



education

MPUMALANGA PROVINCE  
REPUBLIC OF SOUTH AFRICA

GERT SIBANDE DISTRICT

GRADE 12

ACCOUNTING

MARCH CONTROL TEST - 2025

FINANCIAL REPORTING & EVALUATION

MARKS: 100

TIME: 80 MINUTES

This question paper consists of 8 pages, 1 formula sheet and a 7-page answer book.

**INSTRUCTIONS AND INFORMATION**

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Workings must be shown to achieve part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer the questions.
6. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.
8. A FORMULA SHEET for financial indicators is attached to this question paper. You may use it if necessary.
9. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

<b>QUESTION 1: 50 marks; 40 minutes</b>	
<b>Topic:</b>	<b>This question integrates:</b>
Financial statements	Balance Sheet Notes to Financial Statement: Retained Income

<b>QUESTION 2: 30 marks; 24 minutes</b>	
<b>Topic:</b>	<b>This question integrates:</b>
Notes to Financial Statements and Cash Flow Statement	Cash Flow Statement Notes to Financial Statements Interpretation of financial information

<b>QUESTION 3: 10 marks; 08 minutes</b>	
<b>Topic:</b>	<b>This question integrates:</b>
Interpretation of financial information	Interpretation of financial information

<b>QUESTION 4: 10 marks; 08 minutes</b>	
<b>Topic:</b>	<b>This question integrates:</b>
Audit Report and Corporate Governance	Audit Report and Corporate Governance

**QUESTION 1: COMPANY FINANCIAL STATEMENTS (50 marks; 40 Minutes)****BREYTEN LIMITED**

The information relates to the financial year ending on 28 February 2025.

**REQUIRED:**

- 1.1. Retained Income Note on 28 February 2025. (12)
- 1.2. Prepare Statement of Financial Position for the year ending 28 February 2025. (38)

**Note: (Where notes are NOT required, show your workings in brackets to earn part marks)**

**INFORMATION****A.**

List of balances, before considering all adjustments below:		
	2025 R	2024 R
Fixed Assets ( <b>Balancing Figure</b> )	?	?
Ordinary share capital	?	9 600 000
Retained Income (8 February 2025)	1 155 000	?
Loan: Mswati Bank	1 750 000	2 000 000
Interest on Fixed Deposit (12% p.a.)	90 000	
Fixed Deposit	?	
Trading stock	1 500 000	
Net trade debtors	1 020 000	
Petty Cash, Cash Float and Bank (Dr)	2 101 000	
Creditors control	750 000	
Accrued income	20 500	

**B. Shares and dividends**

**1 September 2024** Interim dividends of 45 cents per share was paid

**08 February 2025** 160 000 shares were repurchased at R1.20 above the average share price. This transaction was properly recorded. These shares do not qualify for final dividends.

**28 February 2025** A final dividend of 70 cents per share was declared on all shares on the share register on 29 February 2025.

**28 February 2025** 1 340 000 shares were in issue.

**NB: No new shares were issued during the financial year.**

**C. Loan: Mswati Bank**

Balance at the beginning	2 000 000
Month repayment instalment (incl. interest)	30 000
Interest on loan	?
Balance at the end	1 750 000

**NOTE: Loan repayment will remain the same in the next financial year.**

Please turn over



**OTHER ADJUSTMENTS:****1. Rent Income**

Rent of R109 000 was received from a tenant for the period 1 March 2024 to 30 April 2025. This has been recorded.

**NOTE:** The monthly Rent was decreased by R2 000 from 1 December 2024.

**2. Directors' Fees**

Directors' fees paid for the year amounted to R2 665 000. The company has four directors who received the same fee.

Two directors received their fees in full for current year.

One director did not receive his fees for February 2025.

Last director requested a company to pay him for March, April and May 2025.

**3. Fixed deposit**

20% of fixed deposit is expected to mature on 30 June 2025.

**4. Provision for bad debts**

Provision for bad debts must increased by R9 000.

**5. Debtors control**

Debtor with a credit balance of R22 000 must be transferred to creditors ledger.

**6. Trading Stock**

Physical stock count revealed:

Trading Stock on Hand	R1 500 0000 (There was no surplus or deficit)
Consumable Stores on hand	R380 800

**7. SARS – Income tax**

- SARS – Income tax for previous year (2024) indicate a credit balance (Cr) – which amounted to R80 000
- Tax paid for 2024 amounted to R650 200
- Income tax for the year amounted to R658 000 (28% of Net Profit).

**QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS****(30 minutes; 30 minutes)****POSH LTD**

The information relates to the financial year ended 28 February 2025.

**REQUIRED:**

- 2.1** Complete the section of the Cash Flow Statement for 'Cash Effects of Operating Activities'. Show all workings. (8)
- 2.2** Calculate the following amounts for the Cash Flow Statement:
- 2.2.1 Purchase of fixed assets. (5)
- 2.2.2 Proceeds from shares issued. (5)
- 2.2.3 Repayment of loan. (2)
- 2.2.4 Net change in cash and cash equivalents. (4)
- Complete the table in the Answer Book.**
- 2.3** Calculate the following financial indicators on 28 February 2025:
- 2.3.1 % Net profit after tax on sales. (4)
- 2.3.2 Debt equity ratio (2)

**INFORMATION:****A. Extract: Statement of Comprehensive Income on 28 February 2025:**

Sales	R 4 050 000
Cost of sales	2 600 000
Depreciation	440 560
Interest expense	246 000
Income tax	253 500
Profit before income tax	845 000

**B. Extract: Information from the Statement of Financial Position on 28 February:**

	2025 R	2024 R
Fixed assets (carrying value)	9 768 900	7 886 780
Ordinary shareholders equity	<b>6 315 500</b>	<b>5 015 000</b>
Ordinary share capital	5 900 000	4 845 000
Retained income	415 500	170 000
Non-current liabilities	1 400 000	2 500 000
Cash and cash equivalent	5 000	490 000
Bank(unfavourable)	55 000	-
SARS: Income tax	(Cr) 10 40 0	(Cr) 6 780
Shareholders for dividends	195 000	100 000

**C. Fixed assets:**

- Old equipment was sold for cash at the carrying value of R195 200.
- Fixed assets to the value of R? were purchased during the year.

**D. Share capital and dividends:**

- The company is registered with an authorised share capital of 1 000 000 shares.
- On 1 March 2024 there were 60% of the authorised shares in issue.
- On 1 April 2024 a further 500 000 shares were issued.
- An interim dividend of R140 000 was paid on 31 August 2024.
- On 28 February 2025, 100 000 ordinary shares were repurchased from the estate of a deceased shareholder at R10 000 more than the average price per share.
- On 28 February 2025 there were 1 000 000 shares in issue.



**QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS****(10 marks; 08 minutes)****3.1 NOMNDENI LOYAL LTD**

The company trades in electrical equipment. The information relates to the past two financial years, ended 28 February 2025.

JT Khoza 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:**

Khoza 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 Khoza acquires a loan from his wife, who is a bank consultant. Khoza did not agree with this proposal. Explain why you agree with him. Quote TWO financial indicators.

(6)

**INFORMATION:****A.**

	<b>2025</b>	<b>2024</b>
Debt/Equity ratio	0,8 : 1	0,4: 1
Acid-test ratio	0,4: 1	0,9: 1
Stock turnover rate	3,2 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%
Interest rate on loan	14%	14%

10

**QUESTION 4: CORPORATE GOVERNANCE****(10 marks; 08 minutes)**

- 4.1 Given the TWO types of reports which can be issued after the financial statements of a company had been audited.

Disclaimer of opinion	Unqualified report
-----------------------	--------------------

- Which type of audit report will discourage shareholders to buy shares in a company and briefly explain that audit report. (2)

- Provide ONE reasons why shareholders will not be interested to buy shares in such a company. (2)

- 4.2 Explain why a company's financial statements must be audited by independent auditors. Provide ONE points. (2)

- 4.3 The following was reported to the company.

One of the directors, the Chief Financial Officer (CFO) and the Independent Auditor of the company seems to be good friends as they meet socially every second week.

As a shareholder, why would you be concerned by this kind of relationship? Explain TWO points (**one for each person involved as indicated in the ANSWER BOOK**). (4)

10
----

**TOTAL: 100**



**GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET**

$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$	$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
Total assets : Total liabilities	Current assets : Current liabilities	(Current assets – Inventories) : Current liabilities
(Trade & other receivables + Cash & cash equivalents) : Current liabilities		$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average debtors}}{\text{Sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
Non-current liabilities : Shareholders' equity	$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average Shareholders' equity} + \text{Average Non-current liabilities}} \times \frac{100}{1}$		$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Total Fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$

NAME OF SCHOOL

NAME OF CANDIDATE

DATE

**GERT SIBANDE DISTRICT**

**ACCOUNTING**

**GRADE 12**

**FINANCIAL REPORTING & EVALUATION**

**MARCH CONTROL TEST 2025**

**SPECIAL ANSWER BOOK**

QUESTION	MARKS	INITIAL	MOD.
1			
2			
3			
4			
TOTAL			

This answer book consists of 7 pages

**QUESTION 1**

**1.1 BREYTEN LTD  
Retained Income Note**

<b>Balance</b>		
<b>Dividends on Ordinary Shares</b>		
<b>Balance at end of financial year</b>		
		<b>12</b>



1.2 BREYTEN LTD  
STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2025

<b>ASSETS</b>	
<b>NON-CURRENT ASSETS</b>	
Financial Assets	
<b>CURRENT ASSETS</b>	
<b>TOTAL ASSETS</b>	
<b>EQUITY AND LIABILITIES</b>	
<b>SHAREHOLDERS' EQUITY</b>	
<b>NON-CURRENT LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Trade and other payables	
<b>TOTAL EQUITY AND LIABILITIES</b>	

38

TOTAL MARKS

50

## QUESTION 2

2.1

<b>CASH EFFECTS FROM OPERATING ACTIVITIES</b>		
Cash generated from operations		1 493 560
Interest paid		(246 000)

8

2.2 Calculate the following amounts for the Cash Flow Statement:

2.2.1

<b>Purchase of a fixed asset</b>	
Workings	Answer

5

2.2.2

<b>Proceeds from the shares issued</b>	
Workings	Answer

5

2.2.3

<b>Repayment of loan</b>	
Workings	Answer

2

2.2.4

<b>NET CHANGE ON CASH AND CASH EQUIVALENT</b>	
Balance on 1 March 2024	
Balance on 28 February 2025	


4

2.3 Calculate the following financial indicators on 28 February 2025:

2.3.1

% Net profit after tax on sales.	
Workings	Answer

4

Debt equity ratio	
Workings	Answer
	

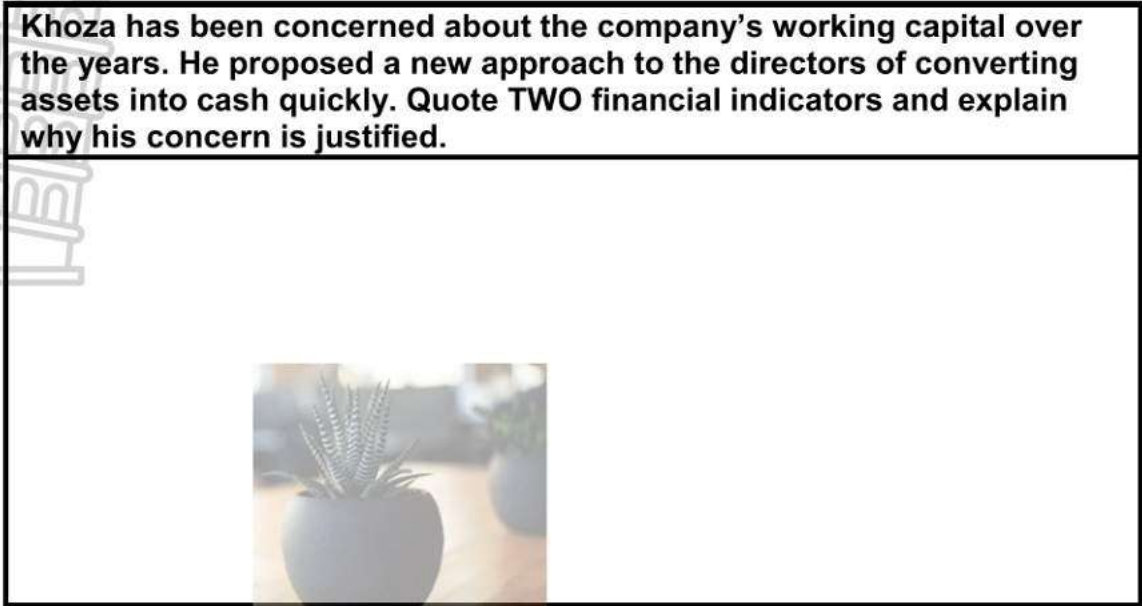
2

TOTAL MARKS
30



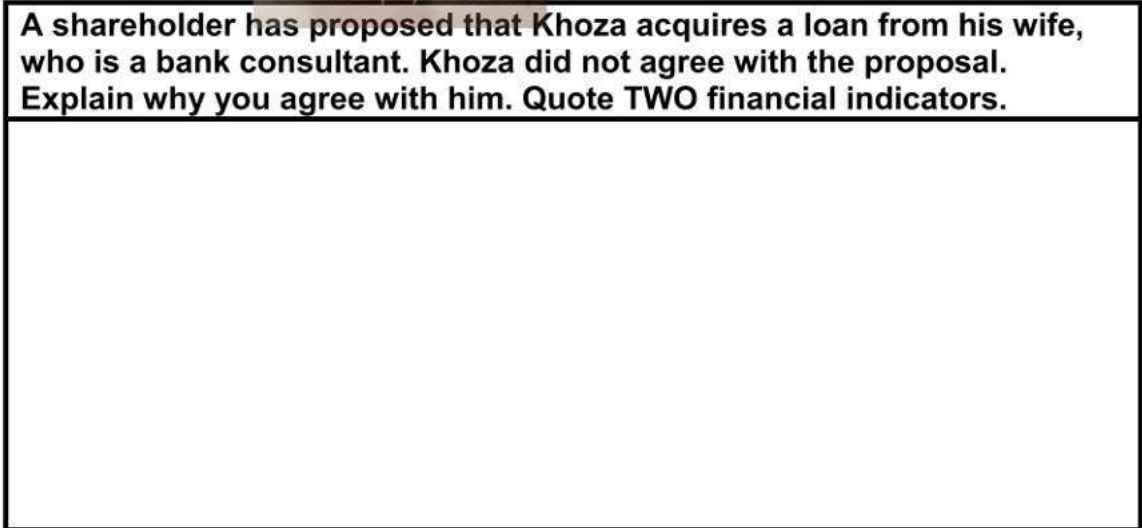
**QUESTION 3**

**3.1.1** Khoza 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 Khoza acquires a loan from his wife, who is a bank consultant. Khoza did not agree with the proposal. Explain why you agree with him. Quote **TWO** financial indicators.



6

<b>TOTAL MARKS</b>
10

**QUESTION 4**

**4.1 Audit reports**

Which type of audit report will discourage shareholders to buy shares in a company? Briefly explain this audit report.

2

Provide ONE reason why shareholders will not be interested to buy shares in such a company.



2

**4.2 Explain why a company's financial statements must be audited by independent auditors. Provide ONE point.**

2

**4.3 Concern over the kind of relationship between a director, Chief Financial Officer (CFO) and independent auditor.**

As a shareholder, why would you be concerned by this kind of relationship? Explain THREE points (one for each person involved).

Director	
Independent auditor	

4

<b>TOTAL MARKS</b>
10



**education**

**MPUMALANGA PROVINCE  
REPUBLIC OF SOUTH AFRICA**

**GERT SIBANDE DISTRICT**

**NATIONAL  
SENIOR CERTIFICATE**

*Stanmorephysics.com*

**GRADE 12**

**ACCOUNTING**

**MARCH CONTROL TEST 2025**

**MARKING GUIDELINES**

*Stanmorephysics.com*

**MARKS: 100**

**This marking guidelines consist of 9 pages**



**MARKING PRINCIPLES:**

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item. No double penalty applied.
2. Full marks for correct answer. If answer incorrect, mark the workings provided.
3. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer).
4. 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.
5. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
6. Where penalties are applied, the marks for that section of the question cannot be a final negative.
7. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
8. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part.
9. Codes: f=foreign item; p=placement/presentation.
10. Teachers must do the paper before they start marking.

## QUESTION 1

## 1.1 BREYTEN LTD

Retained Income Note		
<b>Balance</b> (1 155 000✓ + 192 000✓ see repurchase below)		1 347 000✓
Net Profit After Tax (658 000 × $\frac{72}{28}$ )		1 692 000✓
Repurchase of shares (160 000 × 1.20)		(192 000) ✓✓
<b>Dividends</b>		<b>(1 613 000) ✓</b>
Interim/ Paid (1 500 000✓ × $\frac{45}{100}$ )		675 000✓*
Final/ Declared (1 340 000 × $\frac{70}{100}$ )		938 000✓✓*
<b>Balance at end of financial year</b>		<b>1 234 000 ✓ check operations above</b>
		12

<b>1.2</b>	<b>BREYTEN LTD</b>	
------------	--------------------	--

**STATEMENT OF FINANCIAL POSITION ON 28 FEBRUARY 2025**

<b>ASSETS</b>	
<b>NON-CURRENT ASSETS</b> (13 424 100 - 5 345 200) (TA-CA)	<b>8 078 900</b> ✓
Fixed Assets (Balancing Figure)	7 215 900 ✓
<b>Financial Assets:</b> (750 000 ✓ - 150 000 ✓) $[90\ 000 \times \frac{100}{12}]$	600 000 ✓
<b>CURRENT ASSETS</b>	<b>5 345 200</b> ✓
Inventory (1 500 000 + 380 800)	1 880 800 ✓
Trade and Other Receivables (1 020 000 ✓ + 20 500 ✓ - 9 000 ✓ + 22 000 ✓ + 159 900 ✓ directors fees)	1 213 400 ✓
Cash and Cash Equivalent (2 101 000 ✓ + 150 000 ✓ see FD: sign)	2 251 000 ✓
<b>TOTAL ASSETS</b>	<b>13 424 100</b> ✓ must be same TE&L
<b>EQUITY AND LIABILITIES</b>	
<b>SHAREHOLDERS' EQUITY</b>	<b>9 810 000</b> ✓
Ordinary Share Capital (9 600 000 ✓ - 1 024 000 ✓) [160 000 × R6.40]	8 576 000 ✓ Do not accept 9 600 000
Retained Income	1 234 000 ✓ see R.I. @ End
<b>NON-CURRENT LIABILITIES</b>	<b>1 500 000</b>
Loan (1750 000 - 250 000) 360 000 ✓ [30 000 × 12] - 110 000 ✓ [1 750 000 + 360 000 - 2 000 000] 250 000 ✓	1 500 000 ✓
<b>CURRENT LIABILITIES</b>	<b>2 114 100</b> ✓ operation
<b>Trade and other payables</b> (750 000 ✓ + 22 000 ✓ transfer + 53 300 ✓ directors fee + 13 000 ✓ rent)	838 300 ✓
Short Term Loan	250 000 ✓ see NCL: sign
SARS Income Tax (738 000 [658 000 + 80 000] - 650 200) sign maybe reversed	87 800 ✓ ✓ One part correct
Shareholders for Dividends	938 000 ✓ see R.I: s4d
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13 424 100</b> ✓ Must be s/e+ ncl+ cl: Check operations

38

TOTAL MARKS

50



**QUESTION 2**

<b>2.1</b>	<b>CASH EFFECTS FROM OPERATING ACTIVITIES</b>	757 680 <input checked="" type="checkbox"/> *
	<b>Cash generated from operations</b>	<b>1 493 560</b>
	Interest paid	<b>(246 000 )</b>
	Dividends paid (100 000 ✓ + 140 000 ✓)	One part correct (240 000) <input checked="" type="checkbox"/> *
	Taxation paid (253 500 ✓ + 6 780 ✓ – 10 400 ✓) OR (-253 500 – 6 780 + 10 400)	One part correct (249 880) <input checked="" type="checkbox"/> *

8

\* one part correct / correct use of brackets

**2.2 Calculate the following amounts for the Cash Flow Statement:**

<b>2.2.1</b>	<b>Purchase of a fixed asset</b>									
	<b>Workings</b>	<b>Answer</b>								
	OR:									
	$9\ 768\ 900 \checkmark - 7\ 886\ 780 \checkmark + 195\ 200 \checkmark - 440\ 560 \checkmark$ <b>OR:</b> $-9\ 768\ 900 + 7\ 886\ 780 - 195\ 200 + 440\ 560$	<table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td colspan="2" style="text-align: center;">Accept brackets here</td> </tr> <tr> <td style="text-align: center;">7 886780</td> <td style="text-align: center;">195200</td> </tr> <tr> <td style="text-align: center;"><b>2 517880</b></td> <td style="text-align: center;">440560</td> </tr> <tr> <td></td> <td style="text-align: center;">9 768900</td> </tr> </table>	Accept brackets here		7 886780	195200	<b>2 517880</b>	440560		9 768900
Accept brackets here										
7 886780	195200									
<b>2 517880</b>	440560									
	9 768900									
		(2 517 880) <input checked="" type="checkbox"/> one part correct ignore sign								
<b>2.2.2</b>	<b>Proceeds from shares issued</b>									
	<b>Workings</b>	<b>Answer</b>								
	[100 000 × R5.90]									
	$5\ 900\ 000 \checkmark + 590\ 000 \checkmark \checkmark$ One part correct $- 4\ 845\ 000 \checkmark$ signs maybe reversed Or $-5\ 900\ 000 - 590\ 000 + 4\ 845\ 000$ Accept Ledger or Note	1 645 000 <input checked="" type="checkbox"/> one part correct ignore sign								
<b>2.2.3</b>	<b>Repayment of loan</b>									
	<b>Workings</b>	<b>Answer</b>								
	1 500 000 – 2 600 000	(1100 000) <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> Must be negative or bracketed								
<b>2.2.4</b>	<b>NET CHANGE ON CASH AND CASH EQUIVALENT</b>	(540 000) <input checked="" type="checkbox"/>								
	Balance on 1 March 2024	490 000 <input checked="" type="checkbox"/>								
	Balance on 28 February 2025 (5 000 – 55 000)	(50 000) <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>								

5

5

2

4

2.3 Calculate the following financial indicators on 28 February 2025:

2.3.1

% Net profit after tax on sales.	
Workings	Answer
$\frac{845\,000 - 253\,500}{4\,050\,000} \times 100^*$ $\frac{591\,500}{4\,050\,000} \times 100^*$	14,6% <input checked="" type="checkbox"/> One part correct % sign not necessary accept 15% OR 15

4

Debt equity ratio	
Workings	Answer
$1\,400\,000 : 5\,260\,500$	0.27: 1 <input checked="" type="checkbox"/> Accept 0.3: 1 Must be x:1

2

TOTAL MARKS	30
-------------	----

## QUESTION 3

3.1.1 Khoza 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 and trend with figures ✓ ✓ Explanation w ✓ ✓

- Acid test ratio decreased from (0, 9: 1) to 0, 4: 1/by 0, 5:1. Acid test of 0.4:1 might indicate poor management of working capital or cash flow / difficult to meet short term debts
- Stock turnover rate dropped from (8 times) to 3, 2 times/by 4, 8 times. Stock turnover rate of 3,2 times could indicate higher stock levels / lower demand for product

4

3.1.2 A shareholder has proposed that Khoza, the CEO, to acquires a loan from his wife, who is a bank consultant. Khoza 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 0,8: 1 / by 0,4:1	decreased from 20% to 13% / by 7% bases point
Increased financial risk (high) as compared to previous year.	Negative gearing / lower than the interest rate on the loan of 14%/ loan is not used effectively to generate income

6

TOTAL MARKS

10



#### 4.1 Audit reports

**Which type of audit report will discourage shareholders to buy shares in a company and briefly explain that audit report.**

Disclaimer of opinion ✓ Independent auditors are unable to express any opinion because of insufficient audit evidence ✓

Any relevant explanation of disclaimer of opinion

2

**Provide ONE reasons why shareholders will not be interested to buy shares in such a company.**

Any valid reason ✓✓ part marks for partial / incomplete / unclear responses  
Mark independent from answer in 4.1.

- Auditors may not offer an opinion of the reliability of the financial statements is a clear indication of ineffective management / recording and reporting procedures and/or internal control processes.
- Poor corporate governance. Directors are not trustworthy or competent / Good ethics are not maintained over company finances.
- It gives a bad image (reputation) to the company which will have long term negative consequences such as low demand for shares, drop in share price, low customer turnover.
- Possibilities of corruption, mismanagement, investors do not want to lose their money.

2

#### 4.2 Explain why a company's financial statements must be audited by independent auditors. Provide ONE point.

Any valid point ✓✓

An explanation must refer to or imply independent (external) auditors, to earn full marks  
part marks for partial / incomplete / unclear responses

- Requirement of the Companies Act / Companies must comply with regulations and reporting requirements as stipulated in the Act / by law.
- Protect the interest of shareholders (who are separate from management) To protect shareholders from possible fraud and improprieties.
- Their report is an unbiased opinion – true reflection of the financial position of a company; they do not have a vested interest in the company.
- Gives a company credibility as it allows the potential investors to trust the accuracy / reliability of the results.
- Company managers can use the results of the audit to continually improve internal processes.

2



**4.3 Concern over the kind of relationship between a director and independent auditor.**

<p><b>As a shareholder, why would you be concerned by this kind of relationship? Explain TWO points (one for each person involved).</b></p>	
<p>Any TWO valid, but different points ✓✓ ✓✓                      part marks for partial / incomplete / unclear responses                      Note that some points may over-lap across the different role-players.                      Ensure to award TWO different points.</p>	
<p><b>Director</b></p>	<ul style="list-style-type: none"> <li>• Is appointed by the shareholders to run the company in a professional manner, being open and objective.</li> <li>• Socialising with key stakeholders may create a bad impression of improper conduct, collusion or under-handed dealings. Money laundering, nepotism and fraud is possible.</li> <li>• May compromise good ethical governance such as transparency, responsibility and accountability.</li> <li>• It will be difficult to explain that social life is kept separate from business.</li> </ul>
<p><b>Independent auditor</b></p>	<ul style="list-style-type: none"> <li>• Independence, unbiased reporting may be a concern / may not abide by the Companies Act, or know of loopholes to manipulate provisions.</li> <li>• Is this person not compromising the reputation of the audit firm, the professional body or his code of professional conduct?</li> <li>• Public image of independent auditors may be affected, which could have negative consequences for the company.</li> </ul>

4
---

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

<b>TOTAL:</b>	<b>100</b>
---------------	------------

Downloaded from Stanmorephysics.com

