustments was 1,5 : 1.**

<b>TOTAL MARKS</b>
--------------------

<b>70</b>
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<b>ACTIVITY FIVE</b>
----------------------

<b>ASC 2018 , QUESTION 4</b>
------------------------------

**QUESTION 4**

4.1

4.1.1		
4.1.2		
4.1.3		
4.1.4		
4.1.5		

5

4.2 MODISE LTD

4.2.1 RETAINED INCOME NOTE

Balance at beginning of year	R567 000	
Ordinary share dividends		
Balance at end of year		

12

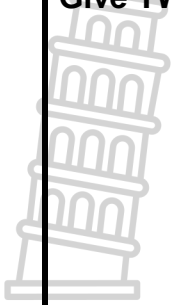


4.2.2 MODISE LTD

BALANCE SHEET ON 28 FEBRUARY 2018

<b>ASSETS</b>	
<b>Non-current assets</b>	
<b>Fixed assets</b>	
<b>Current assets</b>	
<b>Inventories</b>	
<b>TOTAL ASSETS</b>	
<b>EQUITY AND LIABILITIES</b>	
<b>Ordinary shareholders' equity</b>	
<b>Ordinary share capital</b>	13 650 000
<b>Non-current liabilities</b>	
<b>Current liabilities</b>	2 600 000
<b>Trade and other payables</b>	
<b>Shareholders for dividends</b>	
<b>SARS: Income tax</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>	

4.2.3 The directors want to give R500 000 to a local school. Give TWO reasons why companies take such decisions.



4

TOTAL MARKS
70



***How to earn easy marks when completing the Balance Sheet***

- Learners should know the **FORMAT** of the Balance Sheet
- Always start with the **PRE ADJUSTMENT FIGURES FROM TRIAL BALANCE** or information extracted when preparing the Balance Sheet
- Start with **BALANCE SHEET ACCOUNTS ITEMS**
- **RECORD THE FIGURES** in the **BALANCE SHEET** to earn part/free marks
- **START WITH ADJUSTMENTS** – you will also have to consider amounts in the **Nominal Accounts Section**. [More marks are allocated to adjustments]



**ALWAYS SHOW** your **WORKINGS IN BRACKETS** to earn part marks

#### Ratios/Financial indicators that are important for balance sheet calculations

- If the **CURRENT RATIO** is 2:1, the figure of the current liabilities is R200 000 then the missing figure of the **current assets** must be  **$R200\ 000 \times 2 = R400\ 000$** .
- **ACID TEST RATIO** can be used to calculate the **stock figure**.
- **DEBT EQUITY RATIO** can be used to calculate either the *shareholders*  **equity** or the *loan* figure.

#### Easy marks earned when preparing the balance sheet

- **ADDITION OF:** Current Assets, Non - Current Assets , Total Assets , Shareholders equity, Current Liabilities , Total equity and liabilities [6 marks]
- **TRANSFERRING of correct OR incorrect** amounts from notes :
- Balance of Retained Income [From note 8]
- Balance of Share Capital [from note 7]
- Dividends Recommended [from note 8]
- Method mark on final answer for Non-Current Liabilities

**11 MARKS** If the examiner test only the equity and liabilities section, **NOTE** -the marks exclude the adjustments.





# CASH FLOW AND INTERPRETATION OF FINANCIAL STATEMENTS

CASH FLOW STATEMENT AND ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS



**Main purpose of the Cash Flow Statement:**

Reflects on the effect of business activities on the cash resources in terms of:

- how cash was generated
- how cash was utilised

**Business activities are divided into three broad types of activities namely: operating, investing and financing activities.**

**Operating activities:**

- The main income-earning activities of the company.
- They are directly related to the main objective of a company.
- The cash generated by operating activities is perhaps the most significant indicator of a company's success because this relates to the main purpose of establishing the company.

**Investing activities:**

- These activities involve the actual establishment of the infrastructure of a business in order for it to be in a position to earn income.

**Financing activities:**

- Activities involved in funding the infrastructure of the company.
- They result in the change in the size and composition of the debt and the capital funding.

**The Format of the Cash Flow Statement**

<b>CASH FLOW STATEMENT FOR THE YEAR ENDING</b>		<b>Special notes:</b>
.....		
Cash effect of operating activities	XXX	← Should be positive at all times if company is successful.
Cash effects of investing activities	XXX	← Depends on decisions made by directors
Cash effects of financing activities	XXX	← Depends on decisions made by directors
<b>Net change in cash and cash equivalents</b>	<b>XXX</b>	← Depends on the above points
Cash and cash equivalents at the beginning of year	XXX	
Cash and cash equivalents at the end of year	<b>XXX</b>	← Positive total will assist liquidity

**The use of brackets in a CFS (Cash flow Statement) will indicate an OUTFLOW of cash.**

**WHERE DO I FIND THE INFORMATION TO PREPARE A CASH FLOW STATEMENT?**

Information to prepare the CFS is usually obtained from prepared Financial Statements, and additional information provided to explain certain figures on the Statements; summarised as follows:

<b>Operating Activities</b>	Income Statement	Sales	xxx
		Less: Cost of sales	(xxx)
		Gross Profit	xxx
		Add: Other operating income	xxx
		Less: operating expenses	(xxx)
		<b>Operating profit</b>	xxx
	Balance Sheet	<b>Current Assets</b>	
		Inventories	xxx
		Trade and other receivables	xxx
		Cash and Cash Equivalents	xxx
<b>Current liabilities</b>			
Trade and other payables		xxx	
<b>Investing Activities</b>	Balance Sheet	<b>Non-current Assets</b>	
		Tangible/Fixed Assets	xxx
		Financial Assets/Fixed deposit	xxx
<b>Financing Activities</b>	Balance Sheet	<b>Shareholders' Equity</b>	xxx
		<b>Non-current liabilities</b>	xxx






**CASHFLOW STATEMENT FORMAT**

<b>CASH FLOW STATEMENT</b>		
	<b>Notes</b>	<b>R</b>
<b>Cash flows from operating activities</b>		<b>XXXX</b>
Cash generated from operations	1	XXX
Interest paid		(XXX)
Dividends paid	3	(XXX)
Taxation paid	4	(XXX)
<b>Cash flows from investing activities</b>		<b>(XXXX)</b>
Purchase of non-current assets	5	(XXX)
Proceeds from sale of non-current assets		XXX
Investments matured/repaid		XXX
<b>Cash flows from financing activities</b>		<b>XXXX</b>
Proceeds from issue of shares		XXX
Proceeds from long-term borrowings		XXX
Payment of long-term loans		(XXX)
<b>Net change in cash and cash equivalents</b>	2	<b>( XXXX)</b>
Cash and cash equivalents at beginning of year	2	XXX
Cash and cash equivalents at end of year	2	XXX



**CHECK NOTES TO THE CASH FLOW STATEMENT  
AND EXAM TIPS AT THE END OF THIS SECTION**



**ACTIVITY 1****NSC NOV 2019****QUESTION 5: CASH FLOW STATEMENT AND INTERPRETATION****75 marks**

- 5.1 Three financial statements are provided as options in which each of the following items would appear. Choose the financial statement and write only the letter (A–C) next to the question numbers (5.1.1 to 5.1.4) in the ANSWER BOOK, e.g. 5.1.5 D.

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

- 5.1.1 Profit on sale of a fixed asset
- 5.1.2 Amount due to shareholders for final dividends payable
- 5.1.3 Total amount spent on the repurchase of shares
- 5.1.4 Total income tax amount for the current financial year (4 x 1) (4)

**5.2 SUNSET LTD**

The financial year ended on 28 February 2019.

**REQUIRED:**

- 5.2.1 Calculate the following figures for the 2019 Cash Flow Statement:
- Income tax paid (4)
  - Dividends paid (4)
  - Proceeds of shares issued (6)
  - Fixed assets purchased (5)
- 5.2.2 Calculate financial indicators for the year ended 28 February 2019:
- % operating profit on sales (4)
  - Net asset value per share (4)
  - Debt-equity ratio (4)

**INFORMATION FOR SUNSET LTD:****A. Information from Income Statement on 28 February 2019:**

Sales	R8 725 000
Gross profit	3 525 000
Depreciation	408 000
Operating profit	2 033 900
Interest expense	441 000
Income tax	477 900
Net profit after tax	1 138 000

**B. Information from Balance Sheet on 28 February:**

	2019	2018
Fixed assets (carrying value)*	R11 835 100	R10 658 000
SARS: Income tax	18 000 <b>Cr</b>	63 000 <b>Dr</b>
Shareholders' equity	8 625 000	10 065 000
Ordinary share capital	7 724 000	9 300 000
Loan: Funza Bank	3 500 000	2 800 000
Shareholders for dividends	372 000	195 000
<b>*NOTE:</b> Fixed assets were sold at carrying value, R490 000.		

**C. Share capital and dividends:**

SHARE CAPITAL		NUMBER OF SHARES	DETAILS OF SHARES
<b>2018</b>	1 March	1 500 000	In issue at R6,20 per share
	30 April	300 000	Repurchased at R6,90 per share
<b>2019</b>	1 January	40 000	New shares issued
	28 February	1 240 000	In issue

DIVIDENDS			DIVIDENDS PER SHARE
<b>Final</b>	2 March 2018	Paid	13 cents
<b>Interim</b>	31 August 2018	Paid	35 cents
<b>Final</b>	28 February 2019	Declared	30 cents

### 5.3 HORIZON LTD and OPTIMA LTD

#### Refer to Information D to F.

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

He recently invested another R420 000 in each company by buying shares on the JSE at market value as follows:

HORIZON LTD	OPTIMA LTD
R8,40	R4,00

#### REQUIRED:

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

#### 5.3.1 Purchase of shares:

- Explain why directors should be interested in the price of their companies' shares on the JSE. (2)
- Calculate the number of additional shares in Horizon Ltd that Mike was able to buy on the JSE in 2019. (3)
- Comment on the price that Mike paid for these shares and give TWO reasons why he might have been satisfied to pay this price. (6)

#### 5.3.2 Dividends and earnings:

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

#### 5.3.3 Refer to the Cash Flow Statements.

The poor economy has negatively affected Horizon Ltd more than Optima Ltd.

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



**D. Shareholding of Mike Mbele in two companies:**

	<b>HORIZON LTD</b>	<b>OPTIMA LTD</b>
Number of shares bought in 2017	580 000 shares	1 430 000 shares
Total shares issued by each company	1 240 000 shares	2 600 000 shares
Additional shares bought by Mike	?	105 000 shares
Mike's % shareholding before buying additional shares	46,8%	55,0%

**E. Financial indicators and additional information on 28 February 2019:**

	<b>HORIZON LTD</b>	<b>OPTIMA LTD</b>
Earnings per share (EPS)	97 cents	83 cents
Dividends per share (DPS)	65 cents	80 cents
Debt-equity ratio	0,1 : 1	0,7 : 1
% return on average equity	6,2%	18,2%
% return on average capital employed	9,4%	15,1%
Net asset value (NAV)	750 cents	445 cents
<b>Additional information:</b>		
Interest rate on loans	12,0%	12,0%
Interest on investments	6,5%	6,5%

**F. Extracts from Cash Flow Statements for year ended 28 February 2019:**

	<b>HORIZON LTD</b>	<b>OPTIMA LTD</b>
Cash flows from <b>investing</b> activities	R2 700 000	(R2 730 000)
Purchase of fixed assets	0	(1 580 000)
Sale of fixed assets	1 800 000	0
Change in investments	900 000	(1 150 000)
Cash flows from <b>financing</b> activities	(2 670 000)	4 000 000
Proceeds of new shares issued	0	200 000
Shares repurchased	(1 070 000)	0
Cash effects of long-term loan	(1 600 000)	3 800 000

**ACTIVITY 1**

**NSC NOV 2019**

**QUESTION 5**

5.1

5.1.1	
5.1.2	
5.1.3	
5.1.4	

4

5.2

**SUNSET LTD**

5.2.1

<b>Calculate: Income tax paid</b>	
<b>Workings</b>	<b>Answer</b>
<b>Calculate: Dividends paid</b>	
<b>Workings</b>	<b>Answer</b>
<b>Calculate: Proceeds of shares issued</b>	
<b>Workings</b>	<b>Answer</b>
<b>Calculate: Fixed assets purchased</b>	
<b>Workings</b>	<b>Answer</b>

4

4

6

5

5.2.2 Calculate financial indicators for the year ended 28 February 2019:

---

<b>% operating profit on sales</b>		
<b>Workings</b>	<b>Answer</b>	
		4
<b>Net asset value per share</b>		
<b>Workings</b>	<b>Answer</b>	
		4
<b>Debt-equity ratio</b>		
<b>Workings</b>	<b>Answer</b>	
		4

**5.3 HORIZON LTD and OPTIMA LTD**

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

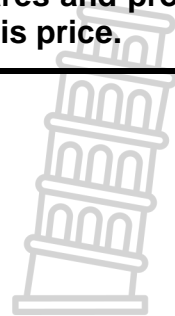
	2
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**Calculate the number of additional shares in Horizon Ltd that Mike was able to buy on the JSE in 2019.**

<b>Workings</b>	<b>Answer</b>	
		3

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

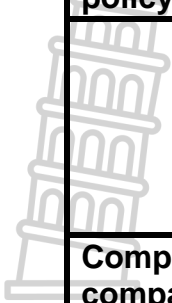
	6
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5.3.2

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



6

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

4

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

5



5.3.3

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

**Decision 1 (with figures):**

**Decision 2 (with figures):**

**Effect on Horizon Ltd in future:**

6

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

**Decision 1 (with figures):**

**Decision 2 (with figures):**

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

8

<b>TOTAL MARKS</b>
75



<b>ACTIVITY 2</b> <b>2018</b>	<b>NSC NOV</b>
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**QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION****70 marks**

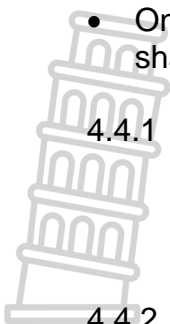
You are provided with information about Vooma Limited for the past two financial years ended 30 June. The company is situated in KZN and trades in racing bikes.

**REQUIRED:**

**NOTE:** Provide figures or financial indicators (ratios or percentages) and comparisons with the previous year to support comments or explanations.

- 4.1 Calculate the following for 2018:
- 4.1.1 % operating expenses on sales (2)
- 4.1.2 Acid-test ratio (4)
- 4.1.3 % return on shareholders' equity (4)
- 4.2 Calculate the following figures that will appear in the 2018 Cash Flow Statement:
- 4.2.1 Change in investments (2)
- 4.2.2 Income tax paid (4)
- 4.2.3 Fixed assets sold (at carrying value) (5)
- 4.3 Cash flow and financing activities:
- 4.3.1 Explain why the directors are satisfied with the improvement in cash and cash equivalents since 1 July 2016. (3)
- 4.3.2 Decisions and gearing in 2018:
- Identify THREE decisions that the directors made to pay for land and buildings. (6)
  - Explain how these decisions affected:
    - Capital employed
    - Financial gearing (Quote TWO indicators.) (6)
- 4.3.3 From the Cash Flow Statement identify ONE decision made by the directors in 2017 that they did NOT make in 2018, besides the points mentioned above. Give a possible reason for the decision in 2017. (3)
- 4.4 Dividends, returns and shareholding for the 2018 financial year:
- On 1 July 2017 there were 800 000 shares in issue.
  - On 31 December 2017 interim dividends were paid.

- On 1 January 2018, 200 000 shares were issued to existing shareholders.
- On 30 June 2018 final dividends of 75 cents per share were declared on all shares, but have not yet been paid.



4.4.1 Calculate for the 2018 financial year:

- Total interim dividends paid (3)
- Interim dividends per share (3)

4.4.2 Calculate total dividends earned by Dudu Mkhize for the 2018 financial year. Her shareholding is:

	SHARES PURCHASED	PURCHASE PRICE
31 August 2016	380 000 shares	R7,00
1 January 2018	110 000 shares	R20,00
<b>TOTAL</b>	490 000 shares	

(5)

4.4.3 On 1 January 2018 each shareholder was offered two shares for every five shares owned. Dudu did not buy enough shares to become the majority shareholder.

Calculate the minimum number of additional shares that Dudu should have bought.

(3)

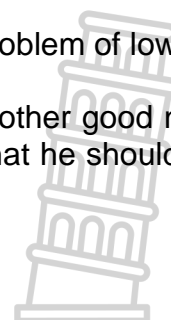
4.5 The directors decided to buy land and buildings in two other provinces in 2018 to solve the problem of low sales that they had previously had in KZN.

4.5.1 Explain:

- Why it was necessary to purchase properties in other provinces instead of in KZN (2)
- Whether the decision to purchase these properties had the desired effect on sales (3)
- Another strategy they used to solve the problem of low sales (3)

4.5.2 The CEO, Ben Palo, wants to communicate other good news to the shareholders at the AGM. Give advice on what he should say about the following topics:

- Earnings per share (3)
- % return earned (3)
- Share price on the JSE (3)



**INFORMATION FOR THE YEAR ENDED 30 JUNE:****A. FIGURES IDENTIFIED FROM INCOME STATEMENT:**

	<b>2018</b>	<b>2017</b>
Sales	R13 182 000	R7 740 000
Number of bikes sold	1 750 bikes	900 bikes
Mark-up %	58%	72%
Cost of sales	8 330 000	4 500 000
Gross profit	4 852 000	3 240 000
Operating expenses	1 900 000	1 500 000
Depreciation	412 000	275 000
Income tax	819 000	444 000
Net profit after tax	1 911 000	1 036 000

**B. EXTRACT FROM BALANCE SHEET ON 30 JUNE:**

	<b>2018</b>	<b>2017</b>
Fixed assets (carrying value)	R12 154 000	R8 031 000
Investments	625 000	600 000
Current assets	2 427 000	2 090 000
Inventories	1 652 000	1 250 000
Trade and other receivables	365 000	820 000
SARS: Income tax	0	15 000
Cash and cash equivalents	410 000	5 000
Shareholders' equity	12 112 000	7 191 000
Non-current liabilities (Loan)	1 850 000	2 600 000
Current liabilities	1 244 000	930 000
Trade and other payables	420 000	515 000
Shareholders for dividends	750 000	280 000
SARS: Income tax	74 000	0
Bank overdraft	0	135 000

**C. CASH FLOW STATEMENT:**

	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>	<b>R1 850 000</b>	<b>R1 046 000</b>
Cash generated from operations	3 322 000	1 989 000

Interest paid	?	(260 000)
Dividends paid	(520 000)	(254 000)
Income tax paid	?	(429 000)
<b>Cash flows from investing activities</b>	<b>(4 560 000)</b>	<b>(167 000)</b>
Purchases of land and buildings	(4 840 000)	0
Sale of fixed assets	?	383 000
Change in investments	?	(550 000)
<b>Cash flows from financing activities</b>	<b>3 250 000</b>	<b>(400 000)</b>
Share capital issued	4 000 000	0
Shares repurchased	0	(1 000 000)
Change in non-current liabilities	(750 000)	600 000
Cash and cash equivalents: Net change	540 000	479 000
Opening balance	(130 000)	(609 000)
Closing balance	410 000	(130 000)

**D. FINANCIAL INDICATORS:**

	<b>2018</b>	<b>2017</b>
Mark-up % achieved	58%	72%
Operating expenses on sales	?	19,4%
Debt-equity ratio	0,2 : 1	0,4 : 1
Acid-test ratio	?	0,9 : 1
Return on shareholders' equity	?	14,4%
Return on capital employed	20,8%	17,8%
Earnings per share	208 cents	130 cents
Dividends per share	?	70 cents
Dividend pay-out rate	50%	54%
Net asset value per share	1 211 cents	899 cents
Market price on stock exchange	2 800 cents	2 100 cents
Interest on loans	12%	12%

## ACTIVITY 2

NSC 2018 NOV

## 4.1 CALCULATION OF FINANCIAL INDICATORS FOR 2018

4.1.1 Calculate: % operating expenses on sales

Workings	Answer

2

4.1.2 Calculate: Acid-test ratio

Workings	Answer

4

4.1.3 Calculate: % return on shareholders' equity

Workings	Answer

4



**4.2 FIGURES FOR 2018 CASH FLOW STATEMENT**

**4.2.1 Calculate: Change in investments**

Workings	Answer

2

**4.2.2 Calculate: Income tax paid**

Workings	Answer

4

**4.2.3 Calculate: Fixed assets sold (at carrying value)**

Workings	Answer

5





**4.3 EXPLANATIONS ON CASH FLOW STATEMENT**

**4.3.1 Explain why the directors are satisfied with the improvement in cash and cash equivalents since 1 July 2016. Quote figures.**

3

**4.3.2 Identify THREE decisions that the directors made to pay for land and buildings.**

<b>Decision 1 (with figures)</b>	
<b>Decision 2 (with figures)</b>	
<b>Decision 3 (with figures)</b>	

6

**Explain how these decisions affected the capital employed in the 2018 financial year. Quote figures.**

**Explain how these decisions affected the financial gearing in the 2018 financial year. Quote TWO indicators and their figures.**

6

**4.3.3 From the Cash Flow Statement identify ONE decision made by the directors in 2017 that they did NOT make in 2018, besides the points mentioned above. Give a possible reason for the decision in 2017.**

<b>Decision (with figures)</b>	<b>Possible reason</b>

3

**4.4 DIVIDENDS, RETURNS AND SHAREHOLDING**

**4.4.1 Calculate: Total interim dividends paid for the 2018 financial year**

Workings	Answer

**Calculate: Interim dividends per share for the 2018 financial year**

Workings	Answer

6
---

**4.4.2 Calculate total dividends earned by Dudu Mkhize for the 2018 financial year.**

Workings	Answer

5
---

**4.4.3 Calculate the minimum number of additional shares that Dudu should have bought.**

Workings	Answer

3
---

4.5.1

Explain why it was necessary to purchase properties in other provinces instead of in KZN.

2

Explain whether the decision to purchase these properties had the desired effect on sales. Quote figures.

3

Explain another strategy they used to solve the problem of low sales. Quote figures.

3

4.5.2 Give advice on what Ben Palo should say about the following topics:

Advice on what to say on earnings per share:

3

Advice on what to say on % return earned:

3

Advice on what to say on share price on the JSE:

3

<b>TOTAL MARKS</b>
70

**ACTIVITY 3****NSC NOV 2017****QUESTION 4: CASH FLOW STATEMENT AND INTERPRETATION****85 marks**

4.1 Choose a term to complete each of the following statements. Write only the term next to the question number (4.1.1–4.1.4) in the ANSWER BOOK.

shareholder(s); external auditor(s); director(s); internal auditor(s)

- 4.1.1 ...are appointed by the shareholders to manage the company.
- 4.1.2 The ... is employed by the company to set up functional internal control processes.
- 4.1.3 A ...is a person who invests in a company by buying shares.
- 4.1.4 ...are appointed by shareholders to give an unbiased opinion on the financial statements. (4 x 1) (4)

4.2 **SO-FINE LTD**

The given information relates to So-Fine Ltd for the financial year ended 31 August 2017.


**REQUIRED:**

- 4.2.1 Prepare the following notes to the Balance Sheet on 31 August 2017: (7)
- Ordinary share capital (7)
  - Retained income (9)
- 4.2.2 Complete the Cash Flow Statement by inserting only the details and figures indicated by a question mark (?). (19)
- 4.2.3 Calculate the following financial indicators on 31 August 2017: (3)
- Percentage operating profit on sales (3)
  - Debt-equity ratio (4)
- 4.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period. (4)

**INFORMATION:**

**A. Information from the Income Statement for the financial year ended 31 August 2017:**

Sales	R8 652 000
Operating expenses	1 760 000
Depreciation	320 000
Interest expense	86 100
Operating profit	697 000
Income tax	187 770
Net profit after income tax	438 130

**B. Information from the Balance Sheet on 31 August:**


	2017 (R)	2016 (R)
Fixed assets (carrying value)	6 177 000	4 975 000
Fixed deposits	220 000	300 000
Loan: Dolphin Bank	985 000	450 000
Current assets	619 600	663 300
Current liabilities	490 000	614 300
Shareholders' equity	?	?
Ordinary share capital	5 292 000	?
Retained income	?	147 370
Cash and cash equivalents	23 400	2 500
Bank overdraft	-	65 100
Shareholders for dividends	168 000	120 000
SARS: Income tax	11 800 (Cr)	2 400 (Dr)

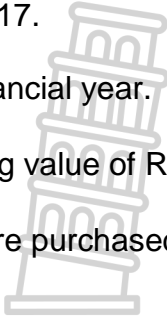
**C. Share capital and dividends**

- The authorised share capital comprises 1 200 000 ordinary shares.
- 900 000 ordinary shares were in issue on 1 September 2016.
- The company issued 150 000 ordinary shares at R6,30 per share on 1 May 2017.
- 70 000 ordinary shares were repurchased from shareholders on 30 August 2017. A cheque for R437 500 was issued for these shares. These shareholders qualify for final dividends.
- An interim dividend of 12 cents per share was paid on 1 February 2017.
- A final dividend was declared on 30 August 2017.

**D. Fixed assets:** Transactions during the current financial year.

- Old equipment was sold for cash at the carrying value of R324 000.
- Additional equipment and delivery vehicles were purchased.

**(See QUESTION 4.3 on the next page.)**



4.3 **CASTRO LTD AND RONKI LTD**

You are provided with information relating to two companies.

**BACKGROUND INFORMATION:**

- Henry Harries owns 300 000 shares in each company.
- **Castro Ltd** issued 200 000 new shares only to existing shareholders at the average issue price (R9,10). These funds were used to establish a new branch. No new loans were raised.
- **Ronki Ltd** paid R4 800 000 to repurchase 320 000 shares.

**REQUIRED:**

**NOTE:** Where comments or explanations are required, quote financial indicators and figures to support your answer.

**CASTRO LTD**

- 4.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued. (3)
- 4.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators. (6)
- 4.3.3 Henry had the option to buy some of the new shares issued by Castro Ltd. He had saved sufficient funds (interest rate 5% p.a.) for this purpose.
- If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy and how much would he have had to pay? (5)
  - Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option. (6)

**RONKI LTD**

- 4.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators. (6)
- 4.3.5 Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares. (3)
- 4.3.6 Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd. (6)

**ADDITIONAL INFORMATION:**

**Financial indicators and additional information from annual reports:**

	CASTRO LTD		RONKI LTD	
	2017	2016	2017	2016
Debt-equity ratio	0,5 : 1	0,8 : 1		
Current ratio			1,9 : 1	3,5 : 1
Acid-test ratio			1,1 : 1	1,7 : 1
Stock-holding period			54 days	54 days
Number of shares in issue	700 000	500 000	580 000	900 000
Average share issue price	R9,10		R10,20	
Price paid for share repurchase			R15,00	
Price of share on JSE	R12,00		R15,00	
Net asset value per share	R10,73	R11,38	R13,30	R13,22
% return on shareholders' equity	23%	17%	16%	13%
% return on total capital employed	20%	15%		
Earnings per share	140 cents	196 cents	266 cents	171 cents
Total dividends	R357 000	R325 000	R928 000	R928 000
Dividends per share	51 cents	65 cents	160 cents	103 cents



**ACTIVITY 3**

**NSC NOV 2017**

**QUESTION 4**

4.1

4.1.1	
4.1.2	
4.1.3	
4.1.4	

4

4.2 **SO-FINE LTD**

4.2.1 **ORDINARY SHARE CAPITAL**

**AUTHORISED SHARE CAPITAL**

1 200 000 ordinary shares
---------------------------

**ISSUED SHARE CAPITAL**

900 000	Ordinary shares on 1 September 2016	
	Ordinary shares on 31 August 2017	5 292 000

7

**RETAINED INCOME**

Balance on 1 September 2016	147 370
Net profit after income tax	438 130
Ordinary share dividends	
Balance on 31 August 2017	

9



4.2.2 SO-FINE LTD

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2017**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash generated from operations		
Interest paid		
Dividends paid		
Income tax paid		?
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of fixed assets		?
?		?
Change in investments		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
?		?
?		?
Change in non-current liabilities		
Net change in cash and cash equivalents		?
Cash and cash equivalents – opening balance		?
Cash and cash equivalents – closing balance		?
		<b>19</b>

4.2.3 Calculate the percentage operating profit on sales.

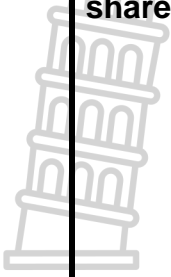
	<input type="text"/> <input type="text"/>
Calculate the debt-equity ratio.	<input type="text"/> <input type="text"/>

4.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period.

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4.3 CASTRO LTD

4.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued.



3

4.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators.

6

4.3.3 If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy?

3

How much would he have had to pay?

2

Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option.

Reason 1:

Reason 2:



6

**RONKI LTD**

4.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators.

6

4.3.5 Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares.

3

4.3.6 Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd.

Point 1:

Point 2:

Point 3:

6

<b>TOTAL MARKS</b>
85

**NOTES TO CASH FLOW STATEMENT**

**CHANGES IN CASH AND CASH EQUIVALENTS:**

- This is the last part of the Cash Flow Statement (Refer to Format above).
- This is also the net effect of the three different business activities on the cash assets.

<b>CASH FLOW STATEMENT FOR THE YEAR ENDING .....</b>	
Cash effect of operating activities	XXX
Cash effects of investing activities	XXX
Cash effects of financing activities	XXX
<b>Net change in cash and cash equivalents</b>	<b>XXX</b>
Cash and cash equivalents at the <b>beginning</b> of year	XXX
Cash and cash equivalents at the end of year	XXX



If the opening bank balance is **UNFAVOURABLE** at **BEGINNING** of year, **DEDUCT** Petty Cash and Cash float to determine the actual bank balance.

<b>NOTE : CASH GENERATED FROM OPERATIONS</b>		
Profit before taxation	xxx	
Adjustments in respect of:		
Interest paid <b>ADD amount</b>	xxx	<b>Disclosed separately in CFS</b>
Depreciation <b>ADD amount</b>	xxx	<b>No effect on cash</b>
Operating profit before changes in working capital	<b>xxxx</b>	
Changes in working capital	<b>xxxx</b>	
(Increase) / <b>decrease</b> in inventories	(xxx)	
(Increase) / <b>decrease</b> in trade and other receivables	xxx	<b>Exclude SARS-Income tax</b>
<b>Increase</b> / (decrease) in trade and other payables	<b># #(xxx)</b>	Check information below
<b>Cash generated from operations</b>	<b>xxxx</b>	

**# # Exclude SARS-Income tax and Shareholders for dividends**  
**Reason – separately disclosed in the CFS ( Cash flow statement )**

<b>NOTE : DIVIDENDS PAID</b>			
Amounts in financial statements	(xxx)	<b>Outflow - always bracketed</b>	<b>Already paid</b>
Balance on last day of previous year	(xxx)	<b>Outflow - always bracketed</b>	
Balance on last day of current year	xxx	<b>NOT bracketed - NOT paid</b>	
Dividends paid	(xxxx)		

**OR LEDGER ACCOUNT****Shareholders for Dividends**

<b>Bank</b>	<b>????</b>			Balance	b/d	
Balance		c/d		Dividends		
				Balance	b/d	

<b>NOTE: TAXATION PAID</b>			
Amounts in financial statements	(xxx)	<b>Outflow - always bracketed</b>	
Balance beginning of year (credit bal.)	(xxx)	<b>Outflow - always bracketed</b>	
Balance end of year (credit bal.)	xxx	<b>NOT bracketed – NOT paid</b>	
Taxation paid	(xxxx)		

**OR LEDGER ACCOUNT**

<b>SARS (INCOME TAX)</b>					
Balance	b/d	6 700	Income tax		403 200
Bank		???			
Balance	c/d	2 100			
		403 200			403 200
			Balance	b/d	2 100

**Assumed Figures****Exam tips**

Tips on how to calculate the payments disclosed in the Cash flow Statement	
Dividends paid	Dividends <b>OWING</b> the previous year plus <b>INTERIM</b> dividends
Tangible Assets bought	<ul style="list-style-type: none"> <li>Use the Ledger ( Asset ) account to determine the asset bought</li> <li>Note 3 on Tangible Assets – <b>BOTTOM-UP CALCULATIONS</b> are reliable for accurate figures and signs.</li> </ul>
Repurchase of Shares	Record the <b>ACTUAL AMOUNT PAID</b> for shares that are equivalent to the average value of shares plus the above average value recorded in the Retained Income note.
Cash and Cash Equivalents	If the business has the <b>Bank overdraft</b> and the <b>favourable balance under assets</b> (Petty cash, Cash float etc.) at the beginning of the year, determine the difference of the two opening balances <b>BEFORE</b> the calculation of the Net change in cash and cash equivalents.

Always **BRACKET THE OUTFLOWS OF CASH**



Classification	Financial Indicators	Formulae	Answer
Profitability	Gross profit on sales	$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	%
	Gross profit on cost of sales	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$	%
	Operating profit on sales	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$	%
	Operating expenses on sales	$\frac{\text{Operating exp}}{\text{Sales}} \times \frac{100}{1}$	%
	Net profit before tax on sales	$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	%
	Net profit after tax on sales	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$	%
Solvency	Solvency ratio	Total assets : Total liabilities	Ratio $x : 1$
Liquidity	Current ratio	Current assets : Current liabilities	Ratio $x : 1$
	Acid test ratio	Current assets - inventories : Current liabilities	Ratio $x : 1$
	Stock turnover rate	$\frac{\text{Cost of sales}}{\text{Average Stock}}$	Times per year
	Stock holding period	$\frac{\text{Average Stock}}{\text{Cost of sales}} \times \frac{365}{1}$	Days or months
	Average debtors collection period	$\frac{\text{Average Debtors}}{\text{Credit Sales}} \times \frac{365}{1}$	Days or months
	Average creditors payment period	$\frac{\text{Average Creditors}}{\text{Credit Purchases}} \times \frac{365}{1}$	Days or months
Return	Return on Shareholders' Equity (ROSHE)	$\frac{\text{Net profit after tax}}{\text{Shareholders' Equity}} \times \frac{100}{1}$	%
	Return on Capital Employed (ROTCE)	$\frac{\text{Net profit before tax} + \text{interest on loan}}{\text{Average Capital Employed}} \times 100$	%
		Capital Employed is: ↓ Aver Shareholders Equity + Average Loans	
	Earnings Per Share	$\frac{\text{Net profit after tax}}{\text{Number of issued shares issued}} \times \frac{100}{1}$	Cents
Return	Dividends Per Share	$\frac{\text{Interim} + \text{Final dividends}}{\text{Number of issued shares issued}} \times \frac{100}{1}$	Cents
	Net Asset value per share	$\frac{\text{Shareholders' Equity}}{\text{Number of issued shares issued}} \times \frac{100}{1}$	Cents
Financial risk/Gearing	Debt -equity ratio (gearing)	Non-current liabilities : Shareholders' equity	Ratio $x : 1$

### FINANCIAL INDICATORS

#### Basic knowledge needed to master financial indicators

- Knowledge of formulae
- Classification of financial indicators
- Commenting – identify indicators, analyse ( indicate trends and quote figures)
- Compare financial indicators that are related
- Compare and analyse performance of two different companies

**NOTE** – adequate knowledge of financial statements is key to mastering of this section

#### Related Financial indicators that should be compared

NAV	Market value of shares	<b>Higher market price</b> indicate that shareholders have confidence in companies shares
ROSHE	Rate of investments	ROSHE-determines if the business should invest the funds elsewhere.
ROTCE	Rate of interest on loan	ROTCE- <b>ABOVE</b> interest rate is <b>positively geared</b> or <b>favourable</b> <b>BELOW</b> interest rate <b>negatively geared</b> (unfavourable to use loans)
Debt Equity	Rate of interest on loan	Debt-Equity measure degree of <b>financial risk</b> <b>Lower ratio</b> indicate <b>creditworthiness</b> Use of borrowed funds is <b>favourable when interest rates are low</b>
Earnings per share	Dividends per share	Earnings are distributed, and some may be <b>retained for future expansion</b> of business.
Debtors Collection period	Creditors Payment period	Longer period for creditor's payment is preferable $\Rightarrow$ money can be collected from debtors. The payment period is within 90 days.





## AUDIT REPORTS



## ACTIVITY 1

## NSC 2019 , QUESTION 4

## AUDIT REPORTING

9 Marks

## 4.1 AUDIT REPORT FOR YEAR-END 28 FEBRUARY 2019

The financial statements of Visiv Ltd) were audited. You are provided with extracts from the audit report.

## Extracts from the audit report:

**Basis for audit report**

- Point 1** We were unable to obtain sufficient audit evidence to support the amounts provided for certain income and expense items ...
- Point 2** Furthermore, the repurchase of shares on 31 May 2018 is not in accordance with provisions of the Companies Act, 1973 (Act 71 of 2008), as the liquidity of the company has been compromised ...

**Opinion**

- Point 3** Because of the significance of the matters described above, we do not express an opinion ...

**REQUIRED:**

- 4.1.1 **Refer to Point 3.**  
What type of audit report did the company receive? (1)
- 4.1.2 **Refer to Point 1.**  
Give TWO examples of audit evidence that the auditors would have required regarding this problem. (2)
- 4.1.3 **Refer to Point 2.**
- Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion. (4)
  - Explain what the directors could have done to prevent this comment by the auditors. Provide TWO points. (2)

**INFORMATION****After processing all adjustments:**

- The current ratio is 0, 8: 1.
- The current liabilities totalled R2 900 000.

9

## ACTIVITY 1

NSC NOV 2019

## 4.3 AUDIT REPORT

4.3.1 What type of audit report did the company receive?

1

4.3.2 Give TWO examples of audit evidence that the auditors would have required regarding this problem.

Example 1	
Example 2	

2

4.3.3 Apart from the current ratio, identify and calculate ONE other financial indicator that the auditors would have used in deciding on this opinion.

Identify ONE other financial indicator:

Calculate the financial indicator:

4

Explain what the directors could have done to prevent this comment by the auditors. Provide TWO points.

Point 1	
Point 2	

2

9 MARKS

## ACTIVITY 2

NSC NOV 2018

3.3

**AUDIT REPORT****13 Marks**

Extracts from the audit report of Tembiso Ltd are provided.

**INFORMATION:****To Shareholders**

We have audited the financial statements set out on pages 8 to 52 ...

**Opinion**

*Point 1* In our opinion the financial statements present fairly, in all material respects, the financial position of the company as at 28 February 2018 ...

*Point 2* ... in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act (Act 71 of 2008) of South Africa.

**Basis for Opinion**

*Point 3* We are independent of the company ...

*Point 4* We have fulfilled our ethical responsibilities, which are consistent with international standards ...

*Point 5* ... and the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

**REQUIRED:**

3.3.1 **Refer to points 1 to 3.**

Why did the auditors mention these points? Give ONE explanation for EACH point.

(5)

3.3.2 **Refer to points 4 and 5.**

Explain TWO examples of:

- Ethical responsibilities
- Audit evidence

(8)

**ACTIVITY 2****NSC NOV 2018****3.3 AUDIT REPORT****3.3.1****Point 1** Opinion

1

**Point 2****IFRS and Companies Act**

2

**Point 3****Independent**

2

**3.3.2****Point 4****TWO examples of ethical responsibilities:****Example 1:****Example 2:**

4

**Point 5****TWO examples of audit evidence:****Example 1:****Example 2:**

4

**13 MARKS**

**ACTIVITY 3****ASC JUNE 2019****CONCEPTS AND AUDIT REPORT****13 Marks**

- 4.1 Choose a term in COLUMN B that matches an explanation in COLUMN A. Write only the letters (A–E) next to the question numbers (4.1.1 to 4.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
4.1.1	Reflects the financial position of the business on a specific date	A	Audit report
4.1.2	Shows whether the business made a profit or loss	B	Cash Flow Statement
4.1.3	Provides details about the movement of money with regard to operating, investing and financing activities	C	Balance Sheet
4.1.4	Provides an unbiased opinion on the reliability of the financial statements of a business	D	Income Statement
		E	Directors' report

(4 x 1) (4)

4.2 **AUDIT REPORT**

Extract from the audit opinion of Everest Ltd for the financial year ended 30 April 2018:

**Audit opinion**

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 30 April 2018 and the results of their operations and cash flow for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2008 (Act 71 of 2008).

**Kego and Murray Associates**  
Chartered accountants (SA)

31 July 2018

**REQUIRED:**

- 4.2.1 Choose the correct word from those given in brackets. Give ONE reason. Everest Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report. (3)
- 4.2.2 Give ONE reason why the Companies Act requires public companies to be audited by an independent auditor. (2)
- 4.2.3 Newspaper reports have indicated that Kego and Murray Associates have been found guilty of misconduct in terms of audit work done at several large firms. Explain how this may influence shareholders of Everest Ltd. State TWO points. (4)

## ACTIVITY 3

ASC JUNE 2019

## CONCEPTS AND AUDIT REPORTS

## QUESTION 4

4.1

4.1.1	
4.1.2	
4.1.3	
4.1.4	

4

## 4.2 AUDIT REPORT

4.2.1

Choose the correct word from those given in brackets.

Give ONE reason.

3

4.2.2

Give ONE reason why the Companies Act requires public companies to be audited by an independent auditor.

2

4.2.3

Newspaper reports have indicated that Kego and Murray Associates have been found guilty of misconduct in terms of audit work done at several large firms. Explain how this may influence shareholders of Everest Ltd. State TWO points.

4

13 MARKS

**ACTIVITY 4****ASC JUNE 2018****4.3 AUDIT REPORT**

You are provided with an extract from the audit report of the independent auditors of Denga Limited.

**REQUIRED:**

- 4.3.1 Briefly explain the role of an independent auditor. (2)
- 4.3.2 Did Denga Limited receive a qualified/unqualified/disclaimer of opinion audit report? Briefly explain your choice. (3)
- 4.3.3 State THREE possible consequences for the independent auditor if he had NOT mentioned the advertising expense in his report. (6)

**INFORMATION:****EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS****Independent Auditors' Responsibility**

We have audited the annual financial statements of Denga Limited, set out on pages 27 to 41 for the year ended 31 March 2017. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

**Basis for ... Opinion**

The advertising expense of R500 000 in the Income Statement could not be verified, as no documentation existed for part of this expenditure.

**... Audit Opinion**

In our opinion, except for the advertising expenses in the Income Statement which could not be verified, the financial statements fairly represent the financial position of the company at 31 March 2017.

**Khan & Kruger****Chartered Accountants (SA), 15 May 2017**



**ACTIVITY 4****ASC NOV 2018****4.3 AUDIT REPORT****4.3.1** Briefly explain the role of an independent auditor.  

2

**4.3.2** Did Denga Limited receive a qualified/unqualified/disclaimer of opinion audit report?

Briefly explain your choice.

3

**4.3.3** State **THREE** possible consequences for the independent auditor if he had **NOT** mentioned the advertising expense in his report.

Point 1:

Point 2:

Point 3:

6

<b>11 MARKS</b>
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**ACTIVITY 5****NSC FEB 2018****4.3 AUDIT REPORT: DF ENTERPRISES LTD****REQUIRED:**


- 4.3.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (4.3.1(a)–4.3.1(b)) in the ANSWER BOOK.
- (a) The audit report is completed by the (internal/external) auditor. (1)
- (b) The (directors/shareholders/auditors) are responsible for the preparation of the financial statements. (1)
- 4.3.2 Refer to the audit report below.
- (a) The audit report below indicates a/an (qualified/unqualified) opinion. (1)
- (b) Explain why the shareholders should be concerned about this audit report. State TWO points. (4)

**INFORMATION:****EXTRACT FROM THE AUDIT REPORT OF DF ENTERPRISES LTD****Basis for Qualification of Opinion**

Source documents for expenditure amounting to R550 000 could not be traced.

**Audit Opinion**

In our opinion, except for the effects of the unsubstantiated expenditure described in the **Basis for Qualification of Opinion** paragraph, the financial statements fairly represent the financial position of the company on 30 June 2017 and the results of their operations and cash flows for the year ended, in accordance with the International Financial Reporting Standards, and in the manner required by the Companies Act (Act 61 of 1973) of South Africa.

**ACTIVITY 6****NSC 2017****3.3 AUDIT REPORT****6 Marks**

An extract of the independent audit report of Karin Ltd for the financial year ended on 28 February 2017 is provided.

**REQUIRED:**

As a shareholder, what concerns would you have regarding this audit report? Explain THREE points.

**(6)****INFORMATION:****EXTRACT FROM THE AUDIT REPORT OF KARIN LTD**

We have audited the annual financial statements of Karin Ltd for the year ended 28 February 2017. These financial statements are the responsibility of the company's directors.

**Basis for Disclaimer of Opinion**

In the course of our audit we established that bonuses paid to directors, amounting to R9,8 million, had not been authorised by the Remunerations Committee.

**Audit Opinion**

Because of the significance of the matters described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Karin Ltd for the year ended 28 February 2017.

**Bongani and Botha, Chartered Accountants (SA)****6**