



education

Department:
Education
North West Provincial Government
REPUBLIC OF SOUTH AFRICA

PROVINCIAL ASSESSMENT

GRADE 12

**ACCOUNTING P1
JUNE 2024**

MARKS: 150

TIME: 2 hours



This question paper consists of 10 pages and a formula sheet.

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. Show ALL workings to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer questions.
6. Where applicable, show ALL calculations to ONE decimal point.
7. A Financial Indicator Formula Sheet is attached at the end of this question paper.
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 and Notes	70	55
2	Cash Flow Statement and Financial Indicators	35	25
3	Interpretation of Financial Information	35	30
4	Corporate Governance	10	10
TOTAL		150	120

QUESTION 1: COMPANY FINANCIAL STATEMENTS AND NOTES

(70 marks; 55 minutes)

1.1 BROOKLYN LTD

The information relates to the financial year ended 29 February 2024.

REQUIRED:

Prepare the Statement of Comprehensive Income for the year ended 29 February 2024.

(50)

INFORMATION:

A. Information from the Pre-Adjustment Trial Balance on 29 February 2024:

	R
Trading Stock	123 800
Debtors Control	88 640
Provision for Bad Debts	7 185
Loan: XY Bank	?
Sales	1 960 000
Cost of Sales	?
Discount received	15 500
Rent Income	277 300
Audit Fees	22 600
Depreciation	54 200
Salaries and wages	175 600
Employers Contribution	12 300
Directors Fees	225 400
Bad debts	4 565
Consumable Stores	16 900
Advertising	12 900
Sundry Expenses	?
Interest Income	9 600

B. Additional information and adjustments:

- (i) An invoice for R36 160, issued to a debtor, dated 27 February 2024, was not recorded.
- (ii) Stock count on 29 February 2024 revealed the following stock on hand:
 - Trading Stock R99 400
 - Consumable stores R 4 350
- (iii) The advertising expense is for a three-month contract ending on 31 March 2024.

- (iv) The following adjustments involving debtors were not taken into account:
- The account of S Snyman, R2 580 must be written off.
 - Interest on overdue accounts totaling R280 must be recorded.
 - The provision for bad debts must be adjusted to 5% of outstanding debtors.

- (v) The company has two directors. They earn the same fee per month. One director did not take his fee for February 2024.

- (vi) The rent for March and April 2024 was received and deposited. Note that the rent increased by 15% from 1 December 2023.

- (vii) Loan statement showed the following. Interest was not taken into account.

Balance on 1 March 2023	555 000
Interest charged	?
Monthly instalments (including interest capitalised)	114 600
Balance on 29 February 2024	507 000

- (viii) An employee on leave was not entered in the Salaries Journal for February 2024. The details were as follows:

Net Salary	8 300
Deductions	?
Gross Salary	?

- The business contributes R1 008 (8%) of the gross salary to the Pension Fund and R126 to the UIF Fund.

- (ix) Interest income was received for 10 months only. There was no change during the year.

- (x) The following percentages must be used to calculate amounts not given:

- The profit mark-up % achieved was 60% on cost.
- Operating profit on turnover was 20%.
- Income tax for the financial year was 25% of the net profit.

1.2 RAINBOW LTD

The information relates to the financial year ended on 29 February 2024.
Rainbow Ltd sells air conditioners.

REQUIRED:

1.2.1 Prepare the following notes to the Statement of Financial Position:

Ordinary share capital (6)
Retained income (6)

1.2.2 Explain whether the Louw family was offered a fair value for their shares. Quote figures. (4)

1.2.3 Give TWO ways how repurchase of shares benefitted existing shareholders. (4)

INFORMATION:

A. **Balances/totals extracted from the accounting records:**

	2024	2023
Ordinary share capital	4 231 200	3 360 000
Retained income	1 304 100	?

B. **Share Capital and Dividends:**

- On 1 September 2023, an interim dividend of R192 500 was paid.
- On 31 October 2023, the business issued 150 000 shares at R12 per share.
- On 29 February 2024, 90 000 shares were repurchased from the Louw family at R11,50 per share. They were entitled to final dividend.
- A final dividend of 95 cents per share was declared on 29 February 2024.

C. **Financial indicators were calculated:**

	29 February 2024	1 March 2023
Net asset value per share	1030 cents	980 cents
Market price per share	925 cents	888 cents

D. Net profit after tax amounted to R996 000.

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

The information relates to Sparks Ltd for the financial year ended 30 June 2023.

REQUIRED:

- 2.1 Complete the Note for Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2023: (4)
- 2.2 Calculate the following figures in the 2023 Cash Flow Statement:
- 2.2.1 Taxation paid (4)
 - 2.2.2 Fixed assets purchased (6)
 - 2.2.3 Net change in financial assets (2)
 - 2.2.4 Shares issued (2)
 - 2.2.5 Net change in cash and cash equivalents (4)
- 2.3 Calculate the following:
- 2.3.1 Current ratio (3)
 - 2.3.2 Debt-equity ratio (3)
 - 2.3.3 Return on average capital employed (7)

INFORMATION:

A. Information from the financial statement on 30 June:

	2023 R	2022 R
Depreciation	235 600	196 000
Interest expenses	125 000	125 800
Fixed assets (carrying value)	2 241 940	2 344 800
Financial assets	225 000	290 000
Shareholders' equity	4 800 800	3 600 500
Loan	850 000	700 000
Total current assets	1 415 900	1 309 400
Inventory	225 000	155 000
Trade and other receivables N1	1 115 000	1 143 000
Cash and cash equivalents	75 900	11 400
Trade and other payables N2	820 940	796 800
Bank overdraft	-	128 700

B. NOTES TO THE STATEMENT OF FINANCIAL POSITION:

	2023 R	2022 R
N1		
TRADE AND OTHER RECEIVABLES	1 115 000	1 143 000
Debtors Control	1 102 000	1 125 000
Accrued Income	13 000	7 000
SARS: Income Tax	0	11 000

N2		
TRADE AND OTHER PAYABLES	820 940	796 800
Creditors Control	536 565	647 300
Accrued Expenses	7 000	9 500
SARS: Income Tax	17 375	0
Shareholders for dividends	260 000	140 000

ADDITIONAL INFORMATION:**(i) Share capital**

- Additional 100 000 shares were issued at R15 on 1 January 2023.

(ii) Sale of equipment

Cost price	R140 000
Accumulated depreciation to date sold	R72 500

(iii) Income tax

- Net profit before tax, R530 600.
- Income tax for the year amounted to R185 600.
- Net profit after tax, R345 000.

QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION (35 marks; 30 minutes)**3.1 CONCEPTS****REQUIRED:**

Choose a description from COLUMN B that matches a concept 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 (CONCEPT)	COLUMN B (EXPLANATION)
3.1.1 Liquidity	A Indicates the extent to which a business is financed by borrowed capital.
3.1.2 Solvency	B Indicates the benefit that the owners receive from their investment in the business.
3.1.3 Gearing	C Indicates whether the business can pay off immediate debts.
3.1.4 Return on equity	D Indicates whether the business will be able to pay off all its debts.

(4 x 1)

(4)

3.2 OMEGA LTD

The information presented relates to the financial year ended 29 February 2024.

REQUIRED:

- 3.2.1 Comment on the overall liquidity position of the company. Quote THREE relevant financial indicators (with figures). (8)
- 3.2.2 One of the directors feels that the company should pay back the loan as soon as possible. What are your views about this? Quote and explain TWO relevant financial indicators with figures to support your view. (6)
- 3.2.3 The directors decided to change the dividend pay-out policy in 2024.
- Provide calculations that indicate the policy change. (4)
 - Explain the effect of this change of policy on the company. State TWO points. (4)
- 3.2.4 Explain why the shareholders are satisfied with:
- The market price of the shares on the JSE. (6)
 - The price at which the 75 000 shares were repurchased. (3)

In EACH case, quote figures/financial indicators.

INFORMATION:**Financial indicators were calculated on 29 February 2024:**

	2024	2023
Current ratio	2,7 : 1	2,2 : 1
Acid-test ratio	1,2 : 1	1,5 : 1
Debtors' collection period	32 days	39 days
Creditors' payment period	41 days	51 days
Debt-Equity ratio	0,4 : 1	0,6 : 1
Return on total capital employed	9%	15%
Return on average shareholders' equity	16,5%	17,5%
Earnings per share	160 cents	200 cents
Dividends per share	160 cents	50 cents
Net asset value per share	770 cents	760 cents
Market price per share (JSE)	960 cents	800 cents
Repurchase price per share	850 cents	0 cent
Interest rate on loan	14%	14%



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

- 4.1 What is the difference between the roles of an internal auditor and an independent external auditor? Provide TWO points. (4)
- 4.2 External independent auditors may charge high audit fees for their specialized work. What do you think will be the consequences for the auditor if it is proven that the auditor was negligent in the performance of his responsibilities? Name TWO consequences. (4)
- 4.3 A Chief Executive Officer (CEO) of a company has prior knowledge that the company will be sued for R500 million due to faulty products they market once the relevant investigations are complete. The CEO decides to sell his shares as soon as possible, before the news reaches the general public.
- Give ONE possible consequence of the CEO's unethical behaviour. (2)

10**TOTAL: 150**

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET	
$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sale}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
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	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of Sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed cost}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
NOTE: * 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

JUNE 2024

ANSWER BOOK

NAME OF LEARNER _____

QUESTION	MARKS	TEACHER	MOD.
1			
2			
3			
4			
TOTAL			

This answer book consists of 8 pages.

QUESTION 1

1.1 BROOKLYN LTD STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 29 FEBRUARY 2024.

Sales (1 960 000	
Cost of sales	
Gross profit	
Other Income	
Discount received	15 500
GROSS INCOME	
Operating expenses	
Audit fees	22 600
Depreciation	54 200
Operating Profit	
Profit before interest expense	
Net profit before income tax	
Net profit for the year	

**1.2.1 ORDINARY SHARE CAPITAL
ISSUED**

350 000		
150 000		
	Ordinary shares (closing balance)	4 231 200

6

RETAINED INCOME

Balance (1 March 2023)	
Net profit after income tax	996 000
Ordinary share dividends`	
- Interim dividends	192 500
Balance (29 February 2024)	1 304 100

6

**1.2.2 Explain whether the Louw family was offered a fair value for their shares.
Quote figures.**

4

1.2.3 Give TWO ways how the repurchase of shares benefitted the existing shareholders.

4

TOTAL MARKS

70

QUESTION 2

- 2.1 Complete the Note for Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2023:

Net profit before tax	
Adjustment in respect of:	
Operating profit before changes in working capital	

4

2.2.1

Calculate: Taxation paid	
WORKINGS	ANSWER

4

2.2.2

Calculate: Fixed assets purchased	
WORKINGS	ANSWER

6

2.2.3

Calculate: Net change in financial assets	
WORKINGS	ANSWER

2

2.2.4

Calculate: Shares issued	
WORKINGS	ANSWER

2

2.2.5

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

4

2.3.1 Calculate: Current ratio

WORKINGS	ANSWER

3

2.3.2 Calculate: Debt-equity ratio

WORKINGS	ANSWER

3

2.3.3 Calculate: Return on average capital employed

WORKINGS	ANSWER

7

TOTAL MARKS
35

QUESTION 3

3.1 CONCEPTS

3.1.1	
3.1.2	
3.1.3	
3.1.4	

4

3.2 OMEGA LTD

3.2.1 Comment on the overall liquidity position of the company. Quote THREE relevant financial indicators (with figures).

8

3.2.2 One of the directors feels that the company should pay back the loan as soon as possible. What are your views about this? Quote and explain TWO relevant financial indicators with figures to support your view.

6

3.2.3 The directors decided to change the dividend pay-out policy in 2024. Provide calculations that indicate the policy change.

4

Explain the effect of this change of policy on the company. State TWO points.

4

3.2.4 Explain why the shareholders are satisfied with the market price of the shares on the JSE. Quote figures/financial indicators to state TWO points.

6

Explain why the shareholders are satisfied with the price at which the shares were repurchased. Quote figures/financial indicators.

3

TOTAL MARKS
35

QUESTION 4

- 4.1** What is the difference between the roles of an internal auditor and an independent external auditor? Provide TWO points.

4

- 4.2** External independent auditors may charge high audit fees for their specialised work. What do you think will be the consequences for the auditor if it is proven that the auditor was negligent in the performance of his responsibilities? Name TWO consequences.

4

- 4.3** A Chief Executive Officer (CEO) of a company has prior knowledge that the company will be sued for R500 million due to faulty products they market once the relevant investigations are complete. The CEO decides to sell his shares as soon as possible, before the news reaches the general public.
Give ONE possible consequence of the CEO's unethical behaviour.

2

TOTAL MARKS

10

TOTAL: 150



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GRADE 12

ACCOUNTING P1

JUNE 2024

MARKING GUIDELINES

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). 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 marking guidelines 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 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 question).
8. This marking guidelines 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 the reasonableness of the answer.
11. Operation means 'check operation'. 'One part correct' means operation and one part correct.
Note: check operation must be +, -, x, ÷, as per candidate's calculation (if valid) or per marking guideline.
12. In calculations, do not award marks for workings if numerator and denominator are swapped – this also applies to financial indicators.
13. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate by 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.

These marking guidelines consist of 8 pages.

QUESTION 1

1.1 BROOKLYN LTD STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 29 FEBRUARY 2024

Sales (1 960 000 + 36 160✓)	1 996 160	✓
Cost of sales if 60% of sales	(1 247 600)	✓
Gross profit operation must be subtracted 4	748 560	✓
Other Income operation	250 620	✓
Discount received	15 500	
Rent income 277 300✓ – 43 240✓✓	234 060	✓
Provision for bad debts adjustment 7 185✓ – *6 125 ✓✓ *(88640+36160-2580+280) x 5% or 122500 x 5%	1 060	✓
GROSS INCOME operation 10	999 180	✓
Operating expenses operation	(599 948)	✓
Audit fees	22 600	
Depreciation	54 200	
Salaries and wages 175 600 ✓ + 12 600 ✓✓	188 200	✓
Employers Contribution 12 300✓ + 1 008✓ + 126✓	13 434	✓
Directors' fees 225 400✓ + 9 800 ✓✓ OR 23/24	235 200	✓
Bad debts 4 565✓ + 2 580✓	7 145	✓
Consumable stores 16 900 – 4 350	12 550	✓✓
Trading stock deficit (123 800✓ – 22 600✓ – 99 400✓	1 800	✓
Advertising 12 900 ✓ – 4 300✓	8 600	✓
Sundry expenses Balancing figure	56 219	✓
Operating Profit if 20% of 1 996 160 27	399 232	✓
Interest income 9 600 + 1 920 ✓ + 280 ✓	11 800	✓
Profit before interest expense	411 032	✓
Interest expense 507 000 + 114 600 – 555 000	(66 600)	✓✓
Net profit before income tax Must be subtracted	344 432	✓
Income tax 25% of NPbT	(86 108)	✓
Net profit for the year 9	258 324	✓

50

1.2.1 ORDINARY SHARE CAPITAL ISSUED

350 000	Ordinary shares (opening balance)	3 360 000 ✓
150 000	Ordinary shares issued during the year	1 800 000 ✓
(90 000) ✓	Ordinary shares repurchased x 10,32 ✓	(928 800) ✓
410 000 ✓	Ordinary shares (closing balance)	4 231 200

6

RETAINED INCOME

Balance (1 March 2023)	(balancing figure)	1 081 800 ✓
Net profit after income tax		996 000
Shares repurchased (90 000 x R1,18)		(106 200) ✓✓
Ordinary share dividends`		(667 500) ✓
- Interim dividends		192 500
- Final dividends (500 000 x 95c)		475 000 ✓✓
Balance (29 February 2024)		1 304 100

6

1.2.2 Explain whether the Louw family was offered a fair value for their shares. Quote figures.

Yes ✓ Explanation ✓✓ figure ✓

It was above the average share price of R10,32

They were offered a price R11,50 which was more than the market price, R9,25
They were offered a price of R11,50 which was more than the NAV of R10,30.

4

1.2.3 Give two ways how the repurchase of shares benefitted the existing shareholders?

Any TWO valid responses ✓✓ ✓✓

They could receive greater dividends (if profits remain the same).
The NAV will improve and so will the value of their shares.
The EPS and DPS will also be higher (if profits remain the same) which could result in investor confidence.
Shareholding % will increase, so will voting power of existing shareholders

4

TOTAL MARKS

70

QUESTION 2

- 2.1 Complete the Note for Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2023:

Net profit before tax	
Adjustment in respect of:	
Depreciation	235 600 ✓✓
Interest expense	125 000 ✓✓
Operating profit before changes in working capital	

4

- 2.2.1

Calculate: Taxation paid	
WORKINGS	ANSWER
185 600✓ – 11 000✓ – 17 375✓ OR – 185 600 + 11 000 + 17 375	157 225 ✓* one part correct

4

- 2.2.2

Calculate: Fixed assets purchased	
WORKINGS	ANSWER
+ 2 241 940✓ + 235 600✓ + 67 500✓✓ – 2 344 800✓	200 240 ✓* one part correct

6

- 2.2.3

Calculate: Net change in financial assets	
WORKINGS	ANSWER
290 000 – 225 000	R65 000 ✓✓ no part marks

2

- 2.2.4

Calculate: Shares issued	
WORKINGS	ANSWER
100 000 x R15	R1 500 000 ✓✓

2

- 2.2.5

Calculate: Net change in cash and cash equivalents	
WORKINGS	ANSWER
Net change in cash and cash equivalents (balancing figure)	193 200 ✓
Cash and cash equivalents at the beginning (128 700 – 11 400)	(117 300) ✓✓
Cash and cash equivalents at the end	75 900 ✓

4

2.3.1

Calculate: Current ratio

WORKINGS	ANSWER
1 415 900 ✓ : 820 940 ✓	1,7:1 ☒ one part correct

3

2.3.2

Calculate: Debt-equity ratio

WORKINGS	ANSWER
850 000 ✓ : 4 800 800 ✓	0,2 : 1 ☒ or 0,18 : 1 one part correct must be in ratio: 1

3

2.3.3

Calculate: Return on average capital employed

WORKINGS	ANSWER
$\frac{530\,600 \checkmark + 125\,000 \checkmark}{\frac{1}{2}(3\,600\,500 \checkmark + 4\,800\,800 \checkmark) + (700\,000 \checkmark + 850\,000 \checkmark)} \times \frac{100^*}{1}$ $\frac{655\,600 \text{ two marks}}{8\,401\,300 + 1\,550\,000}$ $\frac{655\,600}{9\,951\,300 \text{ four marks}}$ $4\,975\,650$	13,2% ☒ one part correct must be in % or 13,18%

7

TOTAL MARKS**35**

QUESTION 3

3.1 CONCEPTS

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

4

3.2 OMEGA LTD

3.2.1 Comment on the overall liquidity position of the company. Quote THREE relevant financial indicators (with figures).

Quoting of financial indicators ✓ ✓ ✓ Quoting of figures ✓ ✓ ✓

Current ratio increased from 2,2:1 to 2,7:1/by 0,5:1
Acid-test ratio decreased from 1,5:1 to 1,2:1/by 0,3:1
Debtors' collection period decreased from 39 to 32 days. / with 7 days
Creditors' payment period decreased from 51 to 41 days. / with 10 days

Any valid comment ✓✓ Part-marks for unclear/incomplete answers

- The business is liquid/should have no problem in paying off its short-term debts.
- Although the liquidity is good, we are paying the creditors too soon.

8

3.2.2 One of the directors feels that the company should pay back the loan as soon as possible. What are your views about this? Quote and explain TWO relevant financial indicators with figures to support your view.

Quoting of financial indicators ✓ ✓ Quoting of figures ✓ ✓ Explanation ✓ ✓

The debt/equity ratio decreased from 0,6:1 to 0,4:1. /with 0,2:1
The business is at low risk.

The ROTCE dropped from 15% to 9%.
The company is receiving a return (9%) that is less than the interest rate on loans (14%) (negatively geared).

It was a good decision to pay back the loan.

6

3.2.3 The directors decided to change the dividend pay-out policy in 2024. Provide calculations that indicate the policy change.

In 2023, the company paid 50/200 cents – 25% ✓✓
In 2024, the company paid 160/160 cents – 100% ✓✓

OR pay out increased from 25% to 100%

4

Explain the effect of this policy change on the company. State TWO points.

TWO valid points ✓✓ ✓✓ Part-marks for unclear/incomplete answers

- Retained income decreased and this could affect future growth (expansion) of the business.
- It would influence the share price/increase demand for the shares.
- It could motivate shareholders to vote for the directors at the AGM.
- Cashflow problem (one mark)

4

3.2.4 Explain why the shareholders are satisfied with the market price of the shares on the JSE. Quote figures/financial indicators to state TWO points.

Quoting of financial indicators ✓✓ Quoting of figures ✓✓ Explanation ✓✓

- Increased from 800 cents to 960 cents / increased by 160 cents.
- The market price is higher than the NAV of 770 cents / by 190 cents.

Explanation

- There is a demand for shares in this company.
- Investors are interested in buying shares.

6

Explain why the shareholders are satisfied with the price at which the shares were repurchased. Quote figures/financial indicators.

Explanation ✓✓ Figures ✓

The company paid 850 cents per share although the market value at the end of the year was 960 cents /The company paid 110 cents less than the market value

3

TOTAL MARKS

35

QUESTION 4**4.1**

What is the difference between the roles of an internal auditor and an independent external auditor? Provide TWO points.

- The internal auditor is an employee of the company ✓ whose job it is to monitor and execute internal controls to ensure that the risk of losing unethical behaviour is minimized ✓
- The independent auditor had been appointed by the shareholders at an AGM, he/she is not an employee of the company ✓ (he/she is independent of the directors and other employees) and must after performing an audit, express an opinion (unbiased) on the financial statements ✓

4

4.2

External independent auditors may charge high audit fees for their specialised work. What do you think will be the consequences for the auditor if it is proven that the auditor was negligent in the performance of his responsibilities? Name TWO consequences.

Any TWO valid reasons ✓✓ ✓✓

- Complaints against them may lead to disciplinary hearings under IRBA and/or SAICA.
- They can be prevented from auditing companies in the future.
- Civil charges can be laid against them by investors who have lost money due to reliance on an erroneous audit opinion.
- They face criminal charges.
- They may be removed from the membership role of SAICA.

4

4.3

A Chief Executive Officer (CEO) of a company has prior knowledge that the company will be sued for R500 million due to faulty products they market once the relevant investigations are complete. The CEO decides to sell his shares as soon as possible, before the news reaches the general public.

Give ONE possible consequence of the CEO's unethical behaviour.

Any valid consequence ✓✓

- May face legal action in court.
- Can receive imprisonment or fine if convicted.
- Can be prevented from acting as a director.

2

TOTAL MARKS

10

TOTAL: 150