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**WEST COAST EDUCATION DISTRICT**

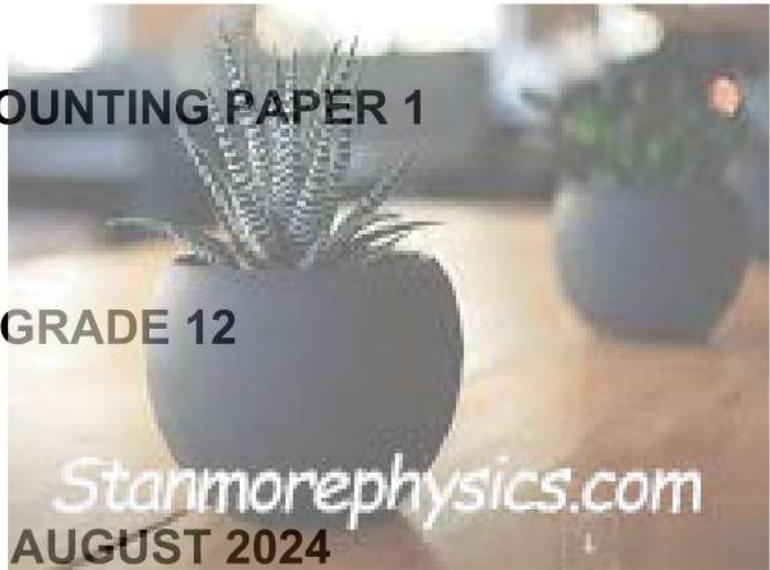
**PREPARATORY EXAMINATION**

**ACCOUNTING PAPER 1**

**GRADE 12**

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**26 AUGUST 2024**



**MARKS: 150**

**TIME: 2 HOURS**



**This paper consists of 11 pages.**

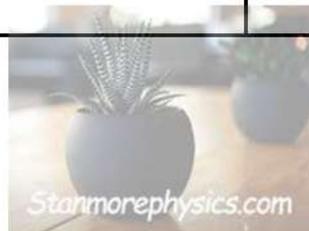
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## INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

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

QUESTION	TOPIC	MARKS	MINUTES
1	Financial Statements	65	52
2	Cash Flow Statement and Financial Indicators	35	28
3	Interpretation of Financial Statements	40	32
4	Corporate Governance	10	8
<b>TOTAL</b>		<b>150</b>	<b>120</b>



**QUESTION 1: FINANCIAL STATEMENTS AND NOTES**

**(65 marks; 52 minutes)**

The information relates to The Cleaning House Limited for the financial year ended 29 February 2024. They sell cleaning material, and they also provide cleaning services.

**REQUIRED:**

- 1.1.1 Refer to information B: Calculate the value of the multi-purpose cleaning material. (7)
- 1.1.2 Calculate the Trading stock deficit for the period. (5)
- 1.2 Calculate the missing amounts to complete the Statement of Comprehensive Income for the financial year ended 29 February 2024. (30)
- 1.3 Prepare the Retained Income note to the Statement of Financial Position on 29 February 2024. (7)
- 1.4 Prepare the Equity and Liabilities section of the Statement of Financial Position on 29 February 2024. (16)

**INFORMATION:**

<b>Trial Balance on 29 February 2024</b>	
	<b>R</b>
Ordinary Share Capital (200 000 shares)	3 200 000
Equipment	80 000
Accumulated depreciation on Equipment	36 000
Trading stock	120 580
Debitors control	60 449
Provision for bad debt	4 815
Bank overdraft	35 260
Creditors control	45 800
SARS: VAT (Cr)	16 859
SARS: Income tax (Dr)	180 100
Ordinary Shareholder's Dividends	86 000

### ADJUSTMENTS AND ADDITIONAL INFORMATION

- A. The following credit note was issued to a client who was unsatisfied with the wrong products delivered and cleaning service rendered. A mark-up of 20% is used. The transaction has not yet been recorded.

<b>The Cleaning House</b> <b>CREDIT NOTE</b> <b>VAT no: 36900 0009</b>			
<b>To: York Park Building</b>			<b>No. 14</b>
			<b>Date: 27 February 2024</b>
Units	Details/Description	Unit price	Total
3	Multipurpose cleaner 10 litre	420	1 260
			1 260
	VAT – 15%		189
			<b>1 449</b>

**B. Trading stock:**

The company uses the periodic inventory system and the weighted average method to calculate the multi-purpose cleaning agents' value. The inventory was taken on 28 February 2024, but the final value of the multi-purpose cleaning agents has yet to be calculated. **(Round the weighted price to the nearest round)**

The value of the other cleaning materials and agents was calculated at R89 560.

**Information on multi-purpose cleaning agents**

	Number of units	Value per liter	Total value (R)
<b>Opening stock</b>	160 liter	R40	6 400
<b>Purchases:</b>	1 750 liter		101 000
<b>March 2023</b>	500 liter	R55	27 500
<b>June 2023</b>	1 000 liter	R58	58 000
<b>January 2024</b>	250 liter	R62	15 500
<b>Closing stock</b>	370 liter		

- C. A creditor with a debit balance of R4 600 was transferred to the Debtors ledger on 29 February. The provision for bad debts must be adjusted to 6%.
- D. The Telephone account for February 2024 was received, R4 400 but has not yet been paid.
- E. The Bank Statement received on 29 February 2024, reflected the following transactions that must still be considered:
- A direct deposit of R14 200 was received from Desmine's Salon for cleaning services. 75% of this amount is for March to May 2024.
  - Service fees, R450.
- F. Rent income increased by R500 per month from 1 May 2023. The last month's rent is still outstanding.

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- G. The directors informed the bookkeeper that they will donate half their last month's fees, to the SAVE THE CHILDREN fund on behalf of the company. The payments to the directors and the fund were made, but no entries have been made in the records.
- H. **Fixed assets:**
- An old delivery vehicle, with a carrying value of R170 000 on 1 March 2023, was sold for R150 000 cash on 1 December 2023
  - Depreciation for vehicles at 20% on a diminishing balance.
- I. Interest on a loan was capitalised but has not yet been entered. The loan statement received on 29 February 2024 reflects the following:

<b>Loan statement on 29 February 2024: ABSA</b>	
Balance on 1 March 2023	R320 800
Interest charged	R110 000
Repayments during the year	R182 000
Balance on 29 February 2024	?

The repayment on the capital amount of the loan, will remain the same in the following financial year.

- J. Cleaning expenses is the balancing figure in the Statement of Comprehensive Income.
- K. Income tax for the year amounts to R197 100. This is 30% of the net profit before tax.
- L. **Shares:**
- 75 000 new shares were issued on 1 June 2023 at R17 per share.
  - 15 000 shares were repurchased on 5 January 2024 at R20 per share.
  - All transactions with regards to shares were recorded correctly.
- Dividends:**
- Interim dividends were declared and paid on 31 October 2023.
  - A final dividend of 60c per share was declared on 29 February 2024.

**QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS****(35 marks; 28 minutes)**

The information relates to Carlin Ltd for the financial year ended 30 June 2024.

**REQUIRED:**

- 2.1 Complete the Note for Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2024: (6)
- 2.2 Calculate the following figures in the 2024 Cash Flow Statement:
- 2.2.1 Taxation paid (4)
- 2.2.2 Fixed assets purchased (6)
- 2.2.3 Shares issued (2)
- 2.2.4 Funds used for the repurchased shares (2)
- 2.2.5 Net change in cash and cash equivalents (4)
- 2.3 Calculate the following:
- 2.3.1 Earnings per share (3)
- 2.3.2 Debt-equity ratio (3)
- 2.3.3 Return on total average capital employed (5)

**INFORMATION:****A. Information from the financial statements on 30 June:**

	<b>2024</b> <b>R</b>	<b>2023</b> <b>R</b>
Fixed assets (carrying value)	1 541 940	944 800
Financial assets	130 000	190 000
<b>Shareholders' equity</b>	<b>2 499 900</b>	<b>1 117 500</b>
Ordinary share capital	2 375 000	1 000 000
Retained income	124 900	117 500
Loan: Nedbank	350 000	1 070 000
Inventory	1 125 000	1 145 000
Trade and other receivables	1 115 000	1 143 000
Cash and cash equivalent	88 900	2 500
Trade and other payables	1 150 940	1 070 800
Bank overdraft	-	153 000
Depreciation	16 645	22 000
Interest expenses	120 000	123 000
<b>Total capital employed</b>	<b>2 849 900</b>	<b>2 187 500</b>

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**B. NOTES TO THE STATEMENT OF FINANCIAL POSITION:**

	<b>2024</b>	<b>2023</b>
	<b>R</b>	<b>R</b>
<b>TRADE AND OTHER RECEIVABLES</b>	1 115 000	1 143 000
Debtors Control	1 102 000	1 130 000
Accrued Income	9 000	6 000
Prepaid Expenses	4 000	3 000
SARS: Income Tax	0	4 000

<b>TRADE AND OTHER PAYABLES</b>	1 150 940	1 070 800
Creditors Control	873 565	1 047 300
Accrued expenses	7 000	9 500
SARS: Income Tax	10 375	0
Shareholders for dividends	260 000	14 000

**ADDITIONAL INFORMATION:**

**(i) Share capital and dividends**

- The company is registered with an authorised share capital of 300 000 ordinary shares.
- On 30 June 2023 there were 100 000 shares in issue.
- 100 000 additional shares issued at R15 on 1 January 2024.
- On 30 June 2024, 10 000 shares were repurchased from the estate of a deceased shareholder at R3,50 above the average price.
- The interim dividends of 20 cents per share was declared and paid on 15 December 2023. The final dividends were declared on 30 June 2024.

**(ii) Sale of equipment**

Cost price	R40 000
Accumulated depreciation on date sold	R20 570
Date sold	1 April 2024
Selling price (at carrying value)	?

**(iii) Income tax**

- Income tax for the year amounted to R197 600.
- Net profit after tax; R322 400.

QUESTION 3: **INTERPRETATION OF FINANCIAL STATEMENTS**

**(40 marks; 32 minutes)**

**ERASMUS LIMITED AND VAN ZYL LIMITED**

Felicia Kock owns shares in both companies. She wants to analyse both companies' financial results to improve her portfolio.

**REQUIRED:**

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

- 3.1 Comment on the liquidity of the two companies and explain which company manages their working capital more efficiently. (6)
- 3.2 Comment on the degree of risk and gearing of both companies. Explain how this will influence your choice of company. (6)
- 3.3 Consider the **Return, Earnings and Dividends** of the two companies.
- (a) Explain whether Felicia should be satisfied with the return on her investment in both companies. Provide financial indicators / figures to support your answer. (4)
- (b) Calculate the dividend pay-out rate of both companies. Indicate which company has adopted the better rate and the possible reason for that choice. (6)
- 3.4 **Refer to Information B and C.**
- (a) Indicate how many shares Felicia must purchase in Erasmus Ltd to maintain the percentage shareholding she had at the start of the year. (4)
- (b) Calculate the amount Felicia will have to pay to purchase these shares. (3)
- (c) Felicia wants to maintain her majority shareholding in Van Zyl Ltd. What is the minimum number of shares which she would have to purchase to be successful in her aim. Also provide a reason why Felicia would want to be the majority shareholder of a company. (7)
- (d) Comment on the value of the shares in each company and provide figures to support your answer. (4)

INFORMATION 

**A. Financial indicators and additional information on 29 February 2024:**

	Erasmus Ltd	Van Zyl Ltd
Current ratio	1,5 : 1	2,1 : 1
Acid test ratio	0,6 : 1	1,1 : 1
Debt-Equity ratio	0,3 : 1	0,8 : 1
Return on total capital employed (ROTCE)	15,5%	11,8%
Interest on loan	14%	14%
Return on shareholder's equity (ROSHE)	16% (14% in 2023)	28% (24% in 2023)
Interest on fixed deposit	10%	10%
Earnings per share (EPS)	124 cents	143 cents
Dividends per share (DPS)	100 cents	75 cents
Market value of shares	R8,00	R16,00
Net asset value per share (NAV)	R7,20	R17,50

**B. Share capital of the two companies:**

	Erasmus Ltd		Van Zyl Ltd	
Beginning of the year: 1 March 2023	420 000 shares	R2 856 000	140 000 shares	R1 960 000
New shares issued during the year	117 000 shares	R936 000	70 000 shares	R1 120 000
Shares repurchased during the year	—	—	35 000 shares	R560 000

**C. Number of shares Felicia owns in each company:**

- At the start of the year, Felicia owned the following shares in each company:

Erasmus Limited	214 200 shares
Van Zyl Limited	84 000 shares

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

You are provided with a media article relating to West Coast Ltd.

**REQUIRED:****4.1 Refer to Paragraph 4.**

The three board members implicated in this case each own 150 000 shares.

Calculate the loss that Sanet and the two directors each were able to avoid by selling their shares on 13 April 2023. (2)

**4.2 Refer to Paragraph 3.**

- Explain why the text message is so important to the investigators. (2)
- Explain why you think this crime is referred to as 'insider trading'. (2)

**4.3** Explain how the rapid decline in the share price and the fraudulent financial statements are likely to affect the existing shareholders and its workers. (4)

**INFORMATION:**

Use the information in the article and your knowledge on companies to answer the questions.

**SOCIAL MEDIA LIFTS THE LID ON MAJOR INSIDER TRADING****Paragraph 1**

Network24 reported last month that West Coast Ltd received a disclaimer of opinion audit report for falsifying financial statements. The police has started to investigate the false financial statements, but this is not the end of the company's problems.

**Paragraph 2**

In March 2024, the Financial Sector Conduct Authority (FSCA) imposed a penalty of R50 million on Sanet Coetzee, CEO (chief executive officer) of West Coast Ltd, for breaching the Financial Markets Act (Act 19 of 2012) when she sent text messages to two directors, warning them to sell their West Coast Ltd. shares.

**Paragraph 3**

The incriminating message from Sanet read: "You always ask my opinion. It will take a long time for West Coast Ltd. to get rid of all the bad news. Sell your shares immediately at the current price. Delete this message now and don't tell anyone."

**Paragraph 4**

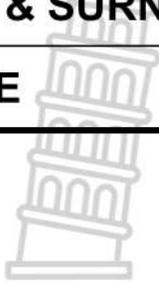
In deciding on the penalty, the FSCA noted that on 10 April 2023 Sanet had sent the message and on 13 April 2023, the three board members, Sanet and the two directors, sold their shares on the JSE at R105 per share. This resulted in a rapid decline of R8,00 per share in the market price occurred in the following two days.

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## GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET

$\frac{\text{Gross profit} \times 100}{\text{Sales}} \quad 1$	$\frac{\text{Gross profit} \times 100}{\text{Cost of sales}} \quad 1$
$\frac{\text{Net profit before tax} \times 100}{\text{Sales}} \quad 1$	$\frac{\text{Net profit after tax} \times 100}{\text{Sales}} \quad 1$
$\frac{\text{Operating expenses} \times 100}{\text{Sales}} \quad 1$	$\frac{\text{Operating profit} \times 100}{\text{Sales}} \quad 1$
Total assets: Total liabilities	Current assets: Current liabilities
(Current assets – Inventories): Current liabilities	Non-current liabilities: Shareholders' equity
(Trade & other receivables + Cash & cash equivalents): Current liabilities	
$\frac{\text{Average trading stock} \times 365}{\text{Cost of sales}} \quad 1$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors} \times 365}{\text{Credit sales}} \quad 1$	$\frac{\text{Average creditors} \times 365}{\text{Cost of sales}} \quad 1$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax} \times 100}{\text{Number of issued shares}} \quad 1$ (*See note below)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity} \times 100}{\text{Number of issued shares}} \quad 1$	$\frac{\text{Dividends for the year} \times 100}{\text{Number of issued shares}} \quad 1$
$\frac{\text{Interim dividends} \times 100}{\text{Number of issued shares}} \quad 1$	$\frac{\text{Final dividends} \times 100}{\text{Number of issued shares}} \quad 1$
$\frac{\text{Dividends per share} \times 100}{\text{Earnings per share}} \quad 1$	$\frac{\text{Dividends for the year} \times 100}{\text{Net income after tax}} \quad 1$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
<b>NOTE:</b>	
* In this case, if there is a change in the number of issued shares during a financial year, the weighted-average number of shares is used in practice.	

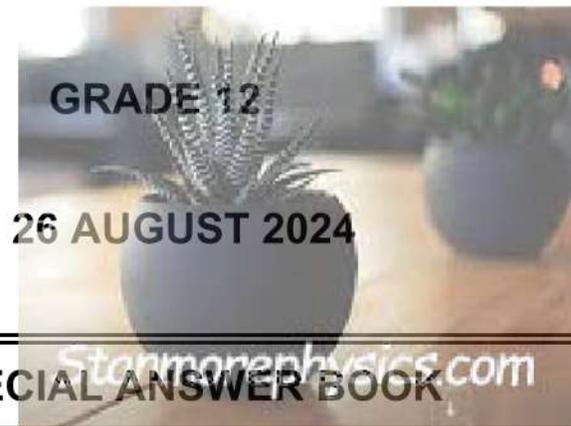
<b>NAME &amp; SURNAME</b>	
<b>GRADE</b>	



**WEST COAST EDUCATION DISTRICT**

**PREPARATORY EXAMINATION**

**ACCOUNTING PAPER 1**



**SPECIAL ANSWER BOOK**

QUESTION	MARK AWARDED	MAXIMUM MARK	MODERATED MARK
1		65	
2		35	
3		40	
4		10	
<b>TOTAL</b>		<b>150</b>	

This answer book consists of 10 pages.

**QUESTION 1: FINANCIAL STATEMENTS AND NOTES**

1.1.1

Calculate the final value of the multi-purpose cleaning material.	
Workings	Answer
	

7

1.1.2

Calculate the Trading stock deficit for the period.	
Workings	Answer
Trading stock:	
Stock count:	

5



**1.2 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 29 FEBRUARY 2024**

<b>Sales</b> (3 889 960	
<b>Cost of sales</b> (2 549 950	
<b>Gross Profit</b>	
<b>Other Operating Income</b>	
<b>Cleaning income</b> (1 215 000	
<b>Rent income</b> (115 600	
<b>Gross Operating Income</b>	
<b>Operating Expenses</b>	<b>1 949 490</b>
<b>Cleaning expenses</b>	
<b>Audit fees</b>	20 000
<b>Salaries and wages</b>	318 200
<b>Director's fees</b> (990 000	
<b>Telephon</b> (46 200	
<b>Bank charges</b> (21 400	
<b>Depreciation</b>	32 500
<b>Operating Profit</b>	
<b>Interest Income</b>	17 800
<b>Profit before Interest expense</b>	
<b>Interest Expense</b>	
<b>Net profit before tax</b>	
<b>Income Tax</b>	(197 100)
<b>Net income after tax</b>	

30

1.3

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RETAINED INCOME NOTE :	
Balance at beginning	240 000
Ordinary share dividends	
Interim	86 000
Balance at end	

7

1.4

<b>EQUITY AND LIABILITIES</b>	
<b>Non-current liabilities</b>	
Loan: ABSA	
<b>Current liabilities</b>	
Trade creditors (45 800	
Current portion of loan	
Bank overdraft (35 260	
<b>TOTAL EQUITY AND LIABILITIES</b>	

16

<b>TOTAL MARKS</b>
65



**QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS**

**2.1 Complete the Note for Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2024:**

<b>Net profit before tax</b>	
<b>Adjustment in respect of:</b>	
Depreciation	16 645
Interest on loan	120 000
<b>Operating profit before changes in working capital</b>	

6
---

**2.2.1 Calculate: Taxation paid**

WORKINGS	ANSWER

4
---

**2.2.2 Calculate: Fixed assets purchased**

WORKINGS	ANSWER

6
---

**2.2.3 Calculate: Shares issued**

WORKINGS	ANSWER

2
---

**2.2.4 Calculate: Funds used for the repurchase of shares**

WORKINGS	ANSWER

2
---

2.2.5

Calculate: Net change in cash and cash equivalents	
WORKINGS	ANSWER
Net change in cash and cash equivalents	
Cash and cash equivalents at the beginning	
Cash and cash equivalents at the end	

4

2.3.1

Calculate: Earnings per share as on 30 June 2024	
WORKINGS	ANSWER

3

2.3.2

Calculate: Debt-equity ratio	
WORKINGS	ANSWER

3

2.3.3

Calculate: Return on total average capital employed	
WORKINGS	ANSWER

5

<b>TOTAL MARKS</b>
35

**QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS**

**3.1** Comment on the liquidity of the two companies and explain which company manages the working capital more efficiently.



6

**3.2** Comment on the degree of risk and gearing of both companies. Explain how this will influence your choice of company.



6

**3.3** Consider the Return, Earnings and Dividends of the two companies.

**(a)** Explain whether Felicia should be satisfied with the return on her investment in both companies. Provide financial indicators/figures to support your answer.

4

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(b) Calculate the dividend pay-out rate of both companies. Indicate which company has adopted the better rate and the possible reason for that choice.

ERASMUS LTD:

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VAN ZYL LTD:

REASON:

6

3.4 (a) Refer to Information B and C.

Indicate how many shares Felicia must purchase in Erasmus Ltd to maintain the percentage shareholding she had at the start of the year.



4



**QUESTION 4 CORPORATE GOVERNANCE**

4.1 The three board members implicated in this case each own 150 000 shares. Calculate the loss that Sanet and the two directors each were able to avoid by selling their shares on 13 April 2023.

WORKINGS	ANSWER		
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="height: 20px;"> </td></tr> <tr><td style="text-align: center;">2</td></tr> </table>		2
2			

4.2 Explain why the text message is so important to the investigators

	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="height: 20px;"> </td></tr> <tr><td style="text-align: center;">2</td></tr> </table>		2
2			
Explain why you think this crime is referred to as 'insider trading'.	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="height: 20px;"> </td></tr> <tr><td style="text-align: center;">2</td></tr> </table>		2
2			

4.3 Explain how the rapid decline in the share price and the fraudulent financial statements are likely to affect the existing shareholders and its workers

Existing shareholders			
Workers			
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="height: 20px;"> </td></tr> <tr><td style="text-align: center;">4</td></tr> </table>		4
4			

TOTAL MARKS
10

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# WEST COAST EDUCATION DISTRICT



## PREPARATORY EXAMINATION

### ACCOUNTING PAPER 1



**MARKS: 150**

**TIME: 2 HOURS**



**This marking guideline consist of 11 papers.**

**MARKING PRINCIPLES:**

1. Unless otherwise stated in the marking guidelines, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Unless otherwise stated, give full marks for correct answer. If answer is incorrect, mark workings.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark as a working mark for that figure (not the method mark for the answer). Note: figures stipulated in the marking guidelines as components of workings are marked together; these do not carry the method mark for parts thereof.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. If candidates provide more than the required number of responses, inspect all responses to give benefit to the candidate. Penalties may be applied for foreign entries if candidates earn full marks on a question (max -2 per Q).
8. These marking guidelines are not for public distribution as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
9. Where penalties are applied, the marks for that section of the question cannot be a final negative.
10. Where method marks are awarded for operation, marker must inspect reasonableness of the answer.
11. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷ as per candidate's calculation (if valid) or per marking guideline.
12. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
13. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a .
14. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
15. Codes: f = foreign item; p = placement/presentation.



QUESTIONS ON FINANCIAL STATEMENTS AND NOTES

1.1.1

Calculate the final value of the multi-purpose cleaning material.	
Workings	Answer
$\frac{101\,000\checkmark + 6\,400\checkmark}{160\checkmark + 1\,750\checkmark} = \frac{107\,400}{1\,910} = R56\checkmark$ $370\checkmark \times 56 = R20\,720$	R20 720☑

7

1.1.2

Calculate the Trading stock deficit for the period.	
Workings	Answer
<b>Trading stock:</b> 120 580 ✓ + 1 050 ✓ = 121 630  <b>Stock count:</b> 89 560 ✓ + 20 720☑(1.1.1) = 110 280  121 630 - 110 280 = 11 350	R11 350☑

5



1.2 **STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 29 FEBRUARY 2024**

Sales (3 889 960 – 1 260 ✓)	<input checked="" type="checkbox"/> 3 888 700	
Cost of sales (2 549 950 – 1 050 ✓✓) operation	<input checked="" type="checkbox"/> (2 548 900)	
Gross Profit CoS must be deducted	<input checked="" type="checkbox"/> 1 339 800	6
Other Operating Income operation	<input checked="" type="checkbox"/> 1 351 249	
Cleaning income (1 215 000 + 3 550) 14 200 ✓ - 10 650 ✓	<input checked="" type="checkbox"/> 1 218 550	
Provision for bad debt adjustment (60 449 – 1 449 ✓ + 4 600 ✓) x 6% (4 815 ✓ - 3 816)	<input checked="" type="checkbox"/> 999	
Rent income (115 600 + 10 600 ✓✓) operation	<input checked="" type="checkbox"/> 126 200	14
Profit on the sale of an asset (170 000 – 25 500 ✓ - 150 000 ✓)	<input checked="" type="checkbox"/> 5 500	
<b>Gross Operating Income</b>		
<b>Operating Expenses</b>	<b>1 949 490</b>	
Cleaning expenses balancing amount	<input checked="" type="checkbox"/> 414 390	
Audit fees	20 000	
Salaries and wages	318 200	
Director's fees (990 000 + 45 000 ✓) operation	<input checked="" type="checkbox"/> 1 035 000	
Telephone (46 200 + 4 400) operation	✓ 50 600	
Bank charges (21 400 + 450) operation	✓ 21 850	
Depreciation	32 500	
Trading stock deficit from 1.1.2	<input checked="" type="checkbox"/> 11 350	
Donations see amount subtracted from Director's fees	<input checked="" type="checkbox"/> 45 000	8
<b>Gross Operating profit</b>		
Interest Income	17 800	
<b>Profit before Interest Expense</b>		2
Interest Expense	✓ (110 000)	
<b>Net profit before tax</b>		
Income Tax	(197 100)	
Net profit after Tax 197 100 x 70/30 or NPBT – Tax	✓✓ 459 900	30

– F for foreign entries (max 2)

– P for incorrect placements (max 2)

1.3

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RETAINED INCOME NOTE:			
<b>Balance at beginning</b>		<b>240 000</b>	
Net profit after tax	see 1.2	<input checked="" type="checkbox"/> 459 900	
Repurchase of shares (15 000 x R4,00)	one part correct Ignore brackets	<input checked="" type="checkbox"/> (60 000)	
<b>Ordinary share dividends</b>	Ignore brackets	<input checked="" type="checkbox"/> (206 000)	
<b>Interim</b>		<b>86 000</b>	
Final (200 000 x 0,60)	one part correct	<input checked="" type="checkbox"/> 120 000	
<b>Balance at end</b>	Ignore brackets and check operation Shares repurchased and share dividends must by subtracted	<input checked="" type="checkbox"/> * 433 900	<b>7</b>

1.4

EQUITY AND LIABILITIES			
<b>Non-current liabilities</b>			
<b>Loan: ABSA</b> (248 000) – 72 000 ✓✓	one part correct	<input checked="" type="checkbox"/> 164 800	<b>2</b>
<b>Current liabilities</b>			
<b>Trade creditors (45 800 + 4 400 ✓ + 10 650 <input checked="" type="checkbox"/> + 4 600 ✓ + (16 859 ✓ - 189 ✓))</b> transfer VAT	telephone cleaning income	<input checked="" type="checkbox"/> 82 120	<b>14</b>
SARS: Income tax (197 100 – 180 100)		<input checked="" type="checkbox"/> ✓✓ 17 000	
Shareholders for dividends	transfer from Ret Inc	<input checked="" type="checkbox"/> 120 000	
<b>Current portion of long-term loan</b>	see Loan	<input checked="" type="checkbox"/> 72 000	
<b>Bank overdraft 35 260 -14200 ✓ +450 ✓ +90 000 ✓</b>		<input checked="" type="checkbox"/> 111 510	<b>16</b>
<b>TOTAL EQUITY AND LIABILTY</b>			

<b>TOTAL MARKS</b>
<b>65</b>

QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS

2.1 Complete the Note for Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2024:

Net profit before tax		
Adjustment in respect of:		
Depreciation	16 645	
Interest on loan	120 000	
<b>Operating profit before changes in working capital</b>		
Decrease in Debtors (1139 000-1 115 000)	24 000 ✓✓	
Decrease in Inventory (1145 000-1 125 000)	20 000 ✓✓	
Decrease in Creditors (1 056 800 - 880 565)	(176 235) ✓✓	

6

2.2.1 Calculate: Taxation paid

WORKINGS	ANSWER
197 600 ✓ – 4 000 ✓ – 10 375 ✓ <b>OR:</b> - 197 600 + 4 000 + 10 375 Be alert to alternative methods of calculations e.g. ledger format, use of brackets.	183 225 ✓* one part correct ignore brackets

4

2.2.2 Calculate: Fixed assets purchased

WORKINGS	ANSWER
944 800 ✓ - 1 541 940 ✓ - 16 645 ✓ - 19 430 ✓✓ <b>OF:</b> - 944 800 + 1 541 940 + 16 645 + 19 430 Be alert to alternative methods of calculations e.g. ledger format, use of brackets.	633 215 ✓* one part correct ignore brackets

6

2.2.3 Calculate: Shares issued

WORKINGS	ANSWER
100 000 x R15	R1 500 000 ✓✓

2

2.2.4 Calculate: Funds used for the repurchase of shares

WORKINGS	ANSWER
(10 000 x R16,00) (10 000 x R12,50 + 10 000 x R3,50)	R160 000 ✓✓

2

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2.2.5

Calculate: Net change in cash and cash equivalents	
WORKINGS	ANSWER
Net change in cash and cash equivalents	239 400 <input checked="" type="checkbox"/>
Cash and cash equivalents at the beginning (153 000 – 2 500)	(150 500) <input checked="" type="checkbox"/>
Cash and cash equivalents at the end	88 900 <input checked="" type="checkbox"/>

4

2.3.1

Calculate: Earnings per share as on 20 June 2024	
WORKINGS	ANSWER
$\frac{322\,400 \checkmark}{190\,000 \checkmark} \times \frac{100^*}{1}$	169,68 cents <input checked="" type="checkbox"/> or 170 one part correct

3

2.3.2

Calculate: Debt-equity ratio	
WORKINGS	ANSWER
350 000 <input checked="" type="checkbox"/> : 2 499 900 <input checked="" type="checkbox"/>	0,14 : 1 <input checked="" type="checkbox"/> or 0,1 : 1 one part correct must be in ratio : 1

3

2.3.3

Calculate: Return on average capital employed	
WORKINGS	ANSWER
$\frac{640\,000 \text{ Two marks} + \frac{520\,000 \checkmark + 120\,000 \checkmark}{2}}{\frac{2\,849\,900 \checkmark + 2\,187\,500 \checkmark}{2}} \times \frac{100^*}{1}$ <p style="text-align: center;">5 037 400 2 518 700 two marks</p>	25,4% <input checked="" type="checkbox"/> or 25,40% one part correct must be in %

5

<b>TOTAL MARKS</b>
<b>35</b>

### QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS

#### 3.1 Comment on the liquidity of the two companies and explain which company manages the working capital more efficiently.

Current ratio and figure for both companies ✓ ✓  
 Acid test ratio and figure for both companies ✓ ✓  
 Decision ✓ and reason ✓

- Erasmus Ltd's current ratio is 1,5 : 1 and Van Zyl Ltd's current ratio is 2,1 : 1
- Erasmus Ltd's acid test ratio is 0,6 : 1 and Van Zyl Ltd's current ratio is 1,1 : 1

Van Zyl Ltd uses the working capital the more efficiently because they will be able to cover their current debts with the current assets available.

6

#### 3.2 Comment on the degree of risk and gearing of both companies. Explain how this will influence your choice of company.

Debt/Equity ratio for both companies ✓ ✓  
 ROTCE for both companies ✓ ✓  
 Choice ✓ and reason ✓

Erasmus Ltd.'s Debt/Equity ratio is 0,3 : 1 and Van Zyl Ltd.'s Debt/Equity ratio is 0,8 : 1

Erasmus Ltd.'s ROTCE is 15,5% (or ROTCE of 15,5% is greater than interest on loan of 14%) and Van Zyl Ltd.'s ROTCE is 11,8% (or ROTCE of 11,8% is lower than interest on loan of 14%).

Erasmus Ltd.'s risk is lower, and the gearing is positive (ROTCE exceeds interest).

6

#### 3.3 Consider the Return, Earnings and Dividends of the two companies.

##### (a) Explain whether Felicia should be satisfied with the return on her investment in both companies. Provide financial indicators/figures to support your answer.

ROSHE figures for both companies ✓  
 Compared to alternative investments ✓  
 Explanation ✓ ✓

Part marks incomplete and unclear question

ROSHE of Erasmus Ltd is 16% (was 14%) and Van Zyl Ltd is 28% (was 24%).

Both ratios exceed alternative investments of approximately 10%.

Both ratios have improved from the previous year.

4

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(c) Calculate the dividend pay-out rate of both companies. Indicate which company has adopted the better rate and the possible reason for that choice.

**Erasmus Ltd:**

Pay-out rate is 81% ✓✓ ( $100/124 \times 100\%$ ) (accept 80,6%) (or compare 100 vs. 124)

**Van Zyl Ltd:**

Pay-out rate is 52% ✓✓ ( $75/143 \times 100\%$ ) (accept 52,4%) (or compare 75 vs. 143)

Do not accept 124 vs 143 or 100 vs 75,  
No split marks

Choice ✓ with reason ✓:

Erasmus Ltd: They pay out more than Van Zyl Ltd, they want to keep their shareholders satisfied.

**OR**

Van Zyl Ltd: They retain funds for future growth and improvement.

6

3.4

(a) Refer to Information B and C.

Indicate how many shares Felicia must purchase in Erasmus Ltd to maintain the percentage shareholding she had at the start of the year.

**Erasmus Ltd:**

She had 214 200 shares = 51% ✓

Total shares end of the year: 420 000 + 117 000 = 537 000 shares ✓

To maintain his % he needs: 537 000 x 51% = 273 870 shares ✓

She currently has 214 200 shares, so she needs to purchase an **additional 59 670 shares.** ✓

4

(b) Calculate the amount Felicia will have to pay to purchase these shares.

**Erasmus Ltd:**

59 670 shares  x R 8,00 ✓ = R477 360

See (a)

3

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- (c) Felicia wants to maintain her majority shareholding in Van Zyl Ltd. What is the minimum number of shares which she would have to purchase to be successful in her aim. Also provide a reason why Felicia would want to be the majority shareholder of a company.

Total shares at end of year =  $140\ 000 + 70\ 000 - 35\ 000$

= 175 000 shares ✓

Majority shareholding =  $(175\ 000 \div 2) + 1 = 87\ 501$  ✓

To maintain a majority shareholding, she requires:  $87\ 501 - 84\ 000 = 3\ 501$  shares ✓

**OR**

175 000 SHARES X 51% = 89 250

89 250 - 84 000 = 5 250

**REASON**

She wants to be the majority shareholder to have the most voting rights at a general meeting. ✓

Accept any acceptable reason.

7

- (d) Comment on the value of the shares in each company and provide figures to support your answer.

Must compare Market price to NAV: exceeds/lower than ✓ ✓

Both figures for each company ✓ ✓

**Erasmus Ltd:**

Market price of R8,00 exceeds NAV of R7,20 (or by 80c)

**Van Zyl Ltd:**

Market price of R16,00 is lower than NAV of R17,50 (or by 150c)

4

**TOTAL  
MARKS**

**40**

QUESTION 4 CORPORATE GOVERNANCE [Downloaded from Stannooephysics.com](http://www.stannooephysics.com)

4.1

<p><b>The three board members implicated in this case each own 150 000 shares. Calculate the loss that Sanet and the two directors each were able to avoid by selling their shares on 13 April 2023.</b></p>	
<p><b>WORKINGS</b></p>	<p><b>ANSWER</b></p>
<p style="text-align: right;">(R105 – R8)</p> <p>150 000 x R97 ✓</p>	<p>R14 550 000 ✓</p>

2

4.2

<p><b>Explain why the text message is so important to the investigators</b></p>
<p>Any valid point ✓✓ <span style="background-color: yellow; font-size: small;">Part marks for incomplete or unclear response</span></p> <p>It provided evidence that a crime had been committed / they would know which directors to charge / the person who leaked the information can be easily traced / It will provide evidence of parties involved / Investigators will establish the intent knowledge / It provides consistency between different sources of evidence which strengthens the case against individuals implicated.</p>
<p><b>Explain why you think this crime is referred to as 'insider trading'.</b></p>
<p>Any valid point ✓✓ <span style="background-color: yellow; font-size: small;">Part marks for incomplete or unclear response</span></p> <p>Because it is fraud based on private information regarding the trading (buying / selling) of shares which is not yet known to others who affected / The directors (insiders) did have access to this privileged information / Using of sensitive information to one's benefit – abuse of power.</p>

2

2

4.3

<p><b>Explain how the rapid decline in the share price and the fraudulent financial statements are likely to affect the existing shareholders and its workers</b></p>	
<p><b>Existing shareholders</b></p>	<p>They will lose their investment in the company / loss of life savings (Financial loss) / loss of dividends / will be likely to sell their shares / there may not be a demand for shares. ✓✓</p>
<p><b>Workers</b></p>	<p>Employees would be retrenched / lose their jobs / no job security (job insecurity) / increase in unemployment in the country / Employee's morale and productivity / Change on compensation and benefits (reduced salary/benefits/ bonus) / Cost cutting measures (layoffs). ✓✓</p>

4

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