



KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTINGP1

JUNE EXAMINATION

2025

MARKS: 150

TIME: 2 Hours

This question paper consists of 10 pages including a formula sheet
and a 10-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. Show workings in order 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. If you choose to do so, you may use the Financial Indicator Formula Sheet attached at the end of this question paper. The use of this formula sheet is NOT compulsory.
8. Write neatly and legibly.
9. Use the information and table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION	TOPIC	MARKS	MINUTES
1	Statement of Financial Position	45	35
2	Cash Flow Statement and Financial Indicators	55	45
3	Interpretation of financial statement	30	25
4	Interpretation and Corporate Governance	20	15
TOTAL		150	120

QUESTION 1: STATEMENT OF FINANCIAL POSITION**(45 Marks; 35 Minutes)**

The information relates to KwaMashu Ltd for the financial year ended on 28 February 2025.

REQUIRED:

- 1.1 Calculate the missing amounts denoted by (i) to (iv) on the incomplete Fixed Asset note provided. (15)
- 1.2 Calculate the value of the closing stock using the first-in-first out (FIFO) method of omitted stock sheets on 28 February 2025. (4)
- 1.3 Statement of Financial Position on 28 February 2025. (26)

Note: Some information and figures are provided in the ANSWER BOOK.

INFORMATION:

- A. List of balances extracted from the accounting records of KwaMashu Ltd on 28 February 2025, the end of the financial year, unless otherwise stated.**

	2025	2024
Ordinary share capital	2 140 200	1 900 000
Retained income	1 500 000	754 500
Loan : Spar Bank	1 386 000	1 556 000
Fixed assets	?	1 907 500
Fixed deposit	340 000	200 000
Provision for bad debts	?	4 000
Debtors control	127 000	
Creditors control	160 000	
Bank (Unfavourable)	CR 55 000	
Petty cash	4 229	
Prepaid expenses	8 000	
SARS: Income tax (provisional tax payments)	DR 230 000	
Nominal Account Section		
Audit fees	25 000	
Rent income	112 800	

- B. Fixed/Tangible assets**

	Land and buildings	Vehicles	Equipment
Carrying value at beginning	1 516 400	330 000	61 100
Cost price	1 516 400	900 000	615 000
Accumulated depreciation		(570 000)	(553 900)
Movements			
Additions	(i)	411 000	(iv)
Disposal at carrying value		(ii)	
Depreciation		(iii)	66 099
Carrying value at the end	2 946 400		
Cost price			
Accumulated depreciation			



- A vehicle costing R180 000 was sold on 31 December 2024 for R70 000 cash. Transaction was properly recorded.
- Accumulated depreciation on the vehicle sold was R62 400 on 1 March 2024
- The new vehicle was purchased on 1 January 2025.
- Vehicles are depreciated at 20% p.a. on diminishing balance method.
- New equipment was bought on 31 December 2024.
- Equipment is depreciated at 10% p.a. on cost.

- C. A physical stock count on 28 February 2025, revealed stock of R1 192 600 on hand. However, this figure excluded the closing stock figure for national Earphone.

Note: The First-in-first out method is used to value the stock.

Details of the national Earphones are as follows:

	Units	Unit price (R)	Total (R)
Stock on 1 March 2024	1 500	20	30 000
Purchases:			
10 May 2024	8 000	25	200 000
20 August 2024	1 300	27	35 100
15 December 2024	1 700	28	47 600
Stock on 28 February 2025	1 900	?	?
Returns 200 units from December 2024 purchases			

- D. A debit balance of R17 000 from the debtors' ledger must be transferred to the creditors' ledger.
- E. The following adjustments are relevant to complete the statement of Financial Position:
- The provision for bad debts must be adjusted to 4% of trade debtors.
 - Only half the audit fees were paid. The balance will be paid in April 2025.
 - Rent income for March 2025 has already been received. The monthly rent was increased by 10% on 1 May 2024.
- F. A fixed monthly instalment of R35 000 (to cover loan repayment 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.

All transactions for current year have been correctly recorded.

- G. Shares:

- 1 200 000 shares were in-issue on 1 March 2024
- 200 000 shares were bought back from a shareholder on 1 September 2024.
- 250 000 shares were issued on 1 November 2024. This was properly recorded.

- H. Dividends:

- Interim dividends of 14 cents per share were declared and paid on 31 July 2024.
- Final dividends of 10 cents per share were declared on 28 February 2025.

- I. Net profit and tax:

- After taking all adjustment into account, the correct net profit after tax is R588 000.
- The income tax rate is 30% of net profit before tax



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QUESTION 2**CASH FLOW STATEMENT AND FINANCIAL INDICATORS (55 marks; 45 minutes)**

The information below was extracted from the books of Embizeni LTD on 28 February 2025.

REQUIRED:

- 2.1 Prepare the Ordinary share capital Note to the Statement of Financial Position. (8)
- 2.2 Prepare the Retained income Note to the Statement of Financial Position. (9)
- 2.3 Complete the Cash Flow Statement for the year ended 28 February 2025. (27)
- 2.4 Calculate the following financial indicators for the year ended 28 February 2025:
- 2.4.1 Acid-test ratio (3)
- 2.4.2 Debt/equity ratio (3)
- 2.4.3 Return on shareholders' equity (ROSHE) (5)

INFORMATION:

- A. Extract from the Statement of Comprehensive Income for the year ended 28 February 2025

Depreciation	R123 600
Interest expense	R143 000
Income tax (at 30% of the net profit)	R293 100

- B. Extract from the Statement of Financial Position on February:

	2025	2024
	R	R
Ordinary shareholders' equity	?	7 341 500
Ordinary share capital	7 557 600	7 200 000
Retained Income	?	141 500
Non-current liabilities	1 400 000	850 000
Non-current assets	8 925 720	8 530 720
Fixed / Tangible assets	8 775 720	8 430 720
Fixed deposit : Sivukile Bank	150 000	100 000
Current assets	996 480	684 300
Inventories	448 000	281 000
Trade and other receivables (Note 1)	288 300	378 300
Cash and cash equivalents	260 180	25 000
Current liabilities	553 600	923 520

Trade and other payables (Note 2)	553 600	781 000
Bank overdraft	0	142 520



Note 1: Trade and other receivables:

	2025	2024
Debtors control	288 300	367 000
SARS: Income tax	0	11 300

Note 2: Trade and other payables:

	2025	2024
Creditors control	325 000	421 000
Shareholders for dividends	206 800	360 000
SARS: Income tax	21 800	0

C. Share capital:

- 1 March 2024 900 000 shares were in issue.
 1 May 2024 100 000 additional ordinary shares were issued.
 1 October 2024 60 000 shares repurchased by the company at R9,00 per share.

D. Dividends:

- Interim dividends of 25 cents per share were paid on 15 September 2024.
- Final dividends were declared on 28 February 2025

E. Additional property was purchased during the year.**F. Equipment was sold for R111 800 cash on its carrying value during the year.**

QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION**(30 marks; 25 minutes)****FINANCIAL INDICATORS OF TWO COMPANIES:**

Your friend, Chris, has bought shares in both companies. The companies are of the same size.

REQUIRED:

Explain your answer to the following questions. In each case compare and quote financial indicators of both companies (actual figures, ratios or percentages) to support your answer.

- 3.1 Chris is of the opinion that Hillcrest Ltd is handling its working capital more effectively and is in a better liquidity situation than Bergville Ltd. Explain and quote THREE financial indicators to support his opinion. (6)
- 3.2 The operating efficiency of Bergville Ltd are better than that of Hillcrest Ltd. Quote and explain ONE financial indicator to support your opinion. (2)
- 3.3 Which company uses more loans? Explain whether this is a good idea or not. In each case, quote a financial indicator to support your answer. (6)
- 3.4 Compare and comment on the dividends pay-out policies of both companies. (6)
- 3.5 Bergville Ltd has a better percentage return, earnings and dividends than Hillcrest Ltd. Explain by quoting THREE financial indicators to support this opinion. (6)
- 3.6 The existing shareholders of the TWO companies hold different opinions of the current market value of their shares.
- Explain why the existing shareholders of Bergville Ltd are happy with market price. Quote a financial indicator /figure to support your answer. (2)
 - Explain why the existing shareholders of Hillcrest Ltd are very disappointed with market price. Quote a financial indicator/figure to support your answer. (2)

INFORMATION:

	2025	2025
	BERGVILLE LTD	HILLCREST LTD
% Gross profit on cost of sales	62,2%	58,3%
% Operating expenses on sales	37,9%	44,5%
% Operating profit on sales	10,1%	7,3%
Current ratio	6,0 : 1	1,5 : 1
Acid-test ratio	2,8 : 1	0,9 : 1
Period for which stock is on hand	150 days	88 days
Average debtors' collection period	53 days	25 days
Net asset value per share	609 cents	939 cents
Earnings per share	410 cents	176 cents
Dividends per share	240 cents	185 cents
% return on shareholders' equity	21,3%	11,2%
Debt/equity ratio	0,3 : 1	2,0 : 1
% return on total capital employed	32,6%	13,6%
Market price per share on the JSE	750 cents	885 cents
% interest rate on loan	15,0%	15,0%
% Interest rate on fixed deposit	12%	12%

QUESTION 4: CORPORATE GOVERNANCE AND AUDIT OF THE COMPANY

(20 marks; 15 minutes)

You are provided with the following extract for Sethu Ltd from the report of the independent auditors.

REQUIRED:

- 4.1 Explain what is meant by Corporate Governance. (2)
- 4.2 Provide TWO examples of good corporate governance that would occur in a company. (4)
- 4.3 Refer to the underlined words in paragraph 2.
 - Give TWO examples of audit evidence. (4)
- 4.4 Explain why an independent auditor would want to see that the following GAAP principles that are applied:
 - Matching (2)
 - Going concern (2)
- 4.5 Refer to paragraph 3. Explain why you would be satisfied with this audit report opinion. (3)
- 4.6 To whom is an audit report addressed? Give reason for your answer. (3)

INFORMATION:

EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS

Paragraph 1 We have audited the annual financial statements of Sethu Ltd set out on Pages 10 to 19 for the year ended 31 May 2025. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Paragraph 2 **An audit includes:**

- Examining, on a test basis, evidence supporting the amounts in the financial statements
- Assessing the accounting principles used and significant estimates made by management;
- Evaluating the overall financial statement presentation.

Paragraph 3 **Audit opinion:**

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 31 May 2025 and the results of their operations and cash flow for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2008 (Act 71 of 2008) in South Africa. **Lwazi and Skhanyiso**, Chartered Accountants (SA)

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TOTAL: 150

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET	
$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
Total assets : Total liabilities	Current assets : Current liabilities
(Current assets – Inventories) : Current liabilities	Non-current liabilities : Shareholders' equity
(Trade and other receivables + Cash and cash equivalents) : Current liabilities	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average Shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
NOTE: <ul style="list-style-type: none"> In this case, if there is a change in the number of issued shares during a financial year, the weighted-average number of shares is used in practice. 	



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GRADE 12

ACCOUNTING P1 MARKING GUIDELINES

JUNE EXAMINATION

2025

MARKS: 150

MARKING PRINCIPLES:

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

This marking guideline consists of 10 pages.

QUESTION 1

1.1

	Calculate Additions	Answer
(i)	$2\,946\,400 - 1\,516\,400$	$1\,430\,000$ ✓
(ii)	<p>Disposal at Carrying Value</p> $180\,000 - 62\,400 = 117\,600 \times 20/100 \times 10/12$ $19\,600$ ✓✓ $117\,600$ ✓ - $19\,600$ ✓ Operation Operation	$98\,000$ ✓ operation one part correct
(iii)	<p>Depreciation</p> $330\,000 - 117\,600 = 212\,400 \times 20/100$ $= 42\,480$ ✓✓ (old) $= 19\,600$ ✓ (sold) Operation $411\,000 \times 20/100 \times 2/12 = 13\,700$ ✓✓ (new)	$75\,780$ ✓ operation one part correct
(iv)	<p>Additions</p> $61\,100 - 1 = 61\,099$ ✓ $66\,099 - 61\,099 = 5\,000$ ✓ $\times 100/10 \times 12/2$	$300\,000$ ✓ operation one part correct

15

1.2

Calculate the value of the closing stock using the first-in-first out (FIFO) method of omitted stock.

$$(1\,700 - 200) \times 28 = 42\,000$$
 ✓✓

$$400 \times 27 = 10\,800$$
 ✓

$$= 52\,800$$
 ✓ closing stock
 operation one part correct excluding the method above

4

1.3 Statement of Financial Position on 28 February 2025.

Assets		
Non-current assets		
Tangible assets		
Fixed deposit		
Current assets	Operation	1 363 229 ✓
Inventory (1 192 600 ✓ + 52 800 ✓ see 1.2)		1 245 400 ✓
Trade and other receivables (127 000 ✓ - 17 000 ✓ - 4 400 ✓ + 8 000 ✓)		113 600 ✓
Cash and cash equivalent		4 229 ✓
Total assets	Operation	5 405 000 ✓
Equity and liabilities		
Shareholders' equity		3 640 200
Ordinary share capital		2 140 200
Retained income		1 500 000
Non-current liabilities		1 200 000
Loan (1 386 000 – 186 000)		1 200 000 ✓✓
Current liabilities	operation	564 800 ✓
Trade and other payables (160 000 ✓ - 17 000 ✓ + 25 000 ✓ + 8 800 ✓)		176 800 ✓
SARS-Income tax (252 000 – 230 000)		22 000 ✓✓
Shareholders for dividends		125 000 ✓
Current portion of loan see NCL		186 000 ✓✓
Bank overdraft		55 000 ✓
Total equity and liabilities	operation	5 405 000 ✓

26

TOTAL MARKS

45

QUESTION 2

2.1 Ordinary Share Capital Note on 28 February 2025

AUTHORISED SHARES:		
1 500 000 SHARES		
ISSUED SHARES:		
900 000 ✓	Shares in issue	7 200 000 ✓
100 000 ✓	Shares issued @ R8.40	840 000 ✓
(60 000) ✓	Buy back of shares @ R8.04 operation	(482 400) ✓
940 000 ✓	Operation	7 557 600 ✓

8

2.2 Retained income Note on 28 February 2025.

Balance at the beginning	141 500 ✓
Net profit after tax (293 100)70/30	683 900 ✓✓
Buy back of shares (60 000 x 0.96)	(57 600) ✓✓
Dividends operation one part correct	(456 800) ✓
Paid (1 000 000 X 0.25)	250 000 ✓✓
Final	206 800
Balance at the end operation one part correct	311 000 ✓

9

2.3 Cash Flow Statement for the year ended 28 February 2025

Cash flow from operating activities	
Cash generated from operations	
Interest paid	(143 000) ✓
Dividends paid (360 000 ✓ + 250 000 ✓) (360 000 + 456 800 - 250 000) operation one part correct	(610 000) ✓ [X]
Taxation paid (- 293 100 ✓ + 11 300 ✓ + 21 800 ✓) operation one part correct	(260 000) [X]
Cash flow from investing activities	(518 600) [X]
Purchases of Fixed assets operation one part correct (8 775 720 ✓ + 123 600 ✓ + 111 800 ✓ - 8 430 720 ✓) OR (8 430 720 - 111 800 - 123 600 - 8 775 720)	(580 400) [X]
Proceeds from sale of fixed assets	111 800 ✓
Changes in financial assets (100 000 - 150 000)	(50 000) ✓
Cash flow from financing activities	850 000 [X]
Proceeds from shares issued see 2.1	840 000 [X]
Buy-back of shares (60 000 × 9) OR (482 400 + 57 600) two or nothing	(540 000) ✓
Changes in loan (1 400 000 - 850 000)	550 000 ✓
Net change in cash and cash equivalent operation one part correct	377 700 [X]
Cash and cash equivalent at the beginning (25 000 ✓ - 142 520 ✓)	(117 520) ✓
Cash and cash equivalent at the end	260 180 ✓

27

2.4.1 Acid-test ratio

$$(996\,480 - 448\,000) \checkmark : 553\,600 \checkmark$$

$$0.9 : 1 \checkmark \text{ one part correct accept } 1:1$$

3

2.4.2 Debt/equity ratio

$$1\,400\,000 \checkmark : 7\,868\,600 \checkmark$$

$$0.2 : 1 \checkmark \text{ one part correct}$$

3

2.4.3 Return on shareholders' equity (ROSHE)

$$\frac{683\,900 \checkmark}{\frac{1}{2} \checkmark (7\,868\,600 \checkmark + 7\,341\,500 \checkmark)} \times \frac{100}{1}$$

$$8.9\% \checkmark \text{ one part correct}$$

5

TOTAL
MARKS

55

QUESTION 3

- 3.1 Chris is of the opinion that HILLCREST Ltd is handling its working capital more effectively and is in a better liquidity situation than BERGVILLE Ltd. Explain and quote THREE financial indicators to support his opinion.

Financial indicator ✓ ✓ ✓

Quoting of figures and explanation ✓ ✓ ✓

A combined explanation may be provided. Figures must be provided but not necessarily for both companies; candidates cannot get full marks if superfluous indicators are used; if candidates provide additional irrelevant indicators, search for the correct ones in the answer provided by the candidates and award marks accordingly. For those who provide more than three options, penalty of -1 for an irrelevant indicator (max -2)

- Current ratio of HILLCREST Ltd is 1,5: 1 and BERGVILLE Ltd is 6,0: 1 (BERGVILLE Ltd.'s ratio is 4,5 times bigger). HILLCREST has enough current assets to cover his current liabilities whereas BERGVILLE Ltd is holding too much of his funds in the form of current assets which may not result in a return for the business.
- Acid test ratio of HILLCREST Ltd is 0,9: 1 and of BERGVILLE Ltd is 2,8: 1 (BERGVILLE Ltd.'s ratio is 3 times bigger). BERGVILLE invested too much cash in Current Assets
- Period of which enough stock is on hand for HILLCREST Ltd is 88 days and for BERGVILLE Ltd is 150 days (5 months) HILLCREST Ltd has enough stock for 3 months which is appropriate for a company selling running shoes as styles of shoes normally change seasonally. BERGVILLE Ltd is holding stock for too long, styles will change and clients will not be interested in buying outdated styles resulting in obsolete stock.
- Debtor's average collection period of HILLCREST Ltd is 25 days which is within the normal/acceptable credit terms and is much lower than the 53 days of BERGVILLE Ltd.

3.2

The operating efficiency of BERGVILLE Ltd are better than that of HILLCREST Ltd. Quote and explain ONE financial indicator to support your opinion.

Good answer = 2 marks each; partial = 1 mark; incorrect = 0

Operating expenses on sales of BERGVILLE 37,9% lower than that of HILLCREST Ltd 44,5%, which indicates that BERGVILLE Ltd has better control of expenses.

Operating profit on sales of BERGVILLE Ltd 10,1% higher than that of HILLCREST Ltd 7,3%, which indicates that apart from the better control over his expenses (BERGVILLE) there has been a slightly higher mark-up% applied as well.

2

3.3

Which company uses more loans? Quote a financial indicator to support your answer.

HILLCREST Ltd. ✓

Debt/equity ratio 2:1 for HILLCREST compared to 0,3:1 for BERGVILLE Ltd. ✓✓

Explain whether this is a good idea or not. In each case, quote a financial indicator to support your answer.

It is not a good idea. ✓

ROTC for HILLCREST Ltd is 13,6% which means that the return they are earning is lower than the interest (15%) he is paying on the loan (negative gearing) ✓✓

6

3.4

Compare and comment on the dividends pay-out policies of the both companies.

	Financial indicator or explanation thereof with figures.	Comparison and comment ✓ ✓ Do not accept comparison of the DPS only. Must mention both companies. Can get 1 mark.
BERGVILLE Ltd	DPS 240 cents. ✓ EPS 410 cents. ✓ Or 2 Marks Distributes 58.5% of earnings	HILLCREST Ltd is distributing a higher percentage of income earned by taking 5% from retained income to keep shareholders happy.
HILLCREST Ltd	DPS 185 cents. ✓ EPS 176 cents. ✓ Or 2 marks Distributes 105% of earnings	BERGVILLE Ltd pays 58.5% and retained 41.5% for future growth.

6

- 3.5 BERGVILLE Ltd has a better percentage return, earnings and dividends than HILLCREST Ltd. Explain by quoting THREE financial indicators to support this opinion.

Financial indicator ✓ ✓ ✓
 Figures and Explanation ✓ ✓ ✓

- % ROSHE for BERGVILLE Ltd is much higher (21,3%) than interest on fixed deposit of 12%.
- EPS for BERGVILLE Ltd is 410 cents whereas HILLCREST Ltd is only earning 176 cents per share.
- DPS for BERGVILLE Ltd is 240 cents whereas for HILLCREST Ltd it is only 185 cents per share.

6

- 3.6 Explain why the existing shareholders of BERGVILLE Ltd are happy with this. Quote a financial indicator/figure to support your answer.

Comparing market price and NAV of BERGVILLE Ltd and figures ✓✓

Market price of BERGVILLE Ltd is 750 cents which is higher than the NAV of 609 cents OR market price is 141 cents higher than the NAV.

2

Explain why the existing shareholders of HILLCREST Ltd are very disappointed with this. Quote a financial indicator/figure to support your answer.

Comparing market price and NAV of HILLCREST Ltd and figures ✓✓

Market price of HILLCREST Ltd is 885 cents which is lower than the NAV of 939 cents OR market price is 54 cents lower than the NAV.

2

TOTAL MARKS
30

QUESTION 4

4.1 Explain what is meant by Corporate Governance.

Any valid explanation ✓✓

- It is essentially the set of rules that govern the way companies control and manage the business.

2

4.2 Provide TWO examples of good corporate governance that would occur in a company.

Any TWO valid examples ✓✓ ✓✓

- Respect of human rights
- Transparency of executive salaries
- Implementation of code of conduct for employees

4

4.3 Give TWO examples of audit evidence

Any TWO valid examples ✓✓ ✓✓

Part-mark for partial answers

- Source documents (provided by external organisations, provide verification).
- Records such as asset registers, stock records etc.
- Policies and procedures of the company.
- Check the internal controls and the efficiency of the internal audit.
- Report of an audit committee which assess the internal and external audit processes / internal auditors report on ensuring internal controls.
- Any valid proof of entries in the books or financial statements concerning cash.

4

4.4 Explain why an independent auditor would want to see that the following GAAP principles that are applied: ✓✓ ✓✓

- **Matching** - To see if incomes and expenses are recorded in the correct financial period.
- **Going concern**- Statement of Comprehensive Income and Statement of Financial Position are prepared as if there is no intention to stop or limit the operations of the business.

4

M.G

4.5 Refer to paragraph 3. Explain why you would be satisfied with this audit report opinion. ✓✓✓

Good = 3; Satisfactory = 2; Poor = 1; Incorrect = 0)

- The auditors have stated that they are satisfied with all aspects of the financial reporting by the directors.
- This is a standard reporting – (fairly presented).
- No negative comment reported.
- The auditors have not stated that the report is qualified or withheld.
- The auditor's report is unqualified.

3

4.6 To whom is an audit report addressed? Give reason for your answer.

Shareholders ✓

Reason: ✓✓

Accept short explanations; may be phrased differently
Part-marks for unclear/incomplete explanation

Independent auditors are appointed by the shareholders/the shareholders are the owners of the company.

3