

GAUTENG PROVINCE PAPER 1 REVISION PACK 2024

INCOME STATEMENT, BALANCE SHEET, FIXED ASSET NOTE AND CORRECTED NET PROFIT

QUESTION 1: STATEMENT OF COMPREHENSIVE INCOME AND CURRENT ASSETS
(60 marks; 45 minutes) JUNE 2023 SUPPLEMENTARY

- 1.1 Choose a description from COLUMN B that matches the term in COLUMN A. Write only the letter (A–E) next to the question numbers (1.1.1 to 1.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.1.1	Independent auditor	A	investment such as a fixed deposit over a three-year period
1.1.2	Capital employed	B	debt to be settled within 12 months
1.1.3	Current liability	C	a staff member of a company who sets up effective internal control procedures
1.1.4	Financial asset	D	total of Ordinary Shareholders' Equity and Non-current Liabilities
		E	expresses an unbiased opinion on the reliability of financial statements

(4 x 1) (4)

1.2 **STARLIGHT LTD**

The information relates to the financial year ended 28 February 2023.
The company trades in electrical items.

REQUIRED:1.2.1 **Refer to Information B (i).**

Calculate the value of the closing stock of light bulbs on 28 February 2023, using the weighted-average method. (4)

1.2.2 **Refer to Information B (ii).**

Calculate:

- Profit or loss on disposal of vehicle (5)

- Total depreciation for the year (7)

1.2.3 Complete the following:

- Statement of Comprehensive Income for the year ended 28 February 2023 (29)

- Current Assets section of the Statement of Financial Position (11)

NOTE: Some figures have been entered in the ANSWER BOOK.

INFORMATION:**A. Extract from the Pre-adjustment Trial Balance on 28 February:**

Balance Sheet accounts section	2023	2022
Loan: Pearl Bank	524 400	690 000
Vehicles	?	1 250 000
Accumulated depreciation on vehicles	?	420 000
Equipment	822 000	774 000
Accumulated depreciation on equipment	?	360 000
Fixed deposit: Pearl Bank	320 000	
Trading stock	2 969 800	
Debtors' control	645 250	
Provision for bad debts	?	21 020
Bank (Dr)	?	
SARS: Income tax (provisional tax payments)	875 000	
Nominal accounts section		
Sales	17 850 000	
Cost of sales	10 200 000	
Salaries and wages	?	
Commission income	85 900	
Rent income	89 700	
Audit fees	155 200	
Directors' fees	2 015 000	
Sundry expenses	219 760	
Bad debts	16 200	
Interest on fixed deposit	?	
Asset disposal (cash received on vehicle sold)	91 500	

B. Adjustments and additional information:

- (i) A physical stock count on 28 February 2023 revealed R2 774 800 stock on hand. However, this figure excludes the closing stock figure for light bulbs. Note that the weighted-average method is used to value the light bulbs.

Details of the light bulbs are as follows:

	UNITS	UNIT PRICE (R)	TOTAL (R)
Stock on 1 Mar. 2022	8 000	52	416 000
Purchases	47 000	74	3 478 000
Available for sale	55 000		3 894 000
Carriage on purchases			27 500
Stock on 28 Feb. 2023	1 700	?	?

(ii) **Fixed assets and depreciation:****Vehicles:**

- An old vehicle was sold for R91 500 on 30 November 2022. The amount received was recorded but no further entries were made.

Details of the vehicle sold:

Carrying value on 1 March 2022	R104 000
Depreciation: 20% p.a. on the diminishing-balance method	

- Depreciation on the remaining vehicles: R145 200

Equipment:

- Equipment is depreciated at 15% p.a. on cost.
- New equipment was bought on 31 July 2022.

(iii) The auditors are owed a further R38 800 for the current financial year.

(iv) Received R9 000 from the insolvent estate of debtor Billy Croon. His estate paid 80 cents to the rand of his outstanding balance. The money received was recorded. The balance of his account must still be written off.

(v) The provision for bad debts must be increased to R25 720.

(vi) **Directors' fees:**

- The company has two directors who were appointed in 2019. A third director was appointed on 1 October 2022.
- The directors all earn the same monthly fee.
- Directors' fees paid during the financial year have been recorded, but one director has already been paid for March and April 2023.

(vii) Rent income includes the rent for March 2023 received from the tenant. The monthly rent was increased by R1 170 on 1 January 2023.

(viii) **Loan: Pearl Bank**

- Interest on the loan capitalised has not been recorded.
- Fixed monthly repayments (including interest) have been paid and correctly recorded for the financial year.
- Interest on the loan amounts to 60% of the monthly repayments.

(ix) Income tax for the year was calculated to be R858 140.

QUESTION 1

1.1

1.1.1	
1.1.2	
1.1.3	
1.1.4	

4

1.2 **STARLIGHT LTD**

1.2.1 Calculate: Value of the closing stock of light bulbs on 28 February 2023, using the weighted-average method.

WORKINGS	ANSWER

4

1.2.2 Calculate: Profit or loss on disposal of vehicle

WORKINGS	ANSWER

5

Calculate: Total depreciation for the year

WORKINGS	ANSWER
Vehicles	
Equipment	

7

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

Sales	17 850 000
Cost of sales	(10 200 000)
Gross profit	7 650 000
Other income	
Commission income	85 900
Rent income	
Gross operating income	
Operating expenses	(4 894 900)
Salaries and wages	
Audit fees	
Directors' fees	
Sundry expenses	219 760
Bad debts	
Depreciation	
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	
Net profit before tax	
Income tax	(858 140)
Net profit after tax	2 002 500

CURRENT ASSETS	7 605 150	
Inventories		
Trade and other receivables		
Cash and cash equivalents		11

TOTAL MARKS
60

GAUTENG PRELIM 2023

QUESTION 1: RETAINED INCOME NOTE AND STATEMENT OF FINANCIAL POSITION
(55 marks; 45 minutes)

TSATSI LTD

Tsatsi Ltd supplies and installs different types of solar panels at a fixed price. You are provided with information for the financial year ending 30 June 2023.

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

Calculate the value of the closing stock of solar panels. (5)

1.2 Use Information B (ii) and (iii), to calculate the missing figures denoted by (i – iii) in the Fixed/Tangible Asset Note. (12)

1.3 Complete the Retained Income Note. (10)

1.4 Complete the Statement of Financial Position (Balance Sheet) on 30 June 2023. Where notes are not required, workings must be shown. (28)

INFORMATION:**A. Balances/Totals on 30 June 2023:**

	2023
Ordinary share capital	1 755 000
Retained income	1 045 000
Loan: Shiloh Bank	609 840
Fixed assets at carrying value	?
Fixed deposit: BNP Bank	582 000
Inventory	?
Net trade debtors	209 100
Bank (favourable)	?
Deposit: Water and electricity	11 000
SARS: Income tax (Provisional payments)	359 000
Trade creditors	763 860
Shareholders for dividends	260 000
Rent expense	91 280
Directors' fees	1 824 000

B. ADDITIONAL INFORMATION

- (i)
- Tsatsi Ltd sells the solar panels at a standard rate of R10 500 per unit.
 - A mark-up of 25% on cost is applied.
 - The specific identification method is used to value the solar panels.
 - The information relating to the solar panels is as follows:

	UNITS	UNIT PRICE	TOTAL R
Opening stock: 1 July 2022	78		
Purchases during the year	631		
Closing stock: 30 June 2023	?		?
Units sold	602	10 500	6 321 000

- (ii) **Note to the Balance Sheet on 30 June 2023:**

FIXED/TANGIBLE ASSETS	EQUIPMENT	VEHICLES
Carrying value – 1 July 2022	50 000	519 200
Cost price	561 000	814 000
Accumulated depreciation	(511 000)	(i)
Movements		
Additions at cost price	55 000	0
Disposal at carrying value	0	(iii)
Depreciation	(ii)	(98 890)
Carrying value – 30 June 2023		
Cost price	616 000	649 000
Accumulated depreciation		

(iii) **Details of fixed assets:****Land and Buildings:**

- The company also owns property.

Equipment:

- New equipment was purchased on 31 December 2022. This transaction has been correctly recorded.
- Depreciation is calculated at 10% p.a. on cost.

Vehicles:

A vehicle was sold for cash on 31 March 2023. It was recorded correctly in the records of the business.

The details of the disposal of the vehicle according to the Fixed Asset Register, is as follows:

Cost price	?
Accumulated depreciation on 1 July 2022	R66 000
Depreciation on diminishing balance method	20% p.a.
Profit on sale of vehicles	R3 350

NOTE: Depreciation on all vehicles was accurately calculated at R98 890 for the financial year.

- (iv) A creditor's credit balance of R1 500 in the Creditors' Ledger must still be transferred to his account in the Debtors' Ledger.
- (v) A storeroom was rented from 1 October 2022 at R11 200 per month. Rent increased by 7,5% per month on 1 April 2023. Provide for the outstanding rent.
- (vi) **Loan: Shiloh Bank**

The loan statement from Shiloh Bank revealed the following:

- Total repayments (including interest) R225 400
- Interest capitalised R 83 160
- Balance at the end (30 June 2023) ?

NOTE: 20% of the loan will be settled during the next financial year. Interest still needs to be recorded in the books of Tsatsi Ltd.

(vii) The company has three directors who earn the same fee. One director was paid two months in advance.

(viii) **Share capital and dividends:**

Authorised share capital: 3 000 000 ordinary shares

DATE	DETAILS
1 July 2022	1 500 000 shares were in issue.
31 December 2022	An interim dividend of 12 cents per share was declared and paid.
1 March 2023	Shares were repurchased at R1,50. The average share price, accurately calculated on that day, was R1,35.
30 June 2023	A final dividend was declared.

NOTE: No additional shares were issued during the year.

(ix) **Income tax for 2023:**

Income tax for the financial year was accurately calculated at R309 000. Income tax is calculated at 30% of the net profit.

(x) **Financial indicator:**

After taking into account all adjustments, the current ratio was correctly calculated as **1,2 : 1**.

QUESTION 1

1.1

Calculate: Value of closing stock		
WORKINGS	ANSWER	

1.2

(i) Calculate: Accumulated depreciation on vehicles		
WORKINGS	ANSWER	

(ii) Calculate: Depreciation on equipment for the year		
WORKINGS	ANSWER	

(iii) Calculate: Disposal at carrying value on vehicles		
WORKINGS	ANSWER	

1.3 **RETAINED INCOME NOTE ON 30 JUNE 2023**

Balance at beginning of the year		
Ordinary share dividends	(440 000)	
Balance at the end of the year	1 045 000	10

1.4 Statement of Financial Position on 30 June 2023

ASSETS		
NON-CURRENT ASSETS		
Fixed deposit		582 000
CURRENT ASSETS		
TOTAL ASSETS		
EQUITY AND LIABILITIES		
ORDINARY SHAREHOLDERS' EQUITY		2 800 000
Ordinary share capital		1 755 000
Retained income		1 045 000
NON-CURRENT LIABILITIES		
Mortgage loan		
CURRENT LIABILITIES		
TOTAL EQUITY AND LIABILITIES		
		28

NOVEMBER 2021 NSC

QUESTION 1: STATEMENT OF FINANCIAL POSITION (55 marks; 45 minutes)

JIMO LIMITED

The information relates to the financial year ended 30 June 2021. The business sells formal clothing for men and women.

REQUIRED:

1.1 Refer to Information B.

Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021. (5)

1.2 Refer to Information C.

Use the table provided to calculate the correct **net profit after tax** for the year ended 30 June 2021. Indicate '+' for increase and '-' for decrease. (12)

1.3 Refer to Information A–H.

Complete the following on 30 June 2021:

- Retained Income Note (5)
- Statement of Financial Position (Balance Sheet) (33)

NOTE:

- Adjustments from Information C also affect the Statement of Financial Position (Balance Sheet).
- Show workings. Certain figures are provided in the ANSWER BOOK.
- Figures are NOT required in the shaded areas.

INFORMATION:**A. List of balances, before taking into account all adjustments below:**

	30 June 2021 (R)	30 June 2020 (R)
Ordinary share capital	?	?
Retained income	3 240 000	
Mortgage loan: Best Bank	3 755 000	4 175 000
Trading stock	4 198 500	
SARS: Income tax (provisional tax)	1 200 000	
Net trade debtors	3 668 810	
Bank overdraft	?	
Petty cash and cash float	?	
Creditors' control	1 253 000	
Accrued income/Income receivable	8 000	
Shareholders for dividends	1 170 000	821 700

B. The accountant omitted the closing stock figure of formal suits in the trading stock balance provided in Information A.**NOTE:**

- The first-in-first-out (FIFO) method is used to value the stock of the formal suits.
- All other relevant entries have been recorded correctly.

The information relating to the stock of formal suits is as follows:

Balances:	QUANTITY	UNIT PRICE	TOTAL VALUE
1 July 2020	110	R1 900	R209 000
30 June 2021	240	?	?
Purchases:	760		R1 943 500
14 Nov. 2020	360	R2 350	R846 000
10 Feb. 2021	170	R2 600	R442 000
18 May 2021	230	R2 850	R655 500
Returns:			
25 May 2021	24	R2 850	R68 400

C. The net profit before tax, R4 918 950, was calculated before taking into account/ correcting the following:

- (i) Audit fees include R123 600 which was paid in advance for the next financial year.
- (ii) The repayments on the loan are fixed at R35 000 per month (including capitalised interest).

The balances as per loan statement were:

- 1 July 2020, R4 175 000
- 30 June 2021, R4 028 000

Provide for interest on loan.

(iii) Rent income:

Rent of R74 000 was received from a tenant for the period 1 July 2020 to 31 August 2021. This has been recorded. This amount takes into account a reduction of R750 per month from 1 May 2021. The year-end adjustment has not yet been made.

(iv) After taking into account the corrections above, it was determined that an additional R85 250 is still owed to SARS in respect of income tax for the year.

D. Shares and dividends:

- 26 000 shares were repurchased on 1 July 2020 at R3,00 above the average share price.
- The business did not pay interim dividends during the 2021 financial year.
- A final dividend of 65 cents per share was declared on 30 June 2021.
- 1 800 000 shares were in issue on 30 June 2021.

E. Debtors with credit balances totaling R11 000 must be transferred to the Creditors' Ledger.

F. On 30 June 2021, Jimo Ltd returned 10 ladies' coats to the supplier, Bargain Wholesalers. The selling price was R1 750 each. The mark-up was 25% on cost. No entry has been made.

G. A fixed monthly instalment of R35 000 (to cover loan repayments and interest) has to be paid over the full period of the loan. Interest will decline over the life of the loan. The interest on the loan budgeted for the next financial year is R234 000.

H. The following financial indicators were calculated on 30 June 2021:

Acid-test ratio	1,2 : 1
Net asset value per share (NAV)	540 cents

QUESTION 1

1.1 Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021.

WORKINGS	ANSWER

1.2 Calculate the correct net profit after tax for the year ended 30 June 2021. Indicate '+' for increase and '-' for decrease.

NO.	WORKINGS	AMOUNT
	Incorrect net profit before tax	4 918 950
(i)	Audit fees	
(ii)	Interest on loan	
(iii)	Rent income	
(vi)	Income tax	
	Net profit after tax	

12

1.3 Retained Income Note on 30 June 2021

Balance at beginning	
Balance at end	3 240 000

5



JIMO LTD

STATEMENT OF FINANCIAL POSITION ON 30 JUNE 2021

Figures are NOT required in shaded areas.

ASSETS	
NON-CURRENT ASSETS	
Fixed assets	
Financial assets	
CURRENT ASSETS	8 700 000
TOTAL ASSETS	
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY	
Retained income	3 240 000
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
Bank overdraft	
TOTAL EQUITY AND LIABILITIES	



33

TOTAL MARKS
55

CASHFLOW STATEMENT, NOTES AND FINANCIAL INDICATORS

NOVEMBER 2021 NSC

QUESTION 2: SHARE CAPITAL, FINANCIAL INDICATORS AND CASH FLOW STATEMENT (35 marks; 25 minutes)

The information relates to Brewer Ltd for the financial year ended 28 February 2021.

REQUIRED:

- 2.1 Prepare the Ordinary Share Capital Note on 28 February 2021. (6)
- 2.2 Calculate the following financial indicators on 28 February 2021:
- % operating expenses on sales (2)
 - Dividend per share (4)
 - % return on average shareholders' equity (5)
- 2.3 Complete the Cash Flow Statement for the year ended 28 February 2021. Certain figures are provided in the ANSWER BOOK. (18)

INFORMATION:**A. Shares and dividends:**

DATE	DETAILS OF SHARES
1 March 2020	800 000 in issue
30 June 2020	100 000 new shares issued
1 January 2021	30 000 shares repurchased at R1,20 more than the average share price
28 February 2021	? shares in issue

- Interim dividend of R162 000 was paid on 30 September 2020.
- A final dividend of 22 cents per share was declared on 28 February 2021.

B. Extract from the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2021:

Sales	R7 293 000
Cost of sales	4 862 000
Operating expenses	1 458 600
Net profit before tax	1 350 000
Net profit after tax	985 500

C. Extract from the Statement of Financial Position (Balance Sheet) on:

	28 Feb. 2021 R	29 Feb. 2020 R
Petty cash and cash float	?	20 000
Ordinary shareholders' equity	8 038 100	6 450 000
Ordinary share capital	7 395 000	6 400 000
Retained income	643 100	50 000
Loan: Sharks Bank	1 650 000	2 200 000
SARS: Income tax	29 100 Dr	35 900 Cr
Shareholders for dividends	191 400	115 300
Bank overdraft	0	95 200

QUESTION 2

2.1 Ordinary Share Capital Note on 28 February 2021

800 000	Ordinary shares at the beginning	
100 000	New shares issued	
	Shares at the end of the year	7 395 000

6

2.2 Calculate the following financial indicators on 28 February 2021:

% operating expenses on sales		
WORKINGS	ANSWER	
Dividend per share		
WORKINGS	ANSWER	
% return on average shareholders' equity		
WORKINGS	ANSWER	

2

4

5

2.3 CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2021

Figures are NOT required in shaded areas.

CASH FLOW FROM OPERATING ACTIVITIES	1 180 000
Cash generated from operations	
Interest paid	
CASH FLOW FROM INVESTING ACTIVITIES	(1 320 000)
CASH FLOW FROM FINANCING ACTIVITIES	
NET CHANGE IN CASH AND CASH EQUIVALENTS	
CASH AND CASH EQUIVALENTS AT BEGINNING	
CASH AND CASH EQUIVALENTS AT END	

18

TOTAL MARKS
35

JUNE 2023 NSC SUPPLEMENTARY**QUESTION 2: RETAINED INCOME NOTE, CASH FLOW STATEMENT AND FINANCIAL INDICATORS (35 marks; 25 minutes)**

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

REQUIRED:

- 2.1 Prepare the Retained Income Note for the year ended 28 February 2023. (9)
- 2.2 Calculate the following figures for the 2023 Cash Flow Statement:
- Change in loan (2)
 - Proceeds from shares issued (3)
- 2.3 Complete the Cash Effects of Operating Activities section of the Cash Flow Statement. (10)
- 2.4 Calculate the following financial indicators on 28 February 2023:
- Current ratio (2)
 - Net asset value (4)
 - % return on total capital employed (ROTCE) (5)
- NOTE:** The average capital employed is R20 343 500.

INFORMATION:**A. Extract: Statement of Comprehensive Income on 28 February 2023**

Sales	R12 754 500
Depreciation	316 500
Interest on loan	648 000
Net profit after tax (tax rate: 30% on net profit)	1 526 000

B. Extract: Statement of Financial Position on 28 February

	2023	2022
Ordinary share capital	R13 959 500	R12 312 500
Retained income	?	237 400
Loan: Daisy Bank	6 348 000	7 200 000
Total current assets	1 479 600	2 342 000
Total current liabilities	822 000	976 000
Shareholders for dividends	575 400	475 000
SARS: Income tax	23 600 (Dr)	42 100 (Cr)

C. Share capital

1 250 000	Shares on hand on 1 March 2022
180 000	Shares repurchased on 1 May 2022. They do not qualify for dividends. An EFT of R1 989 000 was issued for the repurchase.
?	Shares issued on 1 October 2022 at R11,40 per share
1 370 000	Shares on hand on 28 February 2023

D. Dividends

- An interim dividend of 32c per share was paid on 31 August 2022.
- A final dividend was declared on 28 February 2023.

QUESTION 2: 2.1 RETAINED INCOME NOTE

Balance at beginning of year	237 400
Net profit after tax	1 526 000
Ordinary share dividends	
Balance at end of year	

9

2.2 Calculate: Change in loan

WORKINGS	ANSWER

2

Calculate: Proceeds from shares issued

WORKINGS	ANSWER

3

2.3 CASH EFFECTS OF OPERATING ACTIVITIES

Cash generated from operations	2 340 300
Income tax paid	
Dividends paid	

10

2.4

Calculate: Current ratio		
WORKINGS	ANSWER	
Calculate: Net asset value (NAV)		
WORKINGS	ANSWER	
Calculate: % return on total capital employed (ROTCE)		
NOTE: The average capital employed is R20 343 500.		
WORKINGS	ANSWER	

2

4

5

TOTAL MARKS
35

NOVEMBER 2020 NSC**QUESTION 2: FINANCIAL INDICATORS AND CASH FLOW STATEMENT****(40 marks; 35 minutes)**

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

2.1.1 The (directors' report/audit report) gives an explanation of the operations of the company during a financial year.

2.1.2 The (independent/internal) auditors are responsible for monitoring the financial control measures of a company on a regular basis.

2.1.3 In the event of bankruptcy, the shareholders are normally not responsible for the debts of the business. This is because of (limited/unlimited) liability. (3 x 1) (3)

2.2 **USANDA LIMITED**

The financial year ended on 28 February 2021.

REQUIRED:

2.2.1 Calculate the following figures for the 2021 Cash Flow Statement:

- Income tax paid (4)
- Dividends paid (4)

2.2.2 Prepare the following sections of the Cash Flow Statement:

- Cash effects for financing activities (11)
- Net change in cash and cash equivalents (4)

2.2.3 Calculate the following financial indicators for the year ended 28 February 2021:

- % operating profit on sales (2)
- Acid-test ratio (4)
- % return on average shareholders' equity (ROSHE) (4)
- Dividend payout rate (%) (4)

INFORMATION:**A. Extract: Statement of Comprehensive Income for the year ended 28 February 2021:**

Sales	R17 800 000
Operating profit	2 262 100
Interest on loan (capitalised)	270 000
Net profit before tax	1 777 000
Net profit after tax	1 243 900

B. Extract: Statement of Financial Position:

	28 February 2021	29 February 2020
Fixed assets (carrying value)	R13 650 600	R13 590 000
Current assets	659 500	1 067 500
Inventories	276 500	373 200
Trade and other receivables	262 300	539 600
Cash and cash equivalents	120 700	154 700
Shareholders' equity	9 891 400	11 985 000
Ordinary share capital	9 555 000	11 220 000
Retained income	336 400	765 000
Loan: VBC Bank (see E)	?	2 080 000
Current liabilities	611 900	592 500
Trade and other payables	252 100	185 700
Bank overdraft	0	90 000
SARS: Income tax	19 800	69 300
Shareholders for dividends	340 000	247 500

C. Share capital:

DATES	NUMBER OF SHARES	DETAILS OF SHARES
1 March 2020	1 650 000	In issue
30 October 2020	50 000	Additional shares issued
27 February 2021	335 000	Shares repurchased at R9,50 each
28 February 2021	1 365 000	In issue

D. Dividends and earnings:

- An interim dividend was paid on 31 August 2020.
- A final dividend of 20 cents per share was declared on 28 February 2021.
- Total dividends for the year amounted to R835 000.
- Earnings per share (EPS) on 28 February 2021 was 74 cents.

E. Loan: VBC Bank

- The balance on 1 March 2020 was R2 080 000.
- Monthly instalments of R35 000, including interest, were paid.
- Interest capitalised amounted to R270 000.

QUESTION 2

2.1

2.1.1		
2.1.2		
2.1.3		

3

2.2

USANDA LIMITED

2.2.1

Calculate: Income tax paid	
Workings	Answer

4

Calculate: Dividends paid	
Workings	Answer

4

2.2.2

CASH EFFECTS OF FINANCING ACTIVITIES	

11

NET CHANGE IN CASH AND CASH EQUIVALENTS	
Cash (opening balance)	
Cash (closing balance)	

2.2.3 Calculate financial indicators for the year ended 28 February 2021:

% operating profit on sales		
Workings	Answer	
		2
Acid-test ratio		
Workings	Answer	
		4
% return on average shareholders' equity (ROSHE)		
Workings	Answer	
		4
Dividend payout rate (%)		
Workings	Answer	
		4

TOTAL MARKS
40

**ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS
JUNE 2023 NSC SUPPLEMENTARY EXAM****QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION****(40 marks; 35 minutes)**

You are provided with information relating to Qumbu Ltd for the year ended 28 February 2023.

REQUIRED: Provide financial indicators with figures and trends to support your comments or explanations (where applicable).

3.1 Liquidity

Explain whether or not the company is managing their working capital efficiently. Quote TWO financial indicators. (5)

3.2 % shareholding

Denise Taylor, the CEO, owned 540 000 shares in the company on 1 March 2022. She continued to buy additional shares on the JSE at various times during the year. On 28 February 2023, Denise became the majority shareholder as she then owned 51% of the shares in issue.

- Calculate the total number of additional shares that Denise purchased. (4)
- Give ONE possible reason why Denise was determined to become the majority shareholder. (2)

3.3 Decisions by directors, risk and gearing

3.3.1 The Cash Flow Statement revealed decisions taken by the directors.

- Identify TWO major decisions taken by the directors in 2023 that were different to those from the previous year.
- Give ONE reason for these decisions. (6)

3.3.2 Explain the impact of these decisions on the degree of financial risk over the two years. Quote ONE financial indicator. (3)

3.3.3 Explain how these decisions affected the gearing of the company. Quote ONE financial indicator. (4)

3.4 Dividends and earnings

3.4.1 Certain shareholders expressed concern about the change in the dividend payout policy. Explain TWO points to support their opinion. (4)

3.4.2 Explain whether shareholders would be satisfied with the trend in the % return and earnings of the company, as well as the dividends they earned. Quote TWO financial indicators. (6)

3.5 Comments at the annual general meeting

Some shareholders are angry about the trends of the following two issues relating to the performance of the company:

- Cash and cash equivalents at the end of the year
- The market price of the shares on the JSE

In EACH case, provide evidence for the shareholders' concerns over these trends, and explain why they would be concerned about the future prospects for the company. (6)

INFORMATION:**A. Financial indicators and additional information on 28 February:**

	2023	2022
% operating expenses on sales	14,1%	12,0%
% operating profit on sales	14,5%	16,5%
% net profit on sales	10,4%	10,9%
Debt-equity ratio	0,1 : 1	0,4 : 1
Current ratio	0,9 : 1	1,3 : 1
Acid-test ratio	0,3 : 1	0,6 : 1
Average debtors' collection period	42,4 days	30,8 days
Earnings per share	60 cents	74 cents
Dividends per share	64 cents	50 cents
Dividend payout rate	106,7%	67,6%
% return on average equity	5,7%	7,2%
% return on average capital employed	9,0%	11,4%
Net asset value per share	1 007 cents	980 cents
Market price of shares on JSE	850 cents	1 020 cents
Interest rate on loans	13%	13%
Interest rate on fixed deposits	7%	7%

B. Share capital and % shareholding:

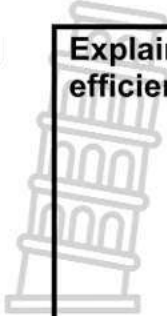
- On 1 March 2022, the company issued an additional 300 000 shares.
- On 28 February 2023, there were 1 500 000 shares in issue.

C. Extract from the Cash Flow Statement on 28 February:

	2023 R	2022 R
Cash flow from operating activities	(1 890 000)	(652 000)
Cash flow from investing activities		
Cash flow from financing activities	1 950 000	3 250 000
Shares	3 750 000	(250 000)
Loans	(1 800 000)	3 500 000
Net change in cash and cash equivalents	(836 000)	2 200 000
Cash and cash equivalents at beginning	1 914 000	(286 000)
Cash and cash equivalents at end	1 078 000	1 914 000

QUESTION 3

3.1 Explain whether or not the company is managing their working capital efficiently. Quote TWO financial indicators, with figures and trends.



5

3.2 Calculate the total number of additional shares that Denise purchased.

CALCULATION	ANSWER

4

Give ONE possible reason why Denise was determined to become the majority shareholder.

2

3.3.1 The Cash Flow Statement revealed decisions taken by the directors. Identify TWO major decisions taken by the directors in 2023 that were different to those from the previous year. Quote figures.

Decision 1	
Decision 2	

Give ONE reason for these decisions.

--

6

3.3.2 Explain the impact of these decisions on the degree of financial risk over the two years. Quote ONE financial indicator, with figures and trends.

3

3.3.3 Explain how these decisions affected the gearing of the company. Quote ONE financial indicator, with figures and trends.

4

3.4.1 Certain shareholders expressed concern about the change in the dividend payout policy. Explain TWO points to support their opinion.

Point 1	
Point 2	

4

3.4.2 Explain whether shareholders would be satisfied with the trend in the % return and earnings of the company, as well as the dividends they earned. Quote TWO financial indicators, with figures and trends.

6

3.5

In EACH case, provide evidence for the shareholders' concerns over these trends, and explain why they would be concerned about the future prospects for the company. Quote figures and trends.		
Issues	Evidence of concern	Reason for concern
Cash and cash equivalents		
Market price of shares on JSE		

6

NOVEMBER 2020 NSC

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

- 3.1 Choose the question from COLUMN B that matches a category of financial indicators in COLUMN A. Write only the letter (A–E) next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
3.1.1 Liquidity	A Is the business managing expenses effectively to increase profitability?
3.1.2 Risk and gearing	B Is the investment in the company better than investing in a fixed deposit?
3.1.3 Return to shareholders	C Will the company be able to pay off its current debts?
3.1.4 Operating efficiency	D Will the company be able to pay off all its debts using existing assets?
	E How is the company managing loans or borrowed capital?

3.2 SCI-FI GEEKS LTD

The business trades in electronic equipment purchased from China. The information relates to the past two financial years, ended 31 March. The COVID-19 lockdown has negatively affected sales over the current financial year.

REQUIRED:

3.2.1 Liquidity:

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response. (6)

3.2.2 Dividends:

The directors changed the dividend policy for the current financial year.

- Comment on the dividend per share over the two years. Quote figures. (2)
- Explain the change in the dividend payout rate and give a reason for this change. Quote figures. (4)
- A shareholder felt that they should be satisfied with the dividends they received, as it is better than last year. Explain why you agree with him. Quote figures. (3)

3.2.3 Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures). (6)



3.2.4 Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures. (6)

3.2.5 The Cash Flow Statement reflected a positive change of R980 000. Provide TWO points why this should still be a concern to directors. Quote figures. (4)

INFORMATION:

A. Financial indicators and additional information:

	2021	2020
Mark-up % achieved	60%	60%
% net profit before tax on sales	13,9%	20,3%
Current ratio	2,4 : 1	1,1 : 1
Acid-test ratio	1,0 : 1	0,4 : 1
Stockholding period	102 days	32 days
Average debtors' collection period	46 days	31 days
Average creditors' payment period	60 days	60 days
Earnings per share	58 cents	130 cents
Dividends per share	72 cents	90 cents
Dividend payout rate	136,5%	69%
Debt-equity ratio	0,4 : 1	0,3 : 1
Return on average shareholders' equity	17,7%	31,6%
Return on total capital employed	23,2%	39%
Net asset value per share	332 cents	409 cents
Market price of shares on stock exchange	410 cents	540 cents
Interest rate on loans	13,5%	13,5%
Interest rate on fixed deposits	6,8%	7,8%

B. Share capital:

- On 1 April 2020 the company issued an additional 250 000 shares.
- On 31 March 2021 there were 1 250 000 shares in issue.

C. Extract from the Cash Flow Statement on 31 March:

	2021	2020
Cash flows from operating activities	(148 080)	910 000
Cash generated from operations	1 281 620	
Interest paid	(232 000)	
Taxation paid	(272 700)	
Dividends paid	(925 000)	
Cash flows from investing activities	101 580	(300 000)
Cash flows from financing activities	1 026 500	(100 000)
Sale of shares	375 000	0
Change in loan	651 500	(100 000)
Cash and cash equivalents: Net change	980 000	510 000
Opening	(330 000)	(840 000)
Closing	650 000	(330 000)

QUESTION 3

3.1

3.1.1	
3.1.2	
3.1.3	
3.1.4	

4

3.2 SCI-FI GEEKS LTD

3.2.1

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response.

6

3.2.2

Comment on the dividend per share over the two years. Quote figures.

2

Explain the change in the dividend payout rate. Quote figures.

Give a reason for this change.

4

A shareholder felt that they should be satisfied with the dividends they received as it is better than last year. Explain why you agree with him. Quote figures.

3

3.2.3 Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures).



6

3.2.4 Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures.

6

3.2.5 The Cash Flow Statement reflected a positive change in R980 000. Provide TWO points why this should still be a concern to directors. Quote figures.

4

TOTAL MARKS
35

NOVEMBER NSC 2021

QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION

(40 marks; 30 minutes)

- 3.1 Choose a category of indicators from COLUMN B that matches the description in COLUMN A. Write only the letter (A–D) next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
3.1.1	The benefit that shareholders receive for investing in a company	A	liquidity
3.1.2	The ability of a business to pay off its short-term debts	B	gearing
3.1.3	The extent to which a company is financed on borrowed capital (loans)	C	solvency
3.1.4	The ability of a business to settle all its debts using existing assets	D	return on equity

(4 x 1) (4)

3.2 FLEXI LTD AND BROOM LTD

The information relates to two companies.

BACKGROUND INFORMATION:

- Both companies operate in the fashion clothing industry. The financial year ends on the last day of February each year.
- Bob Yates owns shares in both companies. On 1 November 2020, he convinced the board of directors of Flexi Ltd to repurchase 150 000 of his shares. He used the money received to purchase additional shares in Broom Ltd.

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

**REQUIRED:****3.2.1 Profitability:**

Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently, and is thereby more profitable. (4)

3.2.2 Dividends, earnings and returns:

- Comment on the dividend pay-out policy of **Flexi Ltd**. Explain why this is an irresponsible change in policy. Provide TWO points. (4)
- Comment on the % return on shareholders' equity of EACH company. (4)
- A shareholder feels that earnings per share (EPS) in **Broom Ltd** are better than that in **Flexi Ltd**. Explain why you agree with him. (4)

3.2.3 Shareholding of Bob Yates in both companies:

- Comment on the price paid for the shares repurchased by **Flexi Ltd**. Provide TWO points. (4)
- Calculate the number of shares that Bob purchased in **Broom Ltd** with the money he received from the share buyback at **Flexi Ltd**. (2)
- Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. (4)

3.2.4 Financing strategies and gearing:

The directors of each company have taken deliberate decisions that are reflected in their Cash Flow Statements.

- Explain the decisions taken by the directors of **Broom Ltd** and how these will benefit the company (4)
- Explain how the decisions taken by **Flexi Ltd** affected the risk and gearing of the business. Quote TWO financial indicators. (6)

INFORMATION:**A. Extracts from the accounting records at the end of each year:**

	FLEXI LTD		BROOM LTD	
	Feb. 2021	Feb. 2020	Feb. 2021	Feb. 2020
Number of shares in issue	700 000	850 000	1 500 000	1 100 000
Funds used to repurchase shares	R1 980 000			
Repurchase price	R13,20			
Increase in share capital	0		R2 640 000	
Issue price of additional shares			R6,60	
Fixed assets purchased	R1 000 000		R2 200 000	
Increase (decrease) in loan	R4 500 000		(R400 000)	

B. Financial indicators, interest rate and market price of shares:

	FLEXI LTD		BROOM LTD	
	Feb. 2021	Feb. 2020	Feb. 2021	Feb. 2020
% operating expenses on sales	17,5%	14,6%	13,6%	17,0%
% operating profit on sales	18,2%	21,9%	24,2%	20,5%
% net profit on sales	13,8%	18,0%	19,6%	16,0%
Debt-equity ratio	1,1 : 1	0,4 : 1	0,2 : 1	0,4 : 1
% return on capital employed	10,2%	16,1%	17,2%	14,7%
% return on shareholders' equity	7,6%	12,2%	14,1%	10,7%
Net asset value per share	1 081 cents	1 128 cents	632 cents	609 cents
Market price of shares	990 cents	1 130 cents	660 cents	615 cents
Interest rate on loans	13%	13%	13%	13%
Earnings per share	80 cents	138 cents	72 cents	65 cents
Dividends per share	92 cents	82 cents	48 cents	70 cents
Dividend pay-out rate	115%	59%	67%	108%

C. Shareholding of Bob Yates in both companies

	FLEXI LTD		BROOM LTD	
	2021	2020	2021	2020
Shares in each company	283 500	433 500	?	460 000
% shareholding in each company	?	51,0%	?	41,8%

QUESTION 3

3.1

3.1.1	
3.1.2	
3.1.3	
3.1.4	

4

3.2 FLEXI LTD AND BROOM LTD

3.2.1 Profitability:

Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently, and is thereby more profitable. Quote figures and trends.

4

3.2.2 Dividends, earnings and returns:

Comment on the dividend pay-out policy of Flexi Ltd. Explain why this is an irresponsible change in policy. Provide TWO points. Quote figures and trends.

4

Comment on the % return on shareholders' equity of EACH company. Quote figures and trends.

4

A shareholder feels that earnings per share (EPS) in Broom Ltd are better than that in Flexi Ltd. Explain why you agree with him. Quote figures or calculations.

4

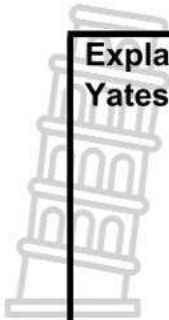
3.2.3 Shareholding of Bob Yates in both companies:

Comment on the price paid for the shares repurchased by Flexi Ltd. Provide TWO points. Quote figures.

4

Calculate the number of shares that Bob purchased in Broom Ltd with the money he received from the share buyback at Flexi Ltd.

WORKINGS	ANSWER



Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. Quote figures and trends.

4

3.2.4 Financing strategies and gearing:

Explain the decisions taken by the directors of Broom Ltd and how these will benefit the company. Quote figures.

4

Explain how the decisions taken by Flexi Ltd affected the risk and gearing of the business. Quote TWO financial indicators.

6

TOTAL MARKS
40

GAUTENG PROVINCE PRELIM 2023**QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS (35 marks; 30 minutes)****3.1 QUALITY ELECTRONICS LTD**

The company trades in electrical equipment. The information relates to the past two financial years, ended 28 February 2023.

C. Cruz is the CEO and there are three other directors in the company.

REQUIRED:

NOTE: Provide figures, financial indicators or calculations in EACH case to support your answer

3.1.1 LIQUIDITY:

Cruz has been concerned about the company's working capital over the years. He proposed a new approach to the directors of converting assets into cash quickly. Quote TWO financial indicators and explain why his concern is justified.

(4)

3.1.2 RISK AND GEARING:

A shareholder has proposed that Cruz acquires a loan from his wife, who is a bank consultant. Cruz did not agree with this proposal. Explain why you agree with Cruz. Quote TWO financial indicators.

(6)

3.1.3 DIVIDENDS:

The directors decided to decrease the dividend pay-out rate due to low profitability and a slow growth rate. Provide a calculation which validates their decision. Give ONE reason why they took this decision.

(6)

3.1.4 EARNINGS, RETURNS AND SHARE PRICE ON THE JSE:

(a) Comment on the % returns and earnings per share of the company. Quote TWO financial indicators with figures.

(4)

(b) Comment on the share price on the JSE and how the % returns and earnings per share have affected the share price. Quote figures.

(2)

3.1.5 SHAREHOLDING:

Refer to Information A and C.

(a) At the AGM, many shareholders complained that the Remunerations Committee had been negligent in their duties and that Cruz did not deserve the fees that he was paid as CEO. State TWO different points to justify their concern. Quote figures and financial indicators.

(4)

Refer to Information A, B and C.

- (b) Explain why the other directors were unhappy with the price paid for the shares repurchased from Cruz. State TWO points. Quote financial indicators and figures to support EACH point. (4)
- (c) Provide a calculation and comment on whether the repurchase of these shares affected Cruz's status as majority shareholder or not. (3)
- (d) Explain why the public was not interested in buying the new shares issued at R7,90 per share. Quote ONE financial indicator with a trend (excluding EPS and ROSHE). (2)

INFORMATION:**A.**

	2023	2022
Debt/Equity ratio	0,5 : 1	0,4 : 1
Acid-test ratio	0,7 : 1	0,9 : 1
Stock turnover rate	5,2 times	8 times
Trading stock deficit as % of cost of sales	6%	2%
% returns on total capital employed	13%	20%
% returns on shareholders' equity (ROSHE)	5%	9,2%
Earnings per share	81 cents	93 cents
Dividends per share	57 cents	90 cents
Net asset value per share	785	820
Market price of shares on JSE	760	840
Interest rate on investments	7%	6%
Interest rate on loan	14%	14%

B. Share capital and shareholding of CEO:**Total number of shares:**

	2023	2022
Number of authorised shares	6 000 000 shares	
Number of shares in issue on 28 February	3 240 000	3 200 000
Number of shares owned by C. Cruz	1 795 000	1 830 000

- At the directors' meeting on 1 March 2022, it was decided to repurchase 35 000 shares from the CEO, C. Cruz, at R13,00 per share. None of the other directors supported this decision.
- A further 75 000 shares were issued on 30 April 2022. The listed issue price of the purchase was originally R7,90 per share. Due to a poor response from the public at this price, the directors agreed to sell these shares at R6,70 per share.

C. Directors' fees:

	2023	2022
Director's fees paid to CEO	R2 500 000	R2 000 000
Total fees paid to the 3 other directors	R3 000 000	R3 000 000

35

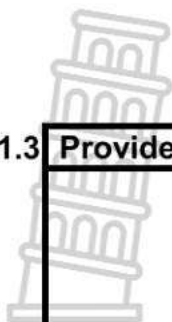
QUESTION 3

3.1.1 Cruz has been concerned about the company's working capital over the years. He proposed a new approach to the directors of converting assets into cash quickly. Quote TWO financial indicators and explain why his concern is justified.

4

3.1.2 A shareholder has proposed that Cruz acquires a loan from his wife, who is a bank consultant. Cruz did not agree with the proposal. Explain why you agree with Cruz. Quote TWO financial indicators.

6



3.1.3 Provide a calculation which validates their decision.

--	--

4

Give ONE reason why they took this decision.

--	--

2

3.1.4 Comment on the % returns and earnings per share of the company.
(a) Quote TWO financial indicators with figures.

--	--

4

(b) Comment on the share price on the JSE and how the % returns and earnings per share have affected the share price. Quote figures.

--	--

2

3.1.5

(a)

State TWO different points to justify their concern. Quote figures and financial indicators.

POINT 1:

POINT 2:

--

(b)

Explain why the other directors were unhappy with the price paid for the shares repurchased from Cruz. State TWO points. Quote financial indicators and figures to support EACH point.

POINT 1:

POINT 2:

--

(c)

Provide a calculation and comment on whether the repurchase of these shares affected Cruz's shareholding status or not.

WORKINGS	ANSWER

3

(d) Explain why the public was not interested in buying the new shares issued at R7,90 per share. Quote ONE financial indicator with a trend. (excluding EPS AND ROSHE).



2

MARKS
35





GAUTENG PROVINCE REVISION PACK P1 2024 MEMO

JUNE 2023 SUPPLEMENTARY PAPER

QUESTION 1

1.1	1.1.1	E ✓
	1.1.2	D ✓
	1.1.3	B ✓
	1.1.4	A ✓

4

1.2 STARLIGHT LTD

1.2.1 Calculate: Value of the closing stock of light bulbs on 28 February 2023, using the weighted-average method

WORKINGS	ANSWER
$\frac{3\,921\,500 \text{ two marks} + (416\,000 + 3\,478\,000) \text{ one mark}}{55\,000 \text{ ✓}} \times 1\,700$ <p>(8 000 + 47 000) one mark</p> <p>Weighted average: 71,30 three marks</p>	<p>121 210 ✓</p> <p>one part correct if x 1 700</p>

4

1.2.2 Calculate: Profit or loss on disposal of vehicle

WORKINGS	ANSWER
$91\,500 \text{ ✓} - (104\,000 \text{ ✓} - 15\,600 \text{ ✓})$ <p>for 1 of the 2 components within workings 88 400 three marks</p> <p>Accept alternative arrangements for calculations such as: 104 000 – 15 600 – 91 500</p>	<p>3 100 ✓</p> <p>one part correct ignore sign</p> <p>If SP > CV = Profit or SP < CV = Loss</p>

5

Calculate: Total depreciation for the year

WORKINGS	ANSWER
<p>Vehicles</p> $15\,600 \text{ ✓} + 145\,200 \text{ ✓} = 160\,800 \text{ two marks}$ <p>(see above)</p>	<p>281 100 ✓</p> <p>operation one part correct for vehicles + equipment</p>
<p>Equipment</p> $116\,100 \text{ ✓} + 4\,200 \text{ ✓} = 120\,300 \text{ four marks}$ <p>for 1 of the 2 components within workings</p>	

7

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

Sales		17 850 000
Cost of sales		(10 200 000)
Gross profit		7 650 000
Other income	operation	170 900 <input checked="" type="checkbox"/>
Commission income		85 900
Rent income 89 700 ✓ – 7 800 ✓✓		81 900 <input checked="" type="checkbox"/> *
Profit on sale of asset*	* could be a loss see 1.2.2 check if SP > NCV	3 100 <input checked="" type="checkbox"/>
Gross operating income	6	7 820 900
Operating expenses		(4 894 900)
Salaries and wages	balancing figure could be a negative	2 218 100 <input checked="" type="checkbox"/>
Audit fees 155 200 + 38 800		194 000 ✓ <input checked="" type="checkbox"/> *
Directors' fees 2 015 000 ✓ – 130 000 ✓✓ 2015 000 x 29/31 OR 65 000 x 29 OR 1 560 000 + 325 000		1 885 000 <input checked="" type="checkbox"/> *
Sundry expenses		219 760
Bad debts 16 200 ✓ + 2 250 ✓✓ [9 000 x 20/80] two marks in total		18 450 <input checked="" type="checkbox"/> *
Depreciation	see 1.2.2	281 100 <input checked="" type="checkbox"/>
Trading stock deficit 2 969 800 ✓ – (2 774 800 ✓ + 121 210 <input checked="" type="checkbox"/> 2 896 010 two marks see 1.2.1 Do not accept 2 969 800 or 2 774 800 as final answers		73 790 <input checked="" type="checkbox"/> *
Provision for bad debts adjustment	must be an expense	4 700 ✓✓
	18	
Operating profit	GOI - OE	2 926 000 <input checked="" type="checkbox"/>
Interest income	balancing figure; accept if negative	34 000 <input checked="" type="checkbox"/>
Profit before interest expense		2 960 000
Interest expense 165 600 ✓ x 60% OR 165 600 – 66 240 (690 000 – 524 400) one mark OR (13 800 x 12) x 60%		(99 360) <input checked="" type="checkbox"/> If x 60% OR –40%
Net profit before tax	NPAT + Inc Tax	2 860 640 ✓
Income tax		(858 140)
Net profit after tax	5	2 002 500

29

* one part correct

– 1 for foreign items (max -2);
For misplaced items mark the workings, but penalise on the final answer
Ignore brackets

CURRENT ASSETS	7 605 150
Inventories 2 774 800 ✓ + 121 210 <input checked="" type="checkbox"/> see 1.2.1 OR 2 969 800 one mark – 73 790 one m.mark (deficit) see SOCI	2 896 010 <input checked="" type="checkbox"/> *
Trade and other receivables ✓ <input checked="" type="checkbox"/> ✓ <input checked="" type="checkbox"/> two accuracy marks 645 250 – 2 250 – 25 720 + 130 000 + 16 860 ✓✓ bad debts prov BD directors fees SARS: Income tax + (875 000 – 858 140)	764 140 <input checked="" type="checkbox"/> *
Cash and cash equivalents <small>balancing figure</small>	3 945 000 <input checked="" type="checkbox"/>

11

* one part correct

TOTAL MARKS	60
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QUESTION 1 GAUTENG PRELIM 2023

1.1 Calculate: Value of closing stock

WORKINGS	ANSWER
$78 + 631 - 602$ $107 \checkmark \checkmark$ OR $5\ 955\ 600 - 5\ 056\ 800$ two marks two marks	$10\ 500 \times 100/125$ $x\ 8\ 400 \checkmark \checkmark$ $898\ 800 \checkmark$ one part correct

5

1.2 (i) Calculate: Accumulated depreciation on vehicles

WORKINGS	ANSWER
$814\ 000 - 519\ 200$	# ignore brackets * one part correct $294\ 800 \checkmark \checkmark \#$

2

(ii) Calculate: Depreciation on equipment for the year

WORKINGS	ANSWER
Old $561\ 000 \times 10\% = 56\ 100$ CV is only 50 000 $50\ 000 - 1\ 49\ 999 \checkmark \checkmark^*$ (If R50 000 or R1 is shown)	$52\ 749 \checkmark^* \#$
New $55\ 000 \times [10\% \times 6/12] = 2\ 750 \checkmark \checkmark^*$ one component must be correct	

5

(iii) Calculate: Disposal at carrying value on vehicles

WORKINGS	ANSWER
$165\ 000 \checkmark - (66\ 000 \checkmark + 14\ 850 \checkmark \checkmark^*)$ 99 000 two marks one component must be correct $99\ 000 \times [20\% \times 9/12]$	$84\ 150 \checkmark^*$

5

1.3 RETAINED INCOME NOTE ON 30 JUNE 2023

Balance at beginning of the year	Balancing figure	794 000	<input checked="" type="checkbox"/>
Net profit after tax		721 000	<input checked="" type="checkbox"/>
Shares repurchased (1 500 000 – 1 300 000) (2 025 000 – 1 755 000) 200 000 <input checked="" type="checkbox"/> x 15/100 <input checked="" type="checkbox"/> OR R270 000 x 0,15/1,35 Do not accept R300 000		(30 000)	<input checked="" type="checkbox"/> \$
Ordinary share dividends		(440 000)	
Interim dividends 1 500 000 x 12/100		180 000	<input checked="" type="checkbox"/>
Final dividends		260 000	<input checked="" type="checkbox"/>
Balance at the end of the year		1 045 000	

10

1.4 Statement of Financial Position on 30 June 2023

* one part correct

ASSETS			
NON-CURRENT ASSETS	TA – CA	3 119 800	✓
Fixed assets	NCA – FD	2 537 800	✓
Fixed deposit	2	582 000	
CURRENT ASSETS	CL x 1,2	1 407 600	✓✓
Inventory	see 1,1	898 800	✓
Trade and other receivables		364 600	✓*
(Dep. W & E) (transfer) (Dir. fees) (SARS I/T)			
209 100 ✓ + 11 000 ✓ – 1 500 ✓ + 96 000 ✓✓ + 50 000 ✓✓			
Cash and cash equivalents	balancing figure	144 200	✓
TOTAL ASSETS	TA must be the same as TE&L 13	4 527 400	✓
EQUITY AND LIABILITIES			
ORDINARY SHAREHOLDERS' EQUITY		2 800 000	
Ordinary share capital		1 755 000	
Retained income		1 045 000	
NON-CURRENT LIABILITIES		554 400	
Mortgage loan	(609 840 + 83 160) (693 000 x 20%)		
	693 000 ✓✓ – 138 600 ✓✓	554 400	
OR 487 872 + 66 528	4	four marks	
CURRENT LIABILITIES		1 173 000	✓*
Trade and other payables	(transfer) (acc exp Rent)	774 400	✓*
	763 860 ✓ – 1 500 ✓ + 12 040 ✓✓		
Shareholder for dividends		260 000	✓&
Current portion of loan		138 600	✓&
TOTAL EQUITY AND LIABILITIES	9	4 527 400	✓*

& inspect if included with T&OP
 -1 foreign items max -2 -1 presentation max -2

NOVEMBER 2021 NSC

QUESTION 1

1.1 Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021.

WORKINGS	ANSWER
$230 - 24$ $(206 \times R2\ 850) + (34 \times R2\ 600)$ ✓ ✓ ✓ ✓ 240 – 206 / if both unit totals add up to 240	R675 500 ✓ one part correct

1.2 Calculate: Correct net profit after tax for the year ended 30 June 2021. Indicate '+' for increase and '-' for decrease.

NO.	WORKINGS	AMOUNT
	Incorrect net profit before tax	4 918 950
(i)	Audit fees	+ 123 600 ✓✓ No part marks
(ii)	Interest on loan 4 028 000 ✓ – 3 755 000 ✓ or 4 028 000 one mark + (420 000 – 4 175 000) one mark	– 273 000 ✓#
(iii)	Rent income (two marks; no part marks) (5 500 – 750) 4 750 ✓✓ x 2 ✓ Be aware of different methods (77 000 x 4/14) one mark one mark one mark 22 000 – 3000 = 19 000 x 2 + 4	– 9 500 ✓#
(iv)	Income tax (1 200 000 + 85 250) must add prov tax + amount owed	✓# – 1 285 250
	Net profit after tax	3 474 800 ✓ one part correct

12

operation and – sign or accept use of brackets total must include the NP figure

1.3 Retained Income Note on 30 June 2021

-1 P (if no details) -*brackets to earn full marks

Balance at beginning		
Net profit after tax	see 1.2	3 474 800 ✓
Shares repurchased	ignore workings	(78 000) ✓ ✓*
Dividends for the year	ignore workings	(1 170 000) ✓ ✓*
Balance at end		3 240 000

5

JIMO LTD

STATEMENT OF FINANCIAL POSITION ON 30 JUNE 2021

Figures are NOT required in shaded areas.

ASSETS	
NON-CURRENT ASSETS	
Fixed assets	
Financial assets	
CURRENT ASSETS	8 700 000
Inventories 4 198 500 ✓ + 675 500 <input checked="" type="checkbox"/> – 14 000 ✓ ✓ see 1.1	4 860 000 <input checked="" type="checkbox"/> *
Trade and other receivables (3 668 810 ✓ + 8 000 ✓ + 123 600 ✓ + 11 000 ✓) audit fees transfer	3 811 410 <input checked="" type="checkbox"/> *
Cash and cash equivalents balancing figure accept negative amount	28 590 <input checked="" type="checkbox"/>
TOTAL ASSETS see total E+L 12	16 762 000 <input checked="" type="checkbox"/>
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY (1 800 000 ✓ x 540/100 ✓ or R5,40)	9 720 000 <input checked="" type="checkbox"/> * Must use NAV
Ordinary share capital Must be the balancing figure <	6 480 000 <input checked="" type="checkbox"/> <
Retained income 4	3 240 000
NON-CURRENT LIABILITIES	3 842 000
Mortgage loan (3 755 000 ✓ + 273 000 <input checked="" type="checkbox"/>) – 186 000 ✓ ✓ see 1.2 (ii) 5	3 842 000 <input checked="" type="checkbox"/> *
CURRENT LIABILITIES (8 700 000 – Inventories) / 1,2 Or T&OR + CCE / 1.2	3 200 000 <input checked="" type="checkbox"/><input checked="" type="checkbox"/>
Trade and other payables 1 253 000 ✓ + 9 500 <input checked="" type="checkbox"/> + 11 000 ✓ – 14 000 <input checked="" type="checkbox"/> see Inventories rent income 1 400 x 10	1 259 500 <input checked="" type="checkbox"/> *
Shareholders for dividends see 1.3 / given	1 170 000 <input checked="" type="checkbox"/> #
Current portion of loan see NCL	186 000 <input checked="" type="checkbox"/> #
SARS: Income tax	85 250 ✓ #
Bank overdraft balancing figure	499 250 <input checked="" type="checkbox"/>
TOTAL EQUITY AND LIABILITIES 12	16 762 000 <input checked="" type="checkbox"/>*

inspect if included with T&OP

*one part correct

33

-1 foreign items max -2 presentation -1 max -2

TOTAL MARKS

55

NOVEMBER 2021 CASH FLOW STATEMENT MEMO

QUESTION 2

2.1 Ordinary Share Capital Note on 28 February 2021

800 000	Ordinary shares at the beginning	6 400 000 ✓
100 000	New shares issued	1 250 000 ✓
(30 000) ✓	Repurchased 30 000 shares at R8,50 ✓	(255 000) ✓#
870 000 ✓	Shares at the end of the year	7 395 000

if answer of 255 000 is correct, award two marks if R8,50 is not shown

6

2.2 Calculate the following financial indicators on 28 February 2021:

% operating expenses on sales	
WORKINGS	ANSWER
$\frac{1\,458\,600}{7\,293\,000} \times 100^*$ <p>Check numerator / denominator</p>	20% ✓ one part correct; calculated as a %

2

Dividend per share	
WORKINGS	ANSWER
(no part marks) (162 000/900 000) 18 cents ✓ + 22 cents ✓ OR 0,18 + 0,22 18c 22c two marks one mark 162 000 + 191 400 900 000 870 000 See below '&'. No marks for denominator if the same figure is used for interim & final dividends. If weighted average used: one mark $\frac{162\,000 + 191\,400}{861\,666,7} = \frac{353\,400}{861\,667}$	Assume cents if not specified. 40 cents ✓& d

4

% return on average shareholders' equity	
WORKINGS	ANSWER
$\frac{985\,500}{\frac{1}{2}(6\,450\,000 + 8\,038\,100)} \times 100^*$ <p>14 488 100 two marks 7 244 050 three marks</p>	13,6% ✓* one part correct calculated as a % Do not accept 0,136 or 0,14

5

2.3 CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2021

Figures are NOT required in shaded areas.

For use of reversed signs, ensure that only one option is consistently used

CASH FLOW FROM OPERATING ACTIVITIES		1 180 000
Cash generated from operations		
Interest paid		
Taxation paid	(1 350 000 – 985 500) one mark 35 900✓ + 364 500✓ + 29 100✓ Be aware of signs reversed, use of brackets or ledger account formats	(429 500) ✓✓*
Dividends paid	115 300 + 162 000 OR: 115 300 + 353 400 – 191 400 Be aware of signs reversed & use of brackets or ledger account formats	(277 300) ✓✓*
	6	
CASH FLOW FROM INVESTING ACTIVITIES		(1 320 000)
CASH FLOW FROM FINANCING ACTIVITIES		409 000 ✓*
Shares issued	see 2.1	1 250 000 ✓*
Shares repurchased	36 000 one mark two m.marks 255 000 ✓ + (30 000✓ x 1,20✓) OR 30 000 x R9,70 see 2.1 (if R1,20 above ASP)	(291 000) ✓*
Loan repaid	8	(550 000) ✓✓*
NET CHANGE IN CASH AND CASH EQUIVALENTS		269 000 ✓* from top (OA + IA + FA)
CASH AND CASH EQUIVALENTS AT BEGINNING		(75 200) ✓✓* One mark if figure correct but no brackets
CASH AND CASH EQUIVALENTS AT END	4	193 800 ✓*

*one part correct and must indicate correct operation & correct use of brackets;

TOTAL MARKS

35

18

JUNE 2023 NSC SUPPLEMENTARY

QUESTION 2

2.1 RETAINED INCOME NOTE

Balance at beginning of year	237 400	
Net profit after tax	1 526 000	
Shares repurchased 180 000 ✓ x 1,20 ✓✓ (11,05 – 9,85) two marks OR 1 989 000 one mark – 1 773 000 two marks	(216 000) Ignore brackets ✓* Not 1 989 000 Not 1 773 000	
Ordinary share dividends operation (int + final)	(917 800) ✓*	
Interim dividends 1 070 000 x 32c	342 400 ✓✓* one part correct	
Final dividends	575 400 ✓	
Balance at end of year Inspect operation; must subtract shares repurchased & OSD	629 600 ✓*	9

* one part correct

2.2 Calculate: Change in loan

WORKINGS	ANSWER
7 200 000 – 6 348 000	852 000 ✓✓ Ignore brackets

2

Calculate: Proceeds from shares issued

WORKINGS	ANSWER
no part marks (1 370 000 + 180 000 – 1 250 000) 300 000 ✓✓ x 11,40	3 420 000 ✓ If x 11,40
OR (13 959 500 – 12 312 500) + 1 773 000 1 647 000 one mark one method mark - see 2.1	3 420 000 one method mark

3

2.3

CASH EFFECTS OF OPERATING ACTIVITIES	155 200 Operation; ✓ one part correct in totals or in workings
Cash generated from operations	2 340 300
Interest paid	(648 000) ✓ Must be in brackets
Income tax paid 1 526 000 x 30/70 42 100 ✓ + 654 000 ✓✓ + 23 600 ✓ OR – 42 100 – 654 000 – 23 600	(719 700) ✓* Must be in brackets
Be alert to other alternative presentations such as brackets or T-account.	
Dividends paid see 2.1 475 000 ✓ + 342 400 ✓ OR – 475 000 – 342 400 OR 475 000 one mark + (917 800 – 575 400) one m.mark	(817 400) ✓* Must be in brackets

10

* one part correct

2.4

Calculate: Current ratio		
WORKINGS	ANSWER	
$1\ 479\ 600 : 822\ 000$ Allocate ONE mark for both amounts (if no final answer / incorrect final answer)	$1,8: 1$ ✓✓ one part correct in form x : 1	2
Calculate: Net asset value (NAV)		
* does not constitute 'one part correct'		
WORKINGS	ANSWER	
$\frac{14\ 589\ 100 \text{ two marks} \quad \text{see 2.1}}{13\ 959\ 500 \checkmark + 629\ 600 \checkmark} \times 100^*$ $\frac{1\ 370\ 000 \checkmark}{1\ 370\ 000 \checkmark}$	$1\ 064,9$ cents ✓ one part correct accept R10,65 or 1065 cents Must be R or c only	4
Calculate: % return on total capital employed (ROTCE)		
NOTE: The average capital employed is R20 343 500.		
* does not constitute 'one part correct'		
WORKINGS	ANSWER	
$\frac{2\ 828\ 000 \text{ three marks}}{2\ 180\ 000 \text{ or } 1\ 526\ 000 \times 100/70}$ $\frac{1\ 526\ 000 \checkmark + 654\ 000 \checkmark + 648\ 000 \checkmark}{20\ 343\ 500 \checkmark} \times 100^*$	$13,9\%$ ✓ one part correct % sign not necessary	5

TOTAL MARKS	35
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NOVEMBER 2020 NSC

QUESTION 2

2.1

2.1.1	Directors' report ✓	
2.1.2	Internal ✓	
2.1.3	Limited ✓	

3

2.2 **USANDA LIMITED**

2.2.1	Calculate: Income tax paid						
	Workings		Answer				
	<p>(1 777 000 – 1 243 900) one mark</p> <p>69 300 ✓ + 533 100 ✓ – 19 800 ✓</p> <p>Alternative presentations: Mark ONE alternative only</p> <p>– 69 300 – 533 100 + 19 800</p> <p>(69 300) + (533 100) + 19 800</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>19 800</td> <td>69 300</td> </tr> <tr> <td>582 600</td> <td>533 100</td> </tr> </table>	19 800	69 300	582 600	533 100		R582 600 <input checked="" type="checkbox"/> one part correct
19 800	69 300						
582 600	533 100						
	Calculate: Dividends paid						
	Workings		Answer				
	<p>495 000 two marks</p> <p>247 500 ✓ + (835 000 ✓ – 340 000 ✓)</p> <p>Alternative presentations: Mark ONE alternative only</p> <p>– 247 500 – 835 000 + 340 000</p> <p>(247 500) + (835 000) + 340 000</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>340 000</td> <td>247 500</td> </tr> <tr> <td>742 500</td> <td>835 000</td> </tr> </table>	340 000	247 500	742 500	835 000		R742 500 <input checked="" type="checkbox"/> one part correct
340 000	247 500						
742 500	835 000						

4

*one part correct # correct use of bracket or not to earn the method mark on answer

2.2.2	CASH EFFECTS OF FINANCING ACTIVITIES		(2 652 500) <input checked="" type="checkbox"/> *
	<p>Proceeds from shares issued</p> <p>335 000 one mark x R7,00 one mark</p> <p>9 555 000 ✓ + 2 345 000 ✓✓ – 11 220 000 ✓</p> <p>OR Be aware of different methods e.g. T-acc or reversed signs</p> <p>–9 555 000 – 2 345 000 + 11 220 000</p> <p>Note: The 50 000 is not used in this calculation because the R680 000 is the balancing figure in the OSC note</p>		680 000 ✓ <input checked="" type="checkbox"/> *#
	<p>Funds used to repurchase shares</p> <p>3 182 500 one mark if no bracket</p> <p>335 000 x R9,50</p>		(3 182 500) ✓✓
	<p>Change in loan</p> <p>2 080 000 – 1 930 000 or 270 000 – 420 000</p> <p>(2 080 000 – 420 000 + 270 000) 35 000 x 12</p>		(150 000) ✓ <input checked="" type="checkbox"/> *#

11

NET CHANGE IN CASH AND CASH EQUIVALENTS	56 000 <input checked="" type="checkbox"/> *
Cash (opening balance) 154 700 – 90 000 must not be bracketed	64 700 ✓✓
Cash (closing balance)	120 700 ✓

2.2.3 Calculate financial indicators for the year ended 28 February 2021:

Note: 100 does not count as 'one part correct' for the method mark

% operating profit on sales		
Workings	Answer	
$\frac{2\,262\,100}{17\,800\,000} \times 100$	one part correct 12,7% ✓ # accept 12,7 two marks	2
Acid-test ratio		
Workings	Answer	
(659 500 – 276 500) two marks or (262 300 + 120 700) two marks $383\,000 \checkmark \checkmark : 611\,900 \checkmark$	0,6 : 1 ✓ one part correct Do not accept 1 : 1 as x : 1; not 0,6 on its own Accept 0,63 : 1	4
% return on average shareholders' equity (ROSHE)		
Workings	Answer	
$\frac{1\,243\,900 \checkmark}{\frac{1}{2} \checkmark (11\,985\,000 + 9\,891\,400) \checkmark} \times 100$ <p style="text-align: center;">21 876 400 one mark</p>	one part correct 11,4% ✓ # Accept 11,37% or 11%	4
Dividend payout rate (%)		
Workings	Answer	
30 cents or R0,3 + 20 cents or R0,2; one mark each (assume R or c if no signs) Must be consistent with calculation $\frac{50 \text{ cents} \checkmark \checkmark}{74 \text{ cents} \checkmark} \times 100$ <p style="text-align: center;">one mark</p> <p>OR $\frac{R835\,000}{R1\,243\,900} \times 100$ (2021 Total dividend) (2021 NPATax)</p>	67,6% ✓ # one part correct or 67,1% Accept 67% / 68%	4

TOTAL MARKS
40

JUNE 2023 NSC MEMO:

QUESTION 3

3.1

Explain whether or not the company is managing their working capital efficiently. Quote TWO financial indicators, with figures and trends.

Financial indicator ✓ ✓ figure and trend ✓ ✓ any ONE explanation ✓

Any two indicators:

- Current ratio has decreased to 0,9 : 1 / from 1,3:1 to 0,9:1 / by 0,4 : 1
- Acid test ratio has decreased to 0,3 : 1 / from 0,6:1 to 0,3:1 / by 0,3 : 1
- Debtors average collection period increased to 42,4 days / from 30,8 days to 42,4 days / 11,6 days.

Possible explanations for ONE mark:

The business will experience difficulty in meeting short term debts / does not have enough liquid assets (cash) to cover current liabilities / debtors take too long to settle accounts / too much stock on hand.

5

3.2

Calculate the total number of additional shares that Denise purchased.

CALCULATION

ANSWER

(51% x 1 500 000) two marks
765 000 ✓✓ – 540 000 ✓

225 000 ✓
one part correct

Not 50% + 1 share or 50% + 100 shares

4

Give ONE possible reason why Denise was determined to become the majority shareholder.

Any ONE valid reason ✓✓ must relate to influence over control
part marks for incomplete/unclear responses

Expected responses e.g.

- She wants to have full control of the company.
- She wants to influence all decisions of the company in the future.
- She wants to address the issue of incompetent directors/influence new appointments who can contribute to the growth of the company
- She feels she can kick-start a turn-around of the current situation.

Possible responses for one mark e.g.

To gain more dividends / make a capital gain on the shares

2

3.3.1 The Cash Flow Statement revealed decisions taken by the directors. Identify **TWO** major decisions taken by the directors in 2023 that were different to those from the previous year. Quote figures.

TWO decisions ✓ ✓ Figures ✓ ✓

- In 2023 the company issued more shares for R3 750 000 (in 2022 the company bought back shares for R250 000).
- In 2023 they repaid R1 800 000 of the loan (in 2022 the company borrowed R3 500 000). Do not accept R1 700 000 as a valid figure.

Give ONE reason for these decisions.

ONE valid reason ✓✓ part marks for incomplete/unclear responses

- Place less reliance on loans / pay less interest / improve or reduce financial risk
- There is an attempt to sustain the company by using equity (own capital)

6

3.3.2 Explain the impact of these decisions on the degree of financial risk over the two years. Quote **ONE** financial indicator, with figures and trends.

Financial indicator ✓ with figures and trend ✓

Debt/equity ratio decreased (from 0,4 : 1) to 0,1 : 1 / by 0,3 : 1)

Explanation ✓

Reduced or lower financial risk / less reliance on loans / use of own (share) capital

3

3.3.3 Explain how these decisions affected the gearing of the company. Quote **ONE** financial indicator, with figures and trends.

Financial indicator ✓ with figures and trend

ROTCE dropped (from 11,4%) to 9% / by 21,1% / by 2,4% points

Explanation of gearing (compared to interest rate) ✓✓ part marks for incomplete/unclear responses

Expected responses:

- ROTCE is below the interest rate of 13%; was negatively geared in 2022 and dropped further in 2023.
- Company was not making effective use of loans in 2022 and this trend has continued in 2023 in spite of effects of attempts to reduce the loan.

4

3.4.1 Certain shareholders expressed concern about the change in the dividend payout policy. Explain TWO points to support their opinion.

TWO valid points ✓✓ ✓✓ part marks for incomplete/unclear responses
 Figures not compulsory here.

- The increase in the dividend pay-out rate to 106,7% (from 67,6%) means that funds must be used from retained income / depleting company funds / paid higher dividends whilst earnings were low.
- The directors want to distract shareholders by trying to appease them in order to distract them from the poor performances of the company / misleading.
- Directors are acting irresponsibly by showing no intentions for the growth of the company / Company is not retaining funds for future growth.
- Directors should have focused on improving the cash resources because they are actually depleting cash resources.

Responses for one mark e.g.

Dividend pay-out rate increased significantly / directors want to be re-elected

4

3.4.2 Explain whether shareholders would be satisfied with the trend in the % return and earnings of the company, as well as the dividends they earned. Quote TWO financial indicators, with figures and trends.

Financial indicator figures and trend ✓ ✓

Any TWO of:

- ROSHE decreased (from 7,2%) to 5,7% / by 1,5% points / 20,8%
- EPS decreased (from 74c) to 60c / by 14c / drop in profitability by 18,9%
- DPS increased (from 50c) to 64c / by 14c / by 28%

Explanation (figures not compulsory here) ✓ part marks for incomplete/unclear responses

- Returns are below interest rate on fixed deposits [alternative investment of 7%]
- Some shareholders may be satisfied with a [14 cent] increase in DPS / others concerned that company pays high dividends when profits dropped
- Due to high dividends, dividend yield improved (from 4,9%) to 7,5% / by 2,6% points / 53,1%

6

3.5

In EACH case, provide evidence for the shareholders' concerns over these trends, and explain why they would be concerned about the future prospects for the company. Quote figures and trends. * award relevant mark allocation if correct evidence, figures or reasons are placed in the incorrect columns		
Issues	Evidence of concern Figure ✓ ✓ Comparison ✓ ✓	Reason for concern ✓ ✓ Be alert to other valid reasons
Cash and cash equivalents	C&CE decreased by R836 000 OR C&CE decreased (from R1,914m) to R1,078m over the two years OR Net outflow in 2023 of R836 000 compared to net inflow of R2,2m in 2022	Operating activities reflects deficit / use of available funds / generating funds with no intention to increase profitability / liquidity issues in the future if trend continues
Market price of shares on JSE	The market price on the JSE has decreased (from 1 020 cents) to 850 cents / The market price of 850 cents is less than the NAV of 1 007 cents.	The shares are not in demand by the public (due to general decline in company's performance) / Future prospects are not good as new shareholders might not want to buy shares if the shares are not performing well

6

TOTAL MARKS	40
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NOVEMBER 2020 NSC MEMO

QUESTION 3

3.1

3.1.1	C ✓
3.1.2	E ✓
3.1.3	B ✓
3.1.4	A ✓

4

3.2 SCI-FI GEEKS LTD If candidates give more required number of indicators, -1 for any *inappropriate* one (max -1) in Q3.2

3.2.1

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response.

Financial indicators ✓ ✓ Figures ✓ ✓ Explanation ✓✓

part marks for incomplete, partial or unclear answer

- The stock holding period increased (from 32 days) to 102 days (or 70 days)
- Average debtors' collection period increased (from 31 days) to 46 days (15 days)
- Current ratio increased (from 1,1 : 1) to 2,4 : 1 / by 1,3 : 1
- Acid-test ratio increased (from 0,4 : 1) to 1 : 1 / by 0,6 : 1

Any ONE valid explanation; part marks for incomplete / unclear explanation

- Too much liquid assets (cash) tied up in stock reflects that there is an over-investment in stock / the difference in current & acid-test ratios reflects stock piling.
- High stock volumes create security problems
- Stock can easily become obsolete due to advancements in technology (can't be sold)
- The business has relaxed / neglected its collection policies / lockdown during Covid-19 and this impacts on the debtors / stock / cash flow of the business.

6

3.2.2	<p>Comment on the dividend per share over the two years. Quote figures.</p> <p>ONE valid comment ✓ Figures ✓</p> <p>The DPS dropped from 90 cents to 72 cents / by 18 cents / by 20%</p>	2
	<p>Explain the change in the dividend payout rate. Quote figures.</p> <p>Explanation ✓ Figures ✓</p> <p>The dividend pay-out rate increased from 69% (90/130) to 136,5% or 72/58 (accept 124,1%) / or a 97,8% increase from the previous year</p> <p>Give a reason for this change.</p> <p>ONE valid point ✓✓ part marks for incomplete, partial or unclear answer</p> <ul style="list-style-type: none"> • Directors attempted to please the shareholders for the low profitability • Compensation for using funds retained in previous financial years. • No plans for growth / expansions (no need to retain additional funds) 	4
	<p>A shareholder felt that they should be satisfied with the dividends they received as it is better than last year. Explain why you agree with him. Quote figures.</p> <p>Explanation with a comparison to another factor apart from the payout rate ✓✓</p> <p>Any valid figure ✓</p> <p>Responses for 3 marks:</p> <ul style="list-style-type: none"> • The drop in the market price from 540 cents to 410 cents (reflects a dividend yield DPS/MP of 17,7% this year compared to 16,7% last year) / If the policy was maintained at 69% of EPS, they would have received 40 cents. <p>Example of responses for two marks:</p> <ul style="list-style-type: none"> • EPS dropped from 130c to 58c (by 72 cents / 55%) but DPS dropped from 90c to 72c (by 18 cents / 20%) • The dividend pay-out rate increased from 69% (90/130) to 136,5% or 72/58 (accept 124,1%) / or a 97,8% increase from the previous year. <p>Example of responses for one mark:</p> <ul style="list-style-type: none"> • The dividend pay-out rate increased. 	3

3.2.3 Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures).

✓ ✓
Debt/equity ratio increased (from 0,3 : 1) to 0,4: 1 (or by 0,1 : 1)

✓ ✓
ROTCE decreased (from 39%) to 23,2% (or 15,8%)

Any valid comment on the above ✓✓ **part marks for incomplete, partial or unclear answers**

- Increased borrowing not effectively used to increase / improve profitability.
- Although still positively geared (ROTCE exceeds interest rate), the drop in profitability / downward trend is a concern.
- Although there is low financial risk, the company is more reliant on own capital.

6

3.2.4 Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures.

Candidates must provide two reasons, which may be embedded in one explanation.

Any two different reasons: ✓✓ ✓✓ **part marks for incomplete, partial or unclear answers**

- Ethical reasons e.g. This is a very low price and the CEO is exercising undue influence over the issue price / receiving preferential treatment / against the Companies Act or King Code / lack of transparency
- Market-related reasons e.g. the company is losing out on additional funding as shares could have been sold at a price in that range, or on the stock exchange

Relevant figures (any two): ✓ ✓

The selling price of these shares (250 000) is 150 cents each (R375 000 in total) / market price of 410c exceeds NAV of 332c.

6

3.2.5 The Cash Flow Statement reflected a positive change in R980 000. Provide TWO points why this should still be a concern to directors. Quote figures.

TWO points ✓ ✓ Figures ✓ ✓

Expected responses for one mark each, figures one mark each:

- Cash flow from operating activities is negative R148 080
- Additional shares issued, R375 000
- Financing activities increased by R1 026 500
- Large increase in loan, R651 500 / high interest payment R232 000
- Very high payment for dividends, R925 000
- Cash from investing activities, R101 580

4

NOVEMBER 2021 NSC MEMO

QUESTION 3

3.1

3.1.1	D ✓	Return on equity
3.1.2	A ✓	Liquidity
3.1.3	B ✓	Gearing
3.1.4	C ✓	Solvency

4

3.2 FLEXI LTD AND BROOM LTD

3.2.1 Profitability:

Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently, and is thereby more profitable. Quote figures and trends.

part marks for incomplete / partial / unclear responses

Any TWO financial indicators (explaining trend) from Broom Ltd with figures ✓✓ ✓✓

If figures are shown for Flexi Ltd, award marks to names of indicators (max 2 marks)

Quote figures and trends for any two indicators below

% OExp on sales improved / decreased (from 17%) to 13,6% / by 20% / by 3,4% points (accept 3,4%)

4

3.2.2 Dividends, earnings & returns:

Comment on the dividend pay-out policy of Flexi Ltd. Explain why this is an irresponsible change in policy. Provide TWO points. Quote figures and trends.

Trend (with figures) ✓✓

part marks for incomplete / partial / unclear responses (e.g. mentioning only DPS or only EPS)

Responses for 2 marks for figures & trends:

- The pay-out rate increased (from 59%) to 115% / by 94,9% / 56% points (accept 56%)
- In 2021 they paid DPS of 92c compared EPS of 80c (i.e. 12c from retained income).
- Although the EPS dropped from 138 cents to 80 cents (by 58 cents) / DPS was 10 cents more than last year (82c to 92c) and DPS now exceeds EPS (by 12c / 92c to 80c).

Explanation / comment on decision ✓✓

part marks for incomplete / partial / unclear responses; figures may be included in the explanation

Expected comments – any one valid comment for two marks e.g.

- Company is depleting Retained Income reserve (which can be more effectively used to rebuild profitability)
- The company is trying to keep shareholders happy / trying to influence market price of shares by increasing dividends / equalizing dividends over several years.

4

Comment on the % return on shareholders' equity of EACH company. Quote figures and trends.	Quote figures
<p>Financial indicator with figures & trend ✓ ✓</p> <p>Flexi Ltd: ROSHE dropped from 12,2% to 7,6% / by 37,7% / 4,6 % points (accept 4,6%)</p> <p>Broom Ltd: ROSHE improved from 10,7% to 14,1% / by 31,8% / 3,4% points (accept 3,4%)</p> <p>Additional comment in each case ✓ ✓</p> <p>Figures may be included in the explanation; candidates are NOT required to mention a specific figure for the alternative rate; do not penalise for incorrect rates on investments (as these could vary from 4% to 14%)</p> <ul style="list-style-type: none"> • Flexi Ltd: Refer to / compare alternative investments e.g. fixed deposit • Broom Ltd: Refer to / compare alternative investments e.g. fixed deposit <p>Comment for 1 mark only (to cover both companies):</p> <ul style="list-style-type: none"> • If candidates only mention increased / decreased / good / bad without alternative investments. 	4

<p>A shareholder feels that the earnings per share (EPS) in Broom Ltd are better than that in Flexi Ltd. Explain why you agree with him. Quote figures or calculations.</p>
<p>To get full marks, must compare <u>EPS to Value of share (MP / NAV)</u> for Flexi Ltd with figures</p> <p style="text-align: right;">✓✓ part marks for incomplete / partial / unclear responses</p>
<p>To get full marks, must compare <u>EPS to Value of share (MP / NAV)</u> for Broom Ltd with figures</p> <p style="text-align: right;">✓✓ part marks for incomplete / partial / unclear responses</p>
<p>Expected responses for four marks (two marks per company):</p> <ul style="list-style-type: none"> • EPS to NAV is 7,4% in Flexi Ltd and 11,4% in Broom Ltd • EPS to MP for 2021 is 8,1% in Flexi Ltd (80/990) and 10,9% (72/660) in Broom Ltd • EPS on MP for 2020 is 7,1% in Flexi Ltd (80/1130) and 11,7% (72/615) in Broom Ltd • Flexi Ltd earned 80c on a share valued at 990c/1 081c while Broom Ltd earned 72c on a share valued at 660c/632c.
<p>OR: Other comparisons for each company for only one mark in each company:</p> <ul style="list-style-type: none"> • Flexi Ltd EPS decreased from 138c to 80c whilst Broom increased from 65c to 72c • Flexi EPS is calculated on a smaller number of share (700 000) so it looks good; Broom's EPS is calculated on a larger number of shares (1 500 000)

4

3.2.3 Shareholding of Bob Yates in both companies:

Comment on the price paid for the shares repurchased by Flexi Ltd. Provide TWO points. Quote figures.

Figures may be included in the explanation

Any TWO valid points (2 marks each), at least one of which must be related to a financial indicator with figures:

- Compare with figures R13,20 to MP of R9,90 or R11,30
- Compare with figures R13,20 to NAV of R 10,81 or R11,28
- Compare with figures R13,20 to any other value (e.g. average issue price)
- Any other general comment without figures e.g. compromised the funds (liquidity)

/ Bob abused his status to enrich himself / MP also shows a decreasing trend / no demand for shares / could drop the price further (apply part marks for simple or incomplete or partial answers).

Calculate the number of shares that Bob purchased in Broom Ltd with the money he received from the share buyback at Flexi Ltd.

WORKINGS	ANSWER
$150\,000 \times 13,20$ $\underline{1\,980\,000}$ $R6,60$	300 000 shares ✓ <input checked="" type="checkbox"/> one part correct

Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. Quote figures and trends.

Explanation on % shareholding ✓ Comparison in Flexi Ltd with figures ✓ Explanation on % shareholding ✓ Comparison in Broom Ltd with figures ✓ Be aware of combined explanation with figures

Flexi Ltd:

Bob was the majority shareholder (51%)

He now has only 40,5% of the shares (283 500 / 700 000) so he has lost majority status.

Broom Ltd:

Bob had 41,8% of the shares $460\,000 + 300\,000$

He now has 50,7% of the shares (760 000 / 1 500 000) *see 3.2.3*

He is now the majority shareholder (or based on calculation in 3.2.3)

OR: There was no share repurchase in Broom Ltd, so that would not affect his

% shareholding which was 41,8% (two marks)

OR: As he bought 300 000 shares in Broom Ltd, he is now the

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3.2.4 Financing strategies and gearing:

Explanation of decisions taken by the directors of Broom Ltd (two marks):

Any ONE decision Figure

Increased the share capital by R2 640 000 or (400 000 shares)

OR

Decreased the loan by R400 000 **OR**

Net increase of R2 240 000 to total capital employed

Explain ONE benefit (two marks):

Explanation of benefit Award part marks for partial / unclear / incomplete responses

- All the money generated is spent on lasting items (fixed assets) which could generate further profits in future
- Improved debt/equity ratio / reduced debt/equity (low risk) / improved creditworthiness in future
- Improved % return on average capital employed.

4

Explain how the decisions taken by Flexi Ltd on its capital employed has affected the risk and gearing of the business. Quote TWO financial indicators (with figures and trends).

TWO financial indicators (with figures)

- **Debt/equity** ✓ is now / increased (from 0,4 : 1) to 1,1 : 1 / by 0,7 : 1 ✓
- **ROTCE** ✓ is now / decreased (from 16,1%) to 10,2% / by 36,6% / by 5.9% points (accept 5,9%) ✓

Explanation could be combined with figures or separate; both risk & gearing must be mentioned. Ignore reference to % ROSHE (i.e. do not penalise)

Award part marks for partial / unclear / incomplete responses

- High risk due to increase in loan ✓
- The business is experiencing negative gearing ✓ (ROTCE is lower than interest rate of 13%)

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GAUTENG PROVINCE PRELIM 2023

QUESTION 3

3.1.1 Cruz has been concerned about the company's working capital over the years. He proposed a new approach to directors by converting assets into cash quickly. Quote TWO financial indicators and explain why his concern is justify.

Financial indicator ✓ ✓ Explanation with figures ✓ ✓

- Acid test ratio decreased from (0,9 : 1) to 0,7 : 1/by 0,2:1
- Stock turnover rate dropped from (8 times) to 5,2 times/by 2,8 times

4

3.1.2 A shareholder has proposed that Cruz, the CEO, to acquires a loan from his wife, who is a bank consultant. Cruz did not agree to this proposal. Explain why you agree with him. Provide TWO points.

Financial indicators ✓ ✓ trend and figures ✓ ✓
Explanation ✓ ✓ (mention risk/ gearing/compare with interest rate)

Debt equity ratio	ROTCE
increased from (0,4: 1) to 0,5: 1 / by 0,1:1	decreased from 20% to 13% / by 7% base point
<u>Increased (high) risk</u> as compared to previous year.	Negative gearing / lower than the interest paid on the loan of 14% / the company is not making a good use of loans to generate profit.

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3.1.3 Provide a calculation which agrees with their decision

- In 2022: $90/93 \times 100 = 96,8\%$ ✓✓ of EPS was distributed as dividends
OR: retained 3,2% two marks
- In 2023: $57/81 \times 100 = 70,4\%$ ✓✓ of EPS was distributed as dividends
OR: retained 29,6% two marks
OR: $96,8\% - 70,4\% = 26,4\%$ four marks

4

Give ONE reason why they took this decision.

Valid explanation ✓✓

- They decided to retain funds for future developments in the business.
- They want to improve cash flow.
- Equalisation of dividends for the future

2

3.1.4 (a)	Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures.			
	<p>Financial indicator (with trend) ✓ ✓ explanation with figures ✓ ✓</p> <ul style="list-style-type: none"> • <u>ROSHE declined</u> from 9,2% to 5% (by 4,2%)/compared to alternative investments. (Fixed deposits offer 6% in 2021 and 7% in 2022). • <u>EPS declined</u> from 93 cents to 81 cents (by 12 cents; or by 12,9%)/ representing a drop in profitability <p>OR Earnings yield: 93/820 (11,34%) to 81/785 (10,31%) – using NAV 93/840 (11,07%) to 81/760 (10,65%) – using MP</p>	<table border="1"> <tr><td> </td></tr> <tr><td>4</td></tr> </table>		4
4				
(b)	Comment on the share price on the JSE and how the % return and earnings per share have affected the share price. Quote figures.			
3.1.5 (a)	State TWO different points to justify their concern. Quote figures or financial indicators			
	<p>Any TWO valid points (with figures) ✓✓ ✓✓</p> <p>POINT 1</p> <ul style="list-style-type: none"> • Cruz has given himself a 25% increase. • R500 000 increase is more than the fees of the other directors as they did not receive an increase (maintained at R1 000 000 each). <p>POINT 2</p> <ul style="list-style-type: none"> • EPS dropped from 93c to 81c or (by 12c) • ROSHE dropped from 9,2% to 5% or 4,2 base points 	<table border="1"> <tr><td> </td></tr> <tr><td>4</td></tr> </table>		4
4				

- (b) Explain why the other directors were unhappy with the price paid for the shares repurchased from C. Cruz. State TWO points. Quote financial indicators and figures to support EACH point.

Figures ✓ ✓ Explanation ✓ ✓

POINT 1

The shares were repurchased for R4,80 above the net asset value per share (1 300c – 820c) / 59% above NAV / received an inflated price / compromised the cash flow of the business.

POINT 2

The shares repurchase price is R4,60 more than the market price of the shares (1 300c – 840c) / this is an unreasonable price as there is no demand for the shares.

4

- (c) Provide a calculation and comment on whether the repurchase of these shares affected C. Cruz's shareholding status or not.

WORKINGS	ANSWER
$\frac{1\,795\,000}{3\,240\,000} \times \frac{100}{1}$	55,4% ✓ <input checked="" type="checkbox"/> one part correct must be a %

Comment

He is still the majority shareholder/shareholding decreased from 57,2% to 55,4% ✓

3

- (d) Explain why the public was not interested in buying the new shares issued at R7,90 per share. Quote ONE financial indicator with a figure. (excluding EPS AND ROSHE).

Financial indicator with figure ✓ Explanation ✓

- DPS dropped from (90c) to 57c – shareholders not receiving a reasonable return.
- R7,90 is not a good deal when compared to the market price of R7,60/ (R8,40), especially if they were then prepared to sell the shares at R6,70. It indicates the company's desperate attempt to raise capital

2