Western Cape Government

METRO NORTH EDUCATION DISTRICT

SCHOOL-BASED ASSESSMENT

SEPTEMBER EXAMINATION

ACCOUNTING P1

TASK No.: 6

15 SEPTEMBER 2025

MARKS: 150

TIME: 2 Hours

This question paper consists of 10 pages, a formula page and a 13- page answer book.

QUESTION 1 COMPANY FINANCIAL STATEMENTS (50 marks; 40 minutes)

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

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

QUESTION	TOPIC	MARKS	MINUTES
1	Company Financial Statements	50	40
2	Cash Flow Statement and Financial Indicators	45	36
3	Interpretation of Financial Information	40	32
4	Corporate governance and Audit Report	15	12
TOTAL		**150**	**120**

RUBY LIMITED

The following information relates to **RUBY LIMITED**. The financial year ended on 30 June 2025.

REQUIRED:

1.1 Refer to Information B.

Calculate the correct net profit after tax for the year ended 30 June 2025.
Indicate a + for increase and a – for decrease. (13)

1.2 Complete the Retained Income Note on 30 June 2025. (7)

1.3 Prepare the Statement of Financial Position on 30 June 2025.
Where notes are NOT required, workings must be shown. (30)

INFORMATION:

A Balances and /or totals, among others, that appeared in the books on:

	30 JUNE 2025	**30 JUNE 2024**
Ordinary share capital	?	7 200 000
Retained income	1 974 600	?
Mortgage loan: Onyx Bank	354 600	
Fixed assets	?	
Fixed deposit	432 000	
Trading stock	185 490	
Debtors' control	356 400	
Provision for bad debts (1 July 2024)	12 060	
Cash and cash equivalents **(balancing figure)**	?	
SARS: Income Tax - Provisional payment	640 800	
Accrued income	11 880	
Creditors' control	118 800	
Rent income	110 160	
Insurance	43 650	

B. Net profit before tax of **R2 277 180** was determined **BEFORE** taking into account the following information:

(a) Trading stock on 30 June 2025 was valued at R167 670.

(b) Rent for July 2025 had been received in advance. Rent increased on 1 February 2025 with 10%.

(c) Provision for bad debts must be adjusted to R9 630.

(d) An annual insurance premium of R8 640 was paid for the period 1 March 2025 to 28 February 2026.

(e) The auditor discovered that the loss on disposal of a vehicle, R6 570, was incorrectly shown as a profit.

(f) Income tax amounts to R673 650 for the year.

C. **DIVIDENDS AND SHARES:**

(a) Interim dividends of R360 000 were paid on 31 December 2024.

(b) The directors declared a final dividend of 23 cents per share on 30 June 2025 on all shares issued to date. Shares repurchased on 30 May 2025 do not qualify for final dividends.

(c) **SHARE CAPITAL:**

1 July 2024	1 800 000 shares were in issue
15 October 2024	450 000 new shares were issued at R5,40 each. This has been recorded.
30 May 2025	18 000 shares were repurchased at R1,44 more than the average price. This has not been recorded.

D. A debtor's credit balance of R3 240 in the Debtors' Ledger must still be transferred to his account in the Creditors' Ledger.

E The current ratio on 30 June 2025 is 1,7 : 1.

50

QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS

(45 marks; 36 minutes)

2.1 CONCEPTS

Choose the correct term to complete each of the following statements. Write only the term next to the question numbers (2.1.1 to 2.1.4) in the ANSWER BOOK.

Retained Income;	Solvency;	Statement of Financial Position;	
Cash Flow Statement;	Net working capital;	Gearing;	Liquidity

2.1.1 Use of borrowed capital (loans) to finance the business.

2.1.2 The difference between current assets and current liabilities is …..

2.1.3 Ability to pay off all debts using the assets of the business.

2.1.4 This financial statement provides users of financial statements with information of all the financial resources during the accounting period. (4)

You are provided with information related to **SILVER LIMITED**, a public company, for the financial year ended 28 February 2025.

REQUIRED

2.2 Prepare the note for cash generated from operations. (9)

2.3 Calculate the following amounts for the Cash Flow Statement. Show workings.

2.3.1 Income tax paid (4)

2.3.2 Dividends paid (4)

2.4 Complete the following sections of the Cash Flow Statement.

2.4.1 Cash flow from investing activities (8)

2.4.2 Cash flow from financing activities (5)

2.5 Calculate the following financial indicators for the year ended 28 February 2025:

2.5.1 % operating expenses on sales (3)

2.5.2 Acid-test ratio (4)

2.5.3 Net Asset Value per share (NAV) (4)

INFORMATION:

A. Shares and dividends:

1 March 2024	720 000 shares in issue.
30 June 2024	27 000 ordinary shares were repurchased at R8,82 from a retired shareholder.
30 September 2024	Interim dividend of 36 cents per share was paid.
1 October 2024	90 000 new shares were issued at R11,80.
28 February 2025	Final dividends were declared to all shareholders in the shares register.

B. Extract from the Statement of Comprehensive Income for the year ended 28 February 2025:

	R
Sales	5 400 000
Cost of Sales	3 600 000
Depreciation	50 400
Operating expenses	1 350 000
Interest expense	135 000
Income Tax	378 000
Net profit after Tax	882 000

C. Extract from the Statement of Financial Position on 28 February 2025

	2025	2024
Ordinary Shareholders' equity	7 649 910	6 418 620
Ordinary Share Capital	6 655 500	5 688 000
Retained Income	994 410	730 620
Non-Current Liabilities (15% p.a)	2 294 955	1 604 655
Total Liabilities	4 050 090	2 581 380
Current assets	3 510 000	1 980 000
Inventories	864 000	787 500
Trade and other receivables	1 035 000	900 000
Financial assets	3 690 000	1 710 000
Fixed/Tangible assets	4 500 000	5 310 000
SARS (Income Tax)	Dr 35 000	Cr 27 000
Shareholders for dividends	289 710	225 000

D. Fixed assets

- The building was sold for R1 800 000 at carrying value during the financial year.
- Equipment was purchased during the financial year.

E. SARS (Income Tax) R35 000 is included in the Trade and Other Receiveables.

45

QUESTION 3 INTERPRETATION OF FINANCIAL STATEMENTS
(40 marks; 32 minutes)

The following information relates to **DIAMOND LTD.** Their financial year ends on 28 February each year.

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

REQUIRED:

3.1 Liquidity:

3.1.1 Comment on the change in the liquidity of Diamond Ltd. Quote TWO financial indicators with figures. (6)

3.1.2 Provide TWO suggestions on how the company can improve their liquidity position. Make reference to specific financial indicators. (4)

3.2 Return, earnings and market price on the JSE:

3.2.1 Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures. (4)

3.2.2 The shareholders of Diamond Ltd are not satisfied with the current market price of their shares. Explain by quoting figures/indicators and identify a factor that would have affected the market price of the shares. (4)

3.3 Risk and gearing:

3.3.1 Comment on how Diamond Ltd is managing their risk and gearing. Quote TWO financial indicators in your explanation. (6)

3.4 Dividend pay-out policy:

3.4.1 Calculate the dividend pay-out policy for 2025. (2)

3.4.2 Provide ONE possible reason why Diamond Ltd has decided to change their dividend pay-out policy for 2025. (2)

3.4.3 One of the directors feels that the dividend pay-out policy should have remained constant. Give TWO possible reasons (with figures) for his opinion. (4)

3.5 Percentage shareholding:

Refer to information B:
An existing shareholder, G. Gold, has sold some of his shares back to Diamond Ltd.

3.5.1 Comment on the price paid for the repurchase of shares by Diamond Ltd. Provide TWO points and quote figures. (4)

3.5.2 Calculate Gold's new % shareholding in Diamond Ltd. (2)

3.5.3 Explain the effect of the repurchase on Gold's % shareholding in the company. Quote trends/ figures to support your explanation. (2)

INFORMATION:

A. FINANCIAL INDICATORS, INTEREST RATES AND MARKET PRICES OF SHARES

	2025	2024
Mark-up % achieved	54%	
Current ratio	2,8 : 1	2,3: 1
Average debtor's collection period	41 days	36 days
Earnings per share (EPS)	65 cents	87 cents
Dividends per share	43 cents	43 cents
Dividend pay-out policy	?	50%
Debt-equity ratio	0,5 : 1	0,2 : 1
% return on average equity (ROSHE)	4,8%	7,8%
% return on total capital employed (ROTCE)	8%	12%
Interest rate on loans	11%	11%
Interest rate on investments	5,9%	5,9%
Market price of shares on JSE	756 cents	828 cents
Net asset value per share (NAV)	789 cents	821 cents

B. EXTRACT FROM THE ACCOUNTING RECORDS OF 28 FEBRUARY 2025

	2025	2024
Number of shares in issue	1 755 000	1 890 000
Repurchase price	R10	
Number of shares owned by G. Gold at end of year	847 800	982 800
% shareholding of G. Gold	?	51%

40

QUESTION 4 CORPORATE GOVERNANCE (15 marks; 12 minutes)

4.1 The following are three types of reports which can be issued after the financial statements of a company had been audited.

Qualified report	Disclaimer of opinion	Unqualified report

- Which type of audit report will discourage shareholders to buy shares in a company. (1)

- Provide TWO reasons why shareholders will not be interested to buy shares in such a company. (4)

4.2. Computers worth R600 000 were donated to the local school. The director cites the donation to the school as a Corporate Social Investment (CSI) initiative.

4.2.1 Explain the need for corporate social investment. (2)

4.2.2 What do you understand by the *triple bottom line*? (2)

4.2.3 Which component of the annually published financial statements should contain details of the donation to the school? (2)

4.3. Explain why the auditor mentioned the following in the report:
- IFRS (2)
- Companies Act (Act 71 of 2008) (2)

INFORMATION:

In our opinion, the financial statements fairly present in all material respects the financial position of the company at 28 February 2025. as well as the financial results of its operations and the cash flows for the year ended. This is in accordance with the International Financial Reporting Standards (IFRS) and the manner required by the Companies Act (Act 71 of 2008) in South Africa.

15

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 & other receivables + Cash & cash equivalents) **:** Current liabilities	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$ *(See Note 1 below)*	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$ *(See Note 2 below)*
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ *(See Note 3 below)*
$\frac{\text{Net income before tax + Interest on loans}}{\text{Average shareholders' equity + Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit – Variable costs per unit}}$	

NOTE:
1. Trading stock at the end of a financial year may be used if required in question.
2. Credit purchases may be used instead of cost of sales (figures will be the same if stock is constant).
3. 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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METRO NORTH EDUCATION DISTRICT
SCHOOL-BASED ASSESSMENT

SEPTEMBER EXAMINATION

ACCOUNTING P1

TASK No.: 6

15 SEPTEMBER 2025

SPECIAL ANSWER BOOK

Name: ___________________________	
Surname: ___________________________	Grade 12 ________

QUESTION	MARKS	MARKS OBTAINED	EDUCATOR	MODERATOR
1	50			
2	45			
3	40			
4	15			
TOTAL	150			

This answer book consists of 13 pages.

QUESTION 1 RUBY LIIMITED

1.1	**Refer to Information B.** **Calculate the correct net profit after tax for the year ended 30 June 2025. Indicate a + for increase and a – for decrease.**

Calculation of the correct net profit after tax	
Incorrect net profit	**2 277 180**
Trading stock deficit	
Rent income	
Provision for bad debts adjustment	
Correct net profit before tax	
Income tax	
Net profit after tax	

13

1.2	**Retained Income Note on 30 June 2025.**

Balance at beginning of year	
Dividends	
Interim	**360 000**
Balance at end of year	**1 974 600**

7

1.3 **RUBY LIMITED**
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2025

ASSETS	
NON-CURRENT ASSETS	
Fixed assets at carrying value	
Fixed deposit	
CURRENT ASSETS	
Inventories	
Trade and other receivables (356 400	
Cash and cash equivalents	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
ORDINARY SHAREHOLDERS' EQUITY	
Ordinary share capital (7 200 000	
Retained income	
NON-CURRENT LIABILITIES	
Mortgage loan: Onyx Bank	**354 600**
CURRENT LIABILITIES	**720 000**
Trade and other payables	
Current portion of loan	
TOTAL EQUITY AND LIABILITIES	

30

TOTAL MARKS
50

QUESTION 2 CASH FLOW STATEMENT AND FINANCIAL INDICATORS

2.1	**Choose the correct term to complete each of the following statements. Write only the term next to the question numbers (2.1.1 to 2.1.4) in the ANSWER BOOK.**

2.1.1	
2.1.2	
2.1.3	
2.1.4	

4

2.2 CASH GENERATED FROM OPERATIONS

Profit before tax	
Adjustments in respect of:	
Profit before changes in working capital	
Changes in working capital	
Increase in amounts payable	**180 000**
Cash generated from operations	

9

2.3.1 **Calculate: Income tax paid**

WORKINGS	ANSWER

4

2.3.2 **Calculation: Dividends paid**

WORKINGS	ANSWER

4

2.4.1

CASH FLOW FROM INVESTMENT ACTIVITIES	
Sale of fixed assets	

8

2.4.2

CASH FLOW FROM FINANCING ACTIVITIES	

5

2.5.1 % Operating expenses on sales

WORKINGS	ANSWER

3

2.5.2 ACID TEST RATIO / CURRENT RATIO

WORKINGS	ANSWER

4

2.5.3 Net asset value per share (NAV)

WORKINGS	ANSWER

4

TOTAL MARKS
45

QUESTION 3

3.1 Liquidity:

3.1.1	**Comment on the change in the liquidity of Diamond Ltd. Quote TWO financial indicators with figures.**

6

3.1.2	**Provide TWO suggestions on how the company can improve their liquidity position. Make reference to specific financial indicators.**

4

3.2 Return, earnings and market price on the JSE:

3.2.1	**Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures.**

4

3.2.2	**The shareholders of Diamond Ltd are not satisfied with the current market price of their shares. Explain by quoting figures/indicators and identify a factor that would have affected the market price of the shares.**

4

3.3.1 Risk and gearing:

Comment on how Diamond Ltd is managing their risk and gearing. Quote TWO financial indicators in your explanation.

6

3.4 Dividend pay-out policy:

3.4.1	**Calculate the dividend pay-out policy for 2025.**

2

3.4.2	**Provide ONE possible reason why Diamond Ltd has decided to change their dividend pay-out policy for 2025.**

2

3.4.3	**One of the directors feel that the dividend pay-out policy should have remained constant. Give TWO possible reasons (with figures) for his opinion.**

4

3.5 Percentage shareholding:

3.5.1	**Comment on the price paid for the repurchase by Diamond Ltd. Provide TWO points and quote figures.**

4

3.5.2	Calculate Gold's new % shareholding in Diamond Ltd.

2

3.5.3	Explain the effect of the repurchase on Gold's % shareholding in the company. Quote trends/ figures to support your explanation.

2

TOTAL MARKS
40

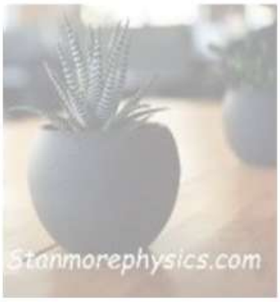
QUESTION 4

4.1

Which type of audit report will discourage shareholders to buy shares in a company?

1

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



4

4.2.1 **Explain the need for corporate social investment.**

2

4.2.2 **What do you understand by the *triple bottom line*?**

2

4.2.3 **Which component of the annually published financial statements should contain details of the donation to the school?**

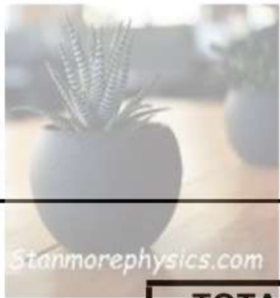
2

4.3 **Explain why the independent auditors mentioned IFRS in the audit report.**

2

Explain why the auditor mentioned the Companies Act (Act 71 of 2008) in the audit report.

2



TOTAL MARKS
15

TOTAL: 150

Western Cape Government

METRO NORTH EDUCATION DISTRICT

SCHOOL-BASED ASSESSMENT

SEPTEMBER EXAMINATION

MARKING GUIDELINE

ACCOUNTING P1

TASK No.: 6

15 SEPTEMBER 2025

MARKS: 150

TIME: 2 Hours

This marking guideline consists of 14 pages.

MARKING PRINCIPLES:

1. Unless otherwise stated in the marking guidelines, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Unless otherwise stated, give full marks for correct answer. If answer is incorrect, mark workings.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark as a working mark for that figure (not the method mark for the answer). *Note*: if figures are stipulated in memo for components of workings, these do not carry the method mark 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 that 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 certain questions.
9. Where penalties are applied, the marks for that section of the question cannot be a final negative.
10. Where method marks are awarded for operation, marker must inspect reasonableness of the answer.
11. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷ as per candidate's calculation (if valid) or per 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 at least in part. Indicate with a ☒.
14. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
15. Codes: f = foreign item; p = placement/presentation.

1.1	Refer to Information B. **Calculate the correct net profit after tax for the year ended 30 June 2025. Indicate a + for increase and a – for decrease.**

Calculation of the correct net profit after tax		
Incorrect net profit	**2 277 180**	
Trading stock deficit (185 490 – 167 670) One part correct with correct sign	– 17 820	☑✓
Rent income (110 160 – 101 250) One part correct with correct sign	– 8 910	☑✓
Provision for bad debts adjustment (12 060 – 9 630) One part correct with correct sign	+ 2 430	☑✓
Insurance (8 640 ÷ 12 x 8) One part correct with correct sign	+ 5 760	☑✓
Correction of error: Asset (- 6 570 – 6 570) One part correct with correct sign	– 13 140	☑✓
Correct net profit before tax Operation, one part correct	**2 245 500**	☑
Income tax Accept if no brackets	**(673 650)**	✓
Net profit after tax Check operation, NP – tax	**1 571 850**	☑
If no sign, assume + Positive/negative effect & figure must be correct Foreign entries -1 (max -2) **Do not accept Trading stock or Provision for bad debts as Foreign items/entries**		

13

1.2	**Retained Income Note on 30 June 2025.**

Balance at beginning of year	balancing figure	**1 302 030**	☑
Net profit after tax	see 1.1	1 571 850	☑
Repurchase of shares (18 000 x R1,44)		(25 920)	✓✓
Dividends	Operation.	**(873 360)**	☑
Interim		**360 000**	
Final (2 232 000 x 0,23)	One part correct	513 360	✓☑
Balance at end of year		**1 974 600**	

7

1.3 RUBY LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2024

ASSETS			
NON-CURRENT ASSETS	TA - CA		☑11 378 160
Fixed assets at carrying value	balancing figure		☑10 946 160
Fixed deposit		3	✓ 432 000
CURRENT ASSETS 720 000 x 1,7)	CL X 1,7		✓✓1 224 000
Inventories (185 490 – 17 820)			✓✓167 670
Trade and other receivables (**356 400** – 9 630 ✓✓+ 5 760☑ + 3 240✓ + 11 880✓) Pfbd Insurance Debtor Accrued inc			☑367 650 Operation, one part correct
Cash and cash equivalents	Balancing figure		☑688 680
TOTAL ASSETS	Transfer OE + L	12	☑**12 602 160**
EQUITY AND LIABILITIES			
ORDINARY SHAREHOLDERS' EQUITY	Operation		☑11 527 560
Ordinary share capital (**7 200 000** + 2 430 000✓ – 77 040✓)	Operation		☑ 9 552 960
Retained income	see 1.2	5	✓ 1 974 600
NON-CURRENT LIABILITIES		1	✓ 354 600
Mortgage loan: Onyx Bank			**354 600**
CURRENT LIABILITIES			**720 000**
Trade and other payable (118 800✓ + 8 910 ☑+ 3 240✓) Rent Debtor	Operation, one part correct		☑130 950
Current portion of loan			☑42 840 Balancing figure
SARS: Income tax (673 650 – 640 800)	Operation, one part correct		32 850*✓☑
Shareholders for dividends	see 1.2		513 360*☑
TOTAL EQUITY AND LIABILITIES	Operation	9	☑**12 602 160**
*Items under CL may be combined Foreign entries -1 (max -2)			

30

TOTAL MARKS
50

CALCULATIONS:
RENT INCOME

Monthly rent before increase	100%
Increase	10%
Monthly rent after increase	110%

J	A	S	O	N	D	J	F	M	A	M	J	J
100%	100%	100%	100%	100%	100%	100%	110%	110%	110%	110%	110%	110%
7 months							5 months					1 month is received in advance

7 months x 100 = 700
5 months x 110 = 550
1 month x 110 = 110
R110 160 = 1 360%
R110 160 x 110/ 1360 = R8 910

Or

7x + 6x (1.10) = 110 160
7x + 6.6x = 110 160
13.6x = 110 160
$x = \frac{110\ 160}{13.6} =$ R8 100
R8 100 x 1.10 = R8 910

QUESTION 2 CASH FLOW STATEMENT AND FINANCIAL INDICATORS

2.1 **Choose the correct term to complete each of the following statements. Write only the term next to the question numbers (2.1.1 to 2.1.4) in the ANSWER BOOK.**

2.1.1	Gearing ✓
2.1.2	Net working Capital ✓
2.1.3	Solvency ✓
2.1.4	Cash Flow Statement ✓

4

2.2

CASH GENERATED FROM OPERATIONS	
Profit before tax (882 000 + 378 000)	1 260 000✓✓
Adjustments in respect of:	
Depreciation	50 400✓
Interest expense	135 000✓
Profit before changes in working capital	1 445 400☑ operation; one part correct
Changes in working capital	**3 500**☑ Operation
Increase in inventory (787 500 – 864 000)	(76 500)✓
Increase in amounts receivable (900 000 – 1 000 000)	(100 000) ✓
Increase in amounts payable	**180 000**
Cash generated from operations	**1 448 900**☑ **Operation**

9

2.3.1 **Calculate: Income tax paid**

WORKINGS	**ANSWER**
27 000 ✓ + 378 000 ✓ + 35 000 ✓ Or -27 000 – 378 000 – 35 000	**440 000** ☑ operation; One part correct **Ignore brackets**

4

2.3.2 Calculation: Dividends paid

WORKINGS	ANSWER
693 000 225 000✓ + 249 480 (720 000 – 27 000) x 36c ✓☑ Or 225 000 ✓ + 539 190 ☑ – 289 710 ✓ Or -225 000 ✓ - 539 190 ☑ + 289 710✓ **(289 710 + 249 480)**	(**474 480)** ☑ operation; One part correct Ignore brackets

4

2.4.1

CASH FLOW FROM INVESTMENT ACTIVITIES operation; One part correct	(1 220 400) ☑
Purchase of fixed assets (4 500 000✓ + 50 400✓ + 1 800 000✓ – 5 310 000✓) **Or** (5 310 000 – 4 500 000 – 50 400 – 1 800 000)	(1 040 400) ☑ One part correct **With brackets**
Sale of fixed assets	**1 800 000**✓
Changes in financial assets (3 690 000 – 1 710 000)	(1 980 000)✓ With brackets

8

2.4.2

CASH FLOW FROM FINANCING ACTIVITIES Operation; one part correct	1 514 160 ☑
Proceeds from shares issued (90 000 x R11,80)	1 062 000 ✓✓
Shares repurchased (27 000 X R8,82)	(238 140) ✓
Increase in loan (2 294 955 – 1 604 655)	690 300 ✓

5

Be alert to alternative workings such as ledger account or use of brackets or signs reversed. Ensure that only one option is marked consistently.

2.5.1 % Operating expenses on sales

WORKINGS	ANSWER
$\frac{1\ 350\ 000✓}{5\ 400\ 000✓} \times \frac{100}{1}$	**25%**☑ **One part correct.** **x 100 is not considered as one part correct.**

3

2.5.2 Acid test ratio

WORKINGS	ANSWER
2 646 000 ✓ : 1 755 135 ✓✓ 3 510 000 – 864 000 4 050 090 – 2 294 955 (two marks)	1,5 : 1☑ one part correct Must be x:1
ENGLISH ONLY: CURRENT RATIO 3 510 000 ✓ : 1 755 135 ✓✓ 4 050 090 – 2 294 955 (two marks)	1,9 : 1☑ **Or** **2:1** one part correct Must be x:1

4

2.5.3 Net asset value per share (NAV)

WORKINGS	ANSWER
$\frac{7\ 649\ 910 ✓}{783\ 000 ✓✓} \times \frac{100}{1}$ (720 000 – 27 000 + 90 000)	**977 cents per share** ☑ Must be in cents; Assume it's in cents if not specified. One part correct. **x 100 not seen as one part correct.** **Accepts R9,77 / 997c**

4

TOTAL MARKS
45

QUESTION 3

3.1 Liquidity:

3.1.1	**Comment on the change in the liquidity of Diamond Ltd. Quote TWO financial indicators with figures.**

TWO financial indicators ✓✓ **Figures (with trend) ✓✓** **Comment ✓✓**

- **<u>Current ratio;</u>** increased from 2,3 : 1 to 2,8 : 1 / by 0,5 : 1.

  Increasing trend indicating possible stock-piling/company is not using it's current assets efficiently/may lead to difficulty meeting short-term debts/poor management of working capital.

- **<u>Debtor's collection period;</u>** increased from 36 days to 41 days.

  Debtors are not adhering to credit terms, which could lead to cash flow problems.

6

3.1.2	**Provide TWO suggestions on how the company can improve their liquidity position. Make reference to specific financial indicators.**

TWO valid points ✓✓ ✓✓ **At least ONE financial indicator quoted**

Award part marks for incomplete / partial / unclear responses

Need to improve available cash (**current ratio**) by promoting sales; better advertising (sales promotion); reduce mark-up % (from 54% to be closer to competitors); mark-down stock to move older stock.

Need to improve **collection from debtors** to bring this within credit terms, by:

- Reminders (SMS's, e-mails, calls etc.) sent to debtors to make payments.
- Offer discount for early payment.
- Charge interest for late payments / overdue accounts / encourage EFT payments or debit orders (online payments)

4

3.2 Return, earnings and market price on the JSE:

3.2.1	**Comment on the % return and earnings per share of the company. Quote TWO financial indicators with figures.**

Financial indicator (with trend) ✓✓ **figures with explanation ✓✓**

- **ROSHE** decreased from 7,8% to 4,8%. (by 3% percentage points / 38 %) / compare to alternative investments
- **EPS** decreased from 87 cents to 65 cents (by 22 cents; by 25%) / representing a drop in profitability.

4

3.2.2	**The shareholders of Diamond Ltd are not satisfied with the current market price of their shares. Explain by quoting figures/indicators and identify a factor that would have affected the market price of the shares.**

Comparison of MP to NAV is essential (with figures). Part-marks for partial or incomplete answers.

Comparison ✓ **Figures ✓**

Market price of 756c is below NAV of 789c

Identify factor (figures not required) (any ONE factor) ✓✓: Accept other valid alternatives

- The decline in earnings has led to a decline in the share price on the JSE (from 828 cents to 756 cents)
- Low demand or reluctance to buy shares in this company / ROSHE decreased/ poor image of company or directors / lack of confidence in management

4

3.3.1 Risk and gearing:

Comment on how Diamond Ltd is managing their risk and gearing. Quote TWO financial indicators in your explanation.

Financial indicator ✓✓ **trend with figures ✓✓**

Debt/equity ratio increased to 0,5 : 1 from 0,2 : 1 / by 0,3 : 1

ROTCE decreased to 8% from 12% / 4% points / by 33,3%

Comment:

6

- Reckless borrowing / taking no action to use the funds productively The business is now highly geared / high reliance on loans ✓
- Negatively geared / ROTCE (8%) is lower than the interest rate on loans (11%) ✓

3.4 Dividend pay-out policy:

3.4.1	**Calculate the dividend pay-out policy for 2025.**
	43 / 65 x 100 /1 = 66,2% ☑*✓ *one part correct (Accept: compare DPS: 43c vs EPS: 65c) One mark ✓ **only**

2

3.4.2	**Provide ONE possible reason why Diamond Ltd has decided to change their dividend pay-out policy for 2025.**
	Any ONE valid reason ✓✓ Award part marks for incomplete / partial / unclear responses - The DPS was kept constant at 43c, although there was a decrease in the EPS (from 87c to 65c) to try and keep the shareholder satisfied - Divert attention from the poor performance of the company - Directors to be re-elected - To try and create favour in the market to increase demand on JSE and push up share prices.

2

3.4.3	**One of the directors feel that the dividend pay-out policy should have remained constant. Give TWO possible reasons (with figures) for his opinion.**
	Any TWO valid reasons (with figures/financial indicators) ✓✓ ✓✓ Award part marks for incomplete / partial / unclear responses • A drop in the EPS (from 87 cents) to 65 cents (by 22 cents / 25%) and an unchanged DPS at 43 cents has effectively increased the dividend pay-out policy/rate from 50% to 60% (by 16% / 32%)

4

- A constant pay-out rate at 50% would have resulted in a lower DPS of 32 cents (by 11 cents / 25%) in line with the decrease in the EPS.

- If the pay-out policy remained constant, the company would have been able to retain 50% of the EPS (instead of only 32%); to focus on long-term growth of the business.

3.5 Percentage shareholding:

3.5.1	**Comment on the price paid for the repurchase by Diamond Ltd. Provide TWO points and quote figures.**

Any TWO valid points (with figures/financial indicators) ✓✓ ✓✓

Comparison of buyback price with either NAV or Market price

Award part marks for incomplete / partial / unclear responses

Paid R10,00 which is unfair to the existing shareholders

- It is higher than the market price of R7,56 / R8,28

- It is higher than the NAV of R7,89 / R8,21

- Depleting the company's financial resources / directors are exercising poor management of cash/ possible fraudulent transaction

4

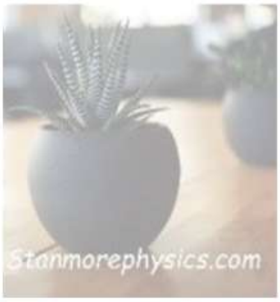
3.5.2	**Calculate Gold's new % shareholding in Diamond Ltd.**
	847 800 / 1 755 000 x 100 /1 = 48,3% ☑*✓ *one part correct (Accept 48%)
3.5.3	**Explain the effect of the repurchase on Gold's % shareholding in the company. Quote trends/ figures to support your explanation.**

2

Explanation on % shareholding ✓ **comparative figures ✓** Gold has lost his majority share status; his % shareholding decreased from 51% to 48,3% / by 2,7% points / by 5,3% (see 3.5.2)

2

TOTAL MARKS
40



QUESTION 4

4.1 **Which type of audit report will discourage shareholders to buy shares in a company?**

Disclaimer of opinion ✓

accept Qualified

1

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

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

- Auditors not prepared to 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.

4

4.2.1 **Explain the need for corporate social investment.**

Valid explanation ✓✓ part marks for partial / incomplete / unclear responses

- It is a recommendation of the King Code that will ensure the goodwill, loyalty and support of the community.
- It shows good corporate social responsibility.
- Compliance with the triple bottom line

2

4.2.2 **What do you understand by the *triple bottom line*?**

Valid explanation ✓✓ part marks for partial / incomplete / unclear responses

It is a recommendation of the King Code which encourages companies to focus on profit, people and planet so that aims and objectives are realised in a desirable manner.

2

4.2.3 **Which component of the annually published financial statements should contain details of the donation to the school?**

The directors' report ✓✓

2

4.3	**Explain why the independent auditors mentioned IFRS in the audit report.** **Any valid explanation** ✓✓ Award part marks for incomplete / partial / unclear responses • The financial statements must be comparable to those prepared by companies internationally. • To comply with the requirements of the company's act	**2**
	Explain why the auditor mentioned the Companies Act (Act 71 of 2008) in the audit report. **Any valid explanation** ✓✓ Award part marks for incomplete / partial / unclear responses • This assures the shareholders that the company is abiding by the law. • Standards are maintained. • This satisfies the shareholders that their investment is safe. • This creates investor confidence in the company.	**2**

TOTAL MARKS
15

TOTAL: 150