

SECONDARY SCHOOL IMPROVEMENT PROGRAMME (SSIP) 2019



GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

GRADE 12



SUBJECT: ACCOUNTING

LEARNER'S NOTES

MODERATE

SESSION 1 TO 5

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COMPANIES FINANCIAL STATEMENTS**QUESTION 1 AUDIT REPORT AND COMPANY FINANCIAL STATEMENTS**

2017 KZN

(80 Marks;45 Minutes)

1.1 AUDIT REPORTS

Match the type of audit report in column A with the audit opinion in column B. Write only the letter (A-C) next to the question number (3.1.1 – 3.1.3) in the Answer Book.

	COLUMN A	COLUMN B		
1.1.1	Qualified audit report	A.	In our opinion, except for the effect of the unauthorized interest free loan to the Chief Operations Officer, the annual financial statement presents fairly, in all material respects, the financial position of Zondi Ltd on 31March 2017.	(1)
1.1.2	Unqualified audit report	B.	We have not been able to obtain sufficient audit evidence to provide for an audit opinion. Accordingly, we cannot express an opinion on the financial statements of Zolly Ltd for the year ended 28 February 2017.	(1)
1.1.3	Disclaimer report	C.	In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Zungu Ltd. as at 30 April 2017.	(1)

1.2 ZOLA LTD

You are provided with information taken from the financial records of Zola Ltd. The financial year ended on 28 February 2017.

REQUIRED:

- 1.2.1** Complete the Income Statement (Statement of Comprehensive income) for the year ended 28 February 2017. Certain amounts are inserted in the Answer Book. (47)
- 1.2.2** Prepare the following notes to the Balance Sheet (Statement of Financial Position):
- Fixed/Tangible Assets (19)
 - Trade and Other Receivables (11)

INFORMATION:

Extract of from the Pre- Adjustment Trial Balance on 28 February 2017:

Balance Sheet Accounts	R
Ordinary share capital	1 344 000
Retained income (1 March 2016)	700 000
Land and buildings	5 000 000
Vehicles (1 March 2016)	800 000
Equipment (1 March 2016)	760 000
Accumulated depreciation on vehicles (1 March 2016)	536 000
Accumulated depreciation on equipment (1 March 2016)	650 000
Mortgage loan	975 400
Fixed deposit (8,5% p.a.)	520 000
Trading stock	1 534 000
Debtors control	280 200
Provision for bad debts (1 March 2016)	11 000
Creditors control	420 180
SARS: income tax (provisional tax payments)	290 000
Nominal Accounts	
Sales	9 472 000
Cost of sales	?
Debtors allowances	70 000
Salaries and employers contribution	926 687
Directors fees	860 000
Audit fees	79 000
Packing material	13 600
Sundry expenses	292 330
Bad debts	12 100
Rent income	153 120
Bad debts recovered	3 860
Interest on fixed deposit	27 000
Interest on loan	30 030
Interest on current account	9 300
Dividends on ordinary shares (interim dividends)	55 000
Depreciation	83 200
Profit on disposal of asset	20 000

Adjustments and additional information:

- A.** A credit note for R45 000 issued to a debtor, on 26 February 2017, was recorded as goods sold on credit. Goods are sold at a profit mark-up of 50% on cost.
- B.** A debtor, B Zulu, who owes R1 200, has been declared insolvent. His estate paid 40 cents in the Rand. This amount was received and recorded. Write off the balance.
- C.** Adjust the Provision for Bad Debts to 5% of good book debts.
- D.** Stock counts on 28 February 2017 revealed the following on hand:
- | | |
|------------------|------------|
| Trading stock | R1 620 000 |
| Packing material | R1 200 |
- E.** External auditors are owed a further R6 000 for the financial year ended 28 February 2017.
- F.** Advertising is included as part of sundry expenses account. An amount of R15 000 has been paid for the period 1 January 2017 to 31 March 2017.
- G.** Rent income was received for 13 months to 31 March 2017. On 1 January 2017 the rent decreased by 8%.
- H.** Outstanding interest on fixed deposit must be taken into account. A further fixed deposit of R60 000 was invested on 1 August 2016. This was properly recorded. Interest on fixed deposit is not capitalised.
- I.** Land and buildings were purchased during the financial year for R3 000 000. This was properly recorded.
- J.** Depreciation on vehicles amounted to R83 200. A vehicle costing R500 000 was sold for R120 000 cash on 28 February 2017. The business made a profit of R20 000 on the sale of the vehicle. This transaction was recorded.
- K.** Depreciation on equipment is calculated at 15% p.a on the cost price. This equipment is very old. New equipment was purchased on credit on 1 February 2017 for R110 000. This transaction was not recorded.
- L.** The income tax for the year is calculated at 30 % of the net profit.

2. CORRECTION OF PROFIT BEFORE TAX**(21 Marks)****REQUIRED:**

Calculate the Net Profit after tax

INFORMATION:

A. The accountant calculated the net **profit before tax** to be R840 000, but the following adjustments were taken into consideration.

B. **EXTRACT FROM THE PRE-ADJUSTMENT TRIAL BALANCE FOR THE YEAR ENDED 30 JUNE 2014.**

Balance Sheet accounts section	
Debtors Control	R176 000
Provision for bad debts	R9 660
Trading Stock	R450 700
Loan: Standard Bank(12% p.a)	R600 000
SARS: Income Tax(Dr)	R280 000
Nominal accounts section	
Rent income	R67 250
Directors fees	R760 000

C. Unconsidered adjustments:

- (i) A physical stocktaking on 30 June 2014 reflected that stock to the value of R446 000 was on hand.
- (ii) The business returned goods not as per sample to the supplier, R5 700. The transaction has not yet been recorded.
- (iii) Depreciation must be provided as follows:
- Equipment R40 000
 - Vehicles R34 000
- (iv) A debtor, A Adams, who owes the business R4 600 has been declared insolvent. His estate has paid 40 cents in each rand. The remainder should be written off as bad debt irrecoverable.
- (v) Provision for bad debts should be adjusted to 5%.
- Rent for July 2014 has been received in advance. The rent was increased by 450 per Month on 01 May 2014.
- (vi)

- (vii) Audit fees for 6 750 were still outstanding on 30 June 2014.
- (viii) Provide for outstanding interest on loan. Interest is capitalized
- (ix) The business has three directors, they earn the same directors fees. One the a director has been directors fees for July and August 2014.
- (x) R12 300 is still owed to SARS regarding the income tax for the financial year ending 30 June 2014.

2. Correction of profit before tax	
Incorrect Profit before tax	840 000



**QUESTION 3: FIXED ASSETS, BALANCE SHEET AND AUDIT REPORT
[2017 NSC NOV]**

(65 marks; 40 minutes)

The following information relates to Odette Ltd. The financial year ended on 28 February 2017.

REQUIRED:

- 3.1 **Refer to Information B.**
Calculate the missing amounts denoted by **(a)** to **(e)**. (22)
- 3.2 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2017. Show workings. (37)

INFORMATION:

A. Amounts extracted from the records on 28 February 2017:

Balance Sheet accounts section	R
Ordinary share capital	?
Retained income (28 February 2017)	520 000
Fixed assets (carrying value)	?
Loan from Beque Bank	284 000
Trading stock	408 880
Net trade debtors	67 200
Fixed deposit: Elze Bank	?
Bank (favourable)	?
SARS: Income tax (provisional payments)	209 000
Creditors' control	184 000
Nominal accounts section (pre-adjustment amounts)	
Insurance	30 200
Rent income	108 450
Electricity	42 000

B. Fixed assets:

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT	TOTAL
Cost		350 000	460 000	
Accumulated depreciation		(315 000)		
Carrying value (01/03/2016)	(a)	35 000		
Movements:				
Additions	325 000	422 550	0	
Disposals	0	0	(d)	
Depreciation		(b)	(13 766)	
Carrying value (28/02/2017)	2 550 000	(c)	50 994	(e)
Cost		772 550	340 000	
Accumulated depreciation				

- Depreciation on vehicles is calculated at 20% p.a. on cost.
- The company has two vehicles on 28 February 2017. One of these vehicles was purchased on 1 September 2016.

- Extract from the Fixed Assets Register in respect of equipment sold:

Fridge (Model X3)			
Date purchased: 1 March 2014			
Date sold: 31 December 2016		Sold for: R81 250	
Depreciation rate: 10% p.a. (diminishing-balance method)			
	COST	DEPRECIATION	BOOK VALUE
28 February 2015	R120 000	R12 000	R108 000
29 February 2016		?	?
31 December 2016		?	?

- C. The electricity account for February 2017, R5 600, was still outstanding.
- D. The provision for bad debts must be increased by R270.
- E. An additional insurance policy was taken out on 1 November 2016. The annual premium of R10 200 was paid and recorded.
- F. The rent for February 2017 has not been received yet. The rent increased by 15% on 1 July 2016.
- G. Net profit after tax, R518 000, was calculated after taking into account all the adjustments above. Income tax is 30% of the net profit.
- H. 75% of the authorised share capital of 900 000 shares was in issue. The directors declared a final dividend of 24 cents per share on 28 February 2017.
- I. Extract from Beque Bank loan statement:

Balance on 1 March 2016	R376 000
Instalments (including interest)	R92 000
Interest capitalised	R48 000
Balance on 28 February 2017	?

NOTE:

- Interest has not been entered in the books.
 - R50 000 of the loan balance will be settled in the next financial year.
- J. The net asset value per share on 28 February 2017 is 620 cents.
- K. The current ratio is 2,1 : 1 on 28 February 2017.

3.3 AUDIT REPORT

An extract of the independent audit report of Karin Ltd for the financial year ended on 28 February 2017 is provided.

REQUIRED:

As a shareholder, what concerns would you have regarding this audit report? Explain THREE points.

(6)

INFORMATION:

EXTRACT FROM THE AUDIT REPORT OF KARIN LTD

We have audited the annual financial statements of Karin Ltd for the year ended 28 February 2017. These financial statements are the responsibility of the company's directors.

Basis for Disclaimer of Opinion

In the course of our audit we established that bonuses paid to directors, amounting to R9,8 million, had not been authorised by the Remunerations Committee.

Audit Opinion

Because of the significance of the matters described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Karin Ltd for the year ended 28 February 2017.

Bongani and Botha, Chartered Accountants (SA)

QUESTION 3

3.1

(a) Calculate the carrying value of Land and Buildings on 1 March 2016.

(b) Calculate the total depreciation on Vehicles on 28 February 2017.

(c) Calculate the carrying value of Vehicles on 28 February 2017.

(d) Calculate the carrying value of Equipment sold on 31 December 2016.

(e) Calculate the total carrying value of Fixed Assets on 28 February 2017.

3.2 BALANCE SHEET OF ODETTE LTD ON 28 FEBRUARY 2017

ASSETS	
NON-CURRENT ASSETS	
CURRENT ASSETS	
Inventory	408 880
Trade and other receivables	
Cash and cash equivalents	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY	
Ordinary share capital	
Retained income	520 000
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
TOTAL EQUITY AND LIABILITIES	

3.3 AUDIT REPORT

As a shareholder, what concerns would you have regarding this audit report? Explain THREE points.

Point 1:

Point 2:

Point 3:

6



TOTAL MARKS
65

ACTIVITY 4

The information relates to Bonzi Ltd. The financial year ended on 28 February 2017.

REQUIRED:

- 4.1 Prepare the following notes to the Balance Sheet on 28 February 2017:
- 4.1.1 Ordinary share capital (10)
- 4.1.2 Retained income (10)
- 4.2 Prepare the Balance Sheet on 28 February 2017. Show ALL workings. (35)

INFORMATION:**A. List of balances on 28 February 2017, unless otherwise stated:**

Ordinary share capital (See Information B.)	?
Retained income (1 March 2016)	567 000
Fixed assets at carrying value (1 March 2016)	?
Fixed deposit: Parys Bank	?
Loan from director (See Information F.)	630 000
Debtors' control	554 000
Provision for bad debts (1 March 2016)	31 300
Bank (favourable)	?
Trading stock	1 040 000
Creditors' control	692 000
Accrued income	2 440
Prepaid expenses	16 800
SARS: Income tax (provisional tax payments)	952 000

B. Share capital:

- Bonzi Ltd is authorised to sell 6 500 000 ordinary shares.
- The balance on 1 March 2016, of R10 000 000 comprised 4 000 000 ordinary shares.
- 800 000 shares were issued on 1 December 2016 at R5,50 each.
- 250 000 shares were repurchased on 20 February 2017 at R3,25 per share.

C. Dividends:

- An interim dividend of R680 000 was paid on 28 August 2016.
- A final dividend of 36 cents per share was declared on

28 February 2017. All shares (including the shares repurchased on 20 February 2017) qualify for final dividends.

D. Net profit before tax:

- The net profit before tax was accurately calculated to be R3 400 000.
- Income tax at the rate of 27% must be taken into account.

E. The interest on the fixed deposit was R42 000. The fixed deposit was invested on 1 May 2016 8% p.a.

F. Loan from Director:

- The loan was originally received on 1 September 2014.
- This loan is to be repaid over 6 years in equal monthly instalments with effect from 30 September 2014. All payments have been made.
- Interest is not capitalised and has been paid in full.

G. Provision for bad debts:

This must be adjusted to R33 240 of the outstanding debtors.

H. The following financial indicators were calculated after all adjustments:

Current ratio	1,5 : 1
Acid-test ratio	1,1 : 1

ACTIVITY 4: BONZI LIMITED

4.1.1 Ordinary share capital

AUTHORISED			
6 500 000 ordinary shares			
ISSUED			
			10

4.1.2 Retained income

Balance at beginning of year	567 000	
Ordinary share dividends		
Balance at end of year		10



4.2 **BONZI LIMITED**
BALANCE SHEET ON 28 FEBRUARY 2017

ASSETS	
Non-current assets	
Current assets	
TOTAL ASSETS	
EQUITY & LIABILITIES	
Ordinary shareholders' equity	
Non-current liabilities	
Current liabilities	2 600 000
Trade and other payables	
TOTAL EQUITY & LIABILITIES	



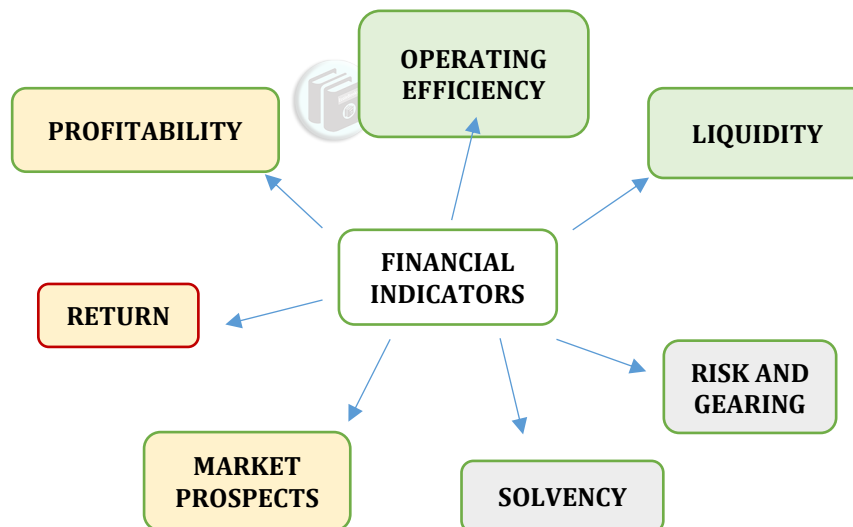
ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

INTERPRETING business activities refers to analyzing financial results to report on success and progress of the organization. **COMMUNICATING** business information would entail transfer of facts and data to all parties interested in using the business information.

Interpreting financial statements would logically follow the lengthy process of preparing financial statements and compiling the annual report to be presented to Shareholders and other stakeholders at the Annual General Meeting of the Company.

1. FINANCIAL INDICATORS

Although the financial indicators are in classified according to different categories, information used to calculate them would come from basically two financial statements (Income Statement and the Balance sheet). It is therefore understandable that certain categories will be integrated and must be used together in providing answers to important decisions.



PROFITABILITY, **RETURN** and **MARKET** related financial indicators focus on sales, management of expenses and profits.

OPERATING EFFICIENCY and **LIQUIDITY** would focus on the management of working capital (current assets and current liabilities)

OPERATING EFFICIENCY and **PROFITABILITY** also focus on managing expenses and daily operating activities (current assets and current liabilities).

SOLVENCY and **GEARING** will be concerned with the long term issues of the business. The focus would therefore be on total assets and total liabilities.

It is therefore necessary to consider, and quote related groups of financial indicators when answering the typical examination-type questions in interpretation.

2. STRATEGY IN ANSWERING INTERPRETATIVE QUESTIONS (RECOMMENDED STEPS)

- **Identify the appropriate financial indicators necessary to answer the question.**

At times, the question will not give any indications of the financial indicators to be used. Example, Comment on the liquidity of the business... You may need to calculate the ratios (if they are not given on the table of indicators).

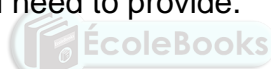
- **Quote the figures and show the trend. Do some comparison (increased/decreased)**

Comparisons would include:

- Information of the same business (previous financial year)
- Other businesses in the same industry (competitors)
- Targets set by the business (such as mark-up percentage)
- An alternative action (such as an investment in a fixed deposit)

- **Comment.**

Show some insight or understanding (focus on whether this is **good** or **bad** for the business). Provide short, concise statements. Be guided by the mark allocation as to how much information you need to provide.



When commenting ,quoting financial indicators ,trends and figures, always COMPARE INDICATORS as provided in an EXAMPLE below:

NAV	Market value of shares
ROSHE	Rate of investments
ROTCE	Rate of interest on loan
Debt Equity	Rate of interest on loan
Earnings per share	Dividends per share
Debtors Collection period	Creditors Payment period

QUESTION 5: CASH FLOW STATEMENT AND INTERPRETATION**(85 marks; 50 minutes)**

- 5.1 Choose a term to complete each of the following statements. Write only the term next to the question number (5.1.1–5.1.4) in the ANSWER BOOK.

shareholder(s); external auditor(s); director(s); internal auditor(s)

- 5.1.1 ... are appointed by the shareholders to manage the company.
- 5.1.2 The ... is employed by the company to set up functional internal control processes.
- 5.1.3 A ... is a person who invests in a company by buying shares.
- 5.1.4 ... are appointed by shareholders to give an unbiased opinion on the financial statements. (4 x 1) (4)

5.2 **SO-FINE LTD**

The given information relates to So-Fine Ltd for the financial year ended 31 August 2017.

REQUIRED:

- 5.2.1 Prepare the following notes to the Balance Sheet on 31 August 2017:
- Ordinary share capital (7)
 - Retained income (9)
- 5.2.2 Complete the Cash Flow Statement by inserting only the details and figures indicated by a question mark (?). (19)
- 5.2.3 Calculate the following financial indicators on 31 August 2017:
- Percentage operating profit on sales (3)
 - Debt-equity ratio (4)
- 5.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period. (4)

INFORMATION:

A. Information from the Income Statement for the financial year ended 31 August 2017:

Sales	R8 652 000
Operating expenses	1 760 000
Depreciation	320 000
Interest expense	86 100
Operating profit	697 000
Income tax	187 770
Net profit after income tax	438 130

B. Information from the Balance Sheet on 31 August:

	2017 (R)	2016 (R)
Fixed assets (carrying value)	6 177 000	4 975 000
Fixed deposits	220 000	300 000
Loan: Dolphin Bank	985 000	450 000
Current assets	619 600	663 300
Current liabilities	490 000	614 300
Shareholders' equity	?	?
Ordinary share capital	5 292 000	?
Retained income	?	147 370
Cash and cash equivalents	23 400	2 500
Bank overdraft	-	65 100
Shareholders for dividends	168 000	120 000
SARS: Income tax	11 800 (Cr)	2 400 (Dr)

C. Share capital and dividends

- The authorised share capital comprises 1 200 000 ordinary shares.
- 900 000 ordinary shares were in issue on 1 September 2016.
- The company issued 150 000 ordinary shares at R6,30 per share on 1 May 2017.
- 70 000 ordinary shares were repurchased from shareholders on 30 August 2017. A cheque for R437 500 was issued for these shares. These shareholders qualify for final dividends.
- An interim dividend of 12 cents per share was paid on 1 February 2017.
- A final dividend was declared on 30 August 2017.

D. Fixed assets: Transactions during the current financial year.

- Old equipment was sold for cash at the carrying value of R324 000.
- Additional equipment and delivery vehicles were purchased.

(See QUESTION 4.3 on the next page.)

5.3 CASTRO LTD AND RONKI LTD

You are provided with information relating to two companies.

BACKGROUND INFORMATION:

- Henry Harries owns 300 000 shares in each company.
- **Castro Ltd** issued 200 000 new shares only to existing shareholders at the average issue price (R9,10). These funds were used to establish a new branch. No new loans were raised.
- **Ronki Ltd** paid R4 800 000 to repurchase 320 000 shares.

REQUIRED:

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

CASTRO LTD

- 5.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued. (3)
- 5.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators. (6)
- 5.3.3 Henry had the option to buy some of the new shares issued by Castro Ltd. He had saved sufficient funds (interest rate 5% p.a.) for this purpose.
- If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy and how much would he have had to pay? (5)
 - Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option. (6)

RONKI LTD

- 5.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators. (6)
- 5.3.5 Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares. (3)
- 5.3.6 Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd. (6)

ADDITIONAL INFORMATION:**Financial indicators and additional information from annual reports:**

	CASTRO LTD		RONKI LTD	
	2017	2016	2017	2016
Debt-equity ratio	0,5 : 1	0,8 : 1		
Current ratio			1,9 : 1	3,5 : 1
Acid-test ratio			1,1 : 1	1,7 : 1
Stock-holding period			54 days	54 days
Number of shares in issue	700 000	500 000	580 000	900 000
Average share issue price	R9,10		R10,20	
Price paid for share repurchase			R15,00	
Price of share on JSE	R12,00		R15,00	
Net asset value per share	R10,73	R11,38	R13,30	R13,22
% return on shareholders' equity	23%	17%	16%	13%
% return on total capital employed	20%	15%		
Earnings per share	140 cents	196 cents	266 cents	171 cents
Total dividends	R357 000	R325 000	R928 000	R928 000
Dividends per share	51 cents	65 cents	160 cents	103 cents

QUESTION 5

5.1

5.1.1	
5.1.2	
5.1.3	
5.1.4	

4

5.2 SO-FINE LTD

5.2.1 ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL

1 200 000 ordinary shares

ISSUED SHARE CAPITAL

900 000	Ordinary shares on 1 September 2016	
	Ordinary shares on 31 August 2017	5 292 000

7

RETAINED INCOME

Balance on 1 September 2016	147 370
Net profit after income tax	438 130
Ordinary share dividends	
Balance on 31 August 2017	

9

5.2.2 SO-FINE LTD

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations		
Interest paid		
Dividends paid		
Income tax paid		?
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets		?
?		?
Change in investments		
CASH FLOWS FROM FINANCING ACTIVITIES		
?		?
?		?
Change in non-current liabilities		
Net change in cash and cash equivalents		?
Cash and cash equivalents – opening balance		?
Cash and cash equivalents – closing balance		?
		19

5.2.3 Calculate the percentage operating profit on sales.

	3

Calculate the debt-equity ratio.

	4

5.2.4 Calculate the dividends per share (DPS) of a shareholder who owned the same number of shares for the entire financial period.

	4

5.3 CASTRO LTD

5.3.1 Comment on the price of R9,10 charged by Castro Ltd for the new shares issued.

3

5.3.2 Explain how the issue of new shares has affected the financial gearing and risk of Castro Ltd. Quote TWO financial indicators.

6

5.3.3 If Henry wanted to retain his 60% shareholding in the company, how many shares would he have had to buy?

3

How much would he have had to pay?

2

Henry decided NOT to buy these shares. Apart from the % shareholding, explain TWO reasons why he has made a mistake by not taking up this option.

Reason 1:

Reason 2:

6

RONKI LTD

5.3.4 Comment on the liquidity of Ronki Ltd. Quote TWO financial indicators.

6

5.3.5 Comment on the price paid by Ronki Ltd for the repurchase (buy-back) of shares.

3

5.3.6 Explain THREE ways in which Henry has benefited from the repurchase of the shares by Ronki Ltd.

Point 1:



Point 2:

Point 3:

6

TOTAL MARKS
85

CASH FLOW STATEMENT AND INTERPRETATION**ACTIVITY 6**

The information relates to Cento Ltd.

REQUIRED:

- 6.1 Calculate the following figures that will appear on the Cash Flow Statement:
- 6.1.1 Income tax paid (5)
 - 6.1.2 Proceeds from disposal of fixed assets (carrying value) (5)
 - 6.1.3 Net change in cash and cash equivalents. Indicate net inflow or net outflow. (5)
- 6.2 Complete the section of the Cash Flow Statement for cash effects of financing activities. (12)

INFORMATION:

- A. Figures from the Balance Sheet and notes

	28 FEBRUARY 2017	28 FEBRUARY 2016
Fixed assets (carrying value)	R4 137 700	R2 598 300
Inventories	322 000	345 000
Trade and other receivables	245 000	228 000
SARS: Income tax	6 400	–
Cash and cash equivalents	88 900	2 500
Shareholders' equity	3 439 500	2 718 000
Ordinary share capital	2 967 000	2 520 000
Non-current liabilities	1 200 000	500 000
Trade and other payables	323 000	285 000
Shareholders for dividends	187 500	108 000
SARS: Income tax	–	9 800
Bank overdraft	–	153 000

- B. Extract from the Income Statement for the year ended 28 February 2017:

Depreciation	215 100
Interest expense	132 000
Net profit before tax	1 175 000
Net profit after tax	846 000

- C. **Additional Information:**

Share capital:

- Authorized share capital consists of 800 000 ordinary shares.
- 150 000 new ordinary shares were issued on 1 October 2016.
- 60 000 ordinary shares were repurchased on 1 January 2017 at 90 cents above the average issue price of R4,30.
- On 28 February 2017 the share register reflected a total of 690 000 shares.

Fixed assets:

- Property was purchased for R2 100 000. No other fixed assets were purchased.
- Equipment was sold at carrying value.

ACTIVITY 7

Information from the records of Maxie Ltd for the financial year ended 28 February 2015 is provided.

REQUIRED:

- 7.1 Complete the note for Cash Generated from Operations for the year ended 28 February 2015. (10)
- 7.2 Complete the Cash Flow Statement for the year ended 28 February 2015. Some of the figures are entered in the ANSWER BOOK. Show ALL workings. (21)
- 7.3 Calculate the following for 2015 (round off calculations to ONE decimal point):
- 7.3.1 Current ratio (3)
- 7.3.2 Debt-equity ratio (3)
- 7.3.3 Net asset value per share (3)
- 7.4 On 1 March 2014 additional shares were issued at R5,00 each. Will the existing shareholders be satisfied with this price? Explain. Quote figures. (5)
- 7.5 The directors decided to pay back a large portion of the loan. Do you think that this was a wise decision? Explain. Quote TWO relevant financial indicators and figures. (7)
- 7.6 Besides paying back the loan, the directors have taken other major decisions that have affected the cash balances. State TWO other major decisions (exceeding R200 000) and quote the figures from the Cash Flow Statement. In EACH case, state how the decision will affect the future of the company. (6)
- 7.7 Refer to the extract of the auditors' report (Information G).
- State the type of audit report received and provide a reason for your choice
 - Explain the consequences of this audit report for the chief executive officer (CEO) and/or the company. State TWO points. (4)

INFORMATION:**A. Extract from the Income Statement for the year ended 28 February 2015**

	R
Depreciation	178 000
Interest expense	52 000
Income tax	93 520
Net profit after income tax	240 480

B. **Figures obtained from the Balance Sheet and notes on 28 February**

	2015 R	2014 R
Fixed assets (carrying value)	2 568 730	2 174 390
Financial assets (fixed deposit)	150 000	230 000
Current assets	413 600	496 810
Inventories	194 600	262 000
Trade debtors	214 000	198 000
SARS: Income tax	-	2 110
Cash and cash equivalents	5 000	34 700
Shareholders' equity	2 392 480	1 848 000
Ordinary share capital	2 016 000	1 520 000
Retained income	376 480	328 000
Non-current liabilities	500 000	800 000
Current liabilities	239 850	253 200
Trade creditors	124 800	165 200
Shareholders for dividends	96 000	88 000
SARS: Income tax	6 300	-
Bank overdraft	12 750	-

C. **Share capital**

- The business has an authorised share capital of 800 000 ordinary shares.
- 400 000 shares were issued before 28 February 2014.
- On 1 March 2014 an additional 200 000 shares were issued at R5,00 each.
- On 1 September 2014 the company repurchased 120 000 shares from a dissatisfied shareholder at R4,50 each.
- After the above transactions there were 480 000 shares in issue.

D. **Fixed assets**

Extensions to the existing buildings were undertaken during July 2014.
There were no other movements of fixed assets during the financial year.

E. **Dividends**

An interim dividend of R60 000 was paid on 30 September 2014.
The final dividend was declared on 28 February 2015.

F. The following financial indicators were calculated for the past two financial years:

	2015	2014
Solvency ratio	4,5 : 1	2,8 : 1
Current ratio	?	1,9 : 1
Acid-test ratio	1 : 1	0,9 : 1
Debt-equity ratio	?	0,4 : 1
Return on average capital employed	10,2%	13,2%
Return on shareholders' equity	11,3%	11,8%
Net asset value per share	?	462 cents
Mark3et price of shares (on the securities exchange)	512 cents	490 cents
Current interest rate on loans	12%	13%

G. Extract from the report of the independent auditors

Basis for Opinion

In terms of the company policy on travelling for business purposes, all business travelling arrangements outside the country (international trips) must be approved by the board of directors. The application must be supported by quotations and details of the organisations to be visited on the trip.

During the year the CEO approved three overseas business trips without referring it to the board of directors. Documentation for these trips could not be produced.

Audit Opinion

In our opinion, except for the item described above, the annual financial statements present fairly, in all material respects, the financial position of Maxie Ltd as at 28 February 2015, and its financial performance and cash flows for the year then ended in accordance with IFRS and the Companies Act (Act 61 of 1973) of South Africa.

Snow and White

Chartered Accountants (SA)

Pretoria

28 May 2015

CASH FLOW STATEMENT

ACTIVITY 6: CENTO LTD

6.1.1 Calculate income tax paid.

--	--


	5

6.1.2 Calculate proceeds from disposal of fixed assets (carrying value).

--	--

	5

6.1.3 Calculate net change in cash and cash equivalents.



Indicate whether this is a net inflow or net outflow of cash.

--	--

	5

6.2

CASH EFFECTS OF FINANCING ACTIVITIES	

	12

ACTIVITY 7: MAXIE LIMITED

7.1 CASH GENERATED FROM OPERATIONS

Depreciation	178 000	
Interest expense	52 000	
Operating profit before changes in working capital		
Cash generated from operations		10

7.2 MAXIE LTD

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2015

CASH EFFECTS OF OPERATING ACTIVITIES		
Cash generated from operations		
Interest paid		
CASH EFFECTS OF INVESTING ACTIVITIES		
CASH EFFECTS OF FINANCING ACTIVITIES	160 000	
Proceeds of shares issued	1 000 000	
Share repurchased	(540 000)	
Repayment of loan	(300 000)	
NET CHANGE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents (1 March 2014)		
Cash and cash equivalents (28 February 2015)		21

7.3.1 Calculate the current ratio.

3

7.3.2 Calculate the debt-equity ratio.

3

7.3.3 Calculate the net asset value per share.

3

7.4 On 1 March 2014 additional shares were issued at R5,00 each. Will the existing shareholders be satisfied with this price? Explain. Quote relevant financial indicators with figures in your explanation.



5

7.5 The directors decided to pay back a large portion of the loan. Do you think that this was a wise decision? Quote TWO relevant financial indicators and figures to support your answer.

7

7.6 Besides paying back the loan, the directors have taken other major decisions that have affected the cash balances. State TWO other major decisions (exceeding R200 000) and quote the figures from the Cash Flow Statement. In EACH case, state how the decision will affect the future of the company.

DECISION	FUTURE EFFECT ON COMPANY

6

7.7 Choose the correct word from those given in brackets. Write down the word and briefly explain your choice.

Maxie Ltd received a/an (unqualified/qualified/disclaimer) auditors' report.

Briefly explain your choice.

3

Explain the consequences of this auditors' report for the chief executive officer (CEO) and/or the company. State TWO points.

4

QUESTION 8: FIXED ASSETS, CASH FLOW AND INTERPRETATION**(70 marks; 40 minutes)**

ASC JUNE 2018

- 8.1 Choose a description in COLUMN B that matches the user of financial statements in COLUMN A. Write only the letters (A to D) next to the question numbers (5.1.1 to 5.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
8.1.1 Trade unions	A want to be assured that their investment in the company is used wisely
8.1.2 SARS	B use the financial statements to make decisions to manage the company
8.1.3 Shareholders	C monitor whether their members are paid fairly
8.1.4 Directors	D need to be assured that income tax is levied on the net profit correctly

(4 x 1) (4)

8.2 **MALOTRA LTD**

You are provided with information relating to Malotra Ltd for the financial year ended 28 February 2018. The company is registered with an authorised share capital of 1 200 000 ordinary shares.

REQUIRED:8.2.1 **Refer to Information A.**

Calculate the missing amounts denoted by **(a)** to **(d)** on the Fixed Asset Note. (16)

8.2.2 Calculate the net profit after income tax on 28 February 2018. (3)

8.2.3 Calculate the following for the Cash Flow Statement:

- Dividends paid (4)
- Funds used to repurchase shares (5)
- Proceeds from shares issued (5)

8.2.4 Complete the section for Cash and Cash Equivalents in the Cash Flow Statement. (4)

8.2.5 Calculate the following financial indicators on 28 February 2018:

- Acid-test ratio (4)
- Debt-equity ratio (3)
- Return on average shareholders' equity (5)

8.2.6 The directors decided to increase the loan during the current financial year. Explain whether this was a good decision or not. Quote TWO (6)

financial indicators (with figures).

8.2.7 Comment on the price paid for the shares repurchased on 1 January 2018. Quote TWO financial indicators (with figures). (5)

8.2.8 Thandi Nene owns 416 000 shares in the company. When the directors decided to issue a further 200 000 shares during October 2017, she decided not to buy more shares and rather spend her funds on an overseas holiday.

Explain why you feel Thandi has made the wrong decision. Quote relevant figures or calculations to support your opinion. (6)

INFORMATION:

A. Incomplete Fixed Asset Note:

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT
Carrying value (1 Mar. 2017)	4 256 350	535 250	
Cost		(b)	1 500 000
Accumulated depreciation		(419 750)	(595 000)
Movements:			
Additions	(a)	(c)	0
Disposals		0	(e)
Depreciation		(195 000)	(d)
Carrying value (28 Feb. 2018)	6 192 350		626 000
Cost		1 415 000	
Accumulated depreciation			

- An extension to the storeroom and improvements to the buildings were completed during the financial year.
- A new vehicle was purchased on 1 June 2017.
- Old equipment was scrapped at carrying value on 28 February 2018.
- Depreciation policy: Vehicles: 15% on cost
Equipment: 20% on carrying value

B. Income tax:

- Income tax at 30% of the net income amounts to R286 200.

C. Dividends:

- Interim dividends were paid on 31 August 2017.
- Final dividends were declared on 28 February 2018.
- Only shareholders in the share register qualified for dividends.
- Dividends paid and declared for the current financial year: R332 000

D. Ordinary Share Capital:

800 000	Ordinary shares on 1 March 2017	R5 760 000
200 000	Shares issued on 1 October 2017	?
(120 000)	Shares repurchased on 1 January 2018	?
880 000	Ordinary shares on 28 February 2018	R6 512 000

NOTE: Shares were repurchased at 60 cents above the average share price.

E. Information extracted from the Financial Statements on 28 February:

	2018 R	2017 R
Fixed deposit: Sisi Bank	100 000	240 000
Loan: Mihla Bank	1 500 000	600 000
Current assets (including inventories)	1 136 700	1 246 400
Inventories	471 100	717 550
Current liabilities	512 000	755 500
Cash and cash equivalents	36 400	2 400
Bank overdraft	0	112 000
Shareholders' equity	6 843 300	5 826 500
Shareholders for dividends	132 000	176 000

F. Financial indicators on 28 February:

	2018	2017
Current ratio	2,2 : 1	1,6 : 1
Acid-test ratio	?	0,7 : 1
Debt-equity ratio	?	0,1 : 1
Earnings per share	77 cents	87 cents
Dividends per share	40 cents	80 cents
Return on average equity (ROSHE)	?	11,9%
Return on capital employed (ROTCE)	14,6%	16,4%
Net asset value	778 cents	728 cents
Interest rate on loans	12%	11%
Market value of shares on JSE	*780 cents	725 cents

***NOTE:** This value was unchanged over the past three months.

QUESTION 8


8.1

8.1.1	
8.1.2	
8.1.3	
8.1.4	

4

8.2 MALOTRA LTD

8.2.1

	Workings	Answer
(a)		
(b)		
(c)		
(d)		
(e)		

16

8.2.2

Calculate the net profit after income tax on 28 February 2018.	
Workings	Answer

3

8.2.3

Calculate the dividends paid.	
Workings	Answer
Calculate the funds used to repurchase shares.	
Workings	Answer
Calculate the proceeds from shares issued.	
Workings	Answer

4

5

5

8.2.4	Net change in cash and cash equivalents		
	Cash and cash equivalents (opening balance)		
	Cash and cash equivalents (closing balance)		4

8.2.5	Calculate the acid-test ratio.		
	Workings	Answer	
			4

Calculate the debt-equity ratio.			
	Workings	Answer	
			3

Calculate the return on average shareholders' equity.			
	Workings	Answer	
			5

8.2.6	The directors decided to increase the loan during the current financial year. Explain whether this was a good decision or not. Quote TWO financial indicators (with figures).	
		6

8.2.7	Comment on the price paid for the shares repurchased on 1 January 2018. Quote TWO financial indicators (with figures).	
		5

8.2.8

Thandi Nene owns 416 000 shares in the company. When the directors decided to issue a further 200 000 shares during October 2017, she decided not to buy more shares and rather spend her funds on an overseas holiday.

Explain why you feel Thandi has made the wrong decision. Quote relevant figures or calculations to support your opinion.

Calculations:

Explanation:



6

TOTAL MARKS
70

QUESTION 9: FINANCIAL STATEMENTS, CASH FLOW AND INTERPRETATION (Easter cape -2018)
(65 marks; 40 minutes)

9.1 CONCEPTS: MATCHING

Choose a description from Column B that matches the concept in Column A. Write only the letter (A – F) next to the numbers (4.1.1 – 4.1.5) in the ANSWER BOOK.

(5)

COLUMN A	COLUMN B
9.1.1 Balance Sheet	A. Reflects the financial performance of a business for a specific period.
9.1.2 Liquidity	B. The extent to which a business is making use of borrowed capital.
9.1.3 Income Statement	C. The ability of a business to pay off all its debts.
9.1.4 Solvency	D. This is the return earned by shareholders' investments in the business.
9.1.5 Gearing	E. The ability of a business to meet its current liabilities.
	F. Shows the financial position of a business in terms of its assets, liabilities and equity.

9.2 KHLOE LTD



The information relates to the financial year ended 31 May 2018.

REQUIRED:

9.2.1 Complete the CASH GENERATED FROM OPERATIONS note for the Cash Flow Statement. (9)

9.2.2 Calculate the following amounts for the Cash Flow Statement:

- Income tax paid (4)
- Dividends paid (4)
- Fixed assets purchased (5)

9.2.3 Calculate the NET CHANGE IN CASH AND CASH EQUIVALENTS. (4)

INFORMATION:

A. Extract from the Balance Sheet and notes on 31 May 2018:

	2017	2016
Fixed assets (carrying value)	R1 437 200	R1 120 400
Current assets		
Inventories	123 800	163 300
Trade and other receivables:	168 300	149 100
Trade debtors	155 600	134 700
SARS: Income tax	12 700	0
Expenses prepaid	0	14 400
Cash and cash equivalent	76 750	15 500
Current liabilities		
Trade creditors	122 900	162 600
SARS: Income tax	0	27 200
Shareholders for dividends	142 400	111 000
Income received in advance	11 100	0
Bank overdraft	0	124 300

B. Additional Information:

- (i) Net profit before income tax, R988 700;
Net profit after income tax, R692 100.
- (ii) Old equipment were sold at carrying value of R283 500. Equipment were purchased during the financial year to upgrade the facilities.
- (iii) Depreciation for the year, R221 400.
- (iv) Total dividends (paid and recommended) as per the Retained Income note, R317 400.

9.3 KWEZI LTD: ANALYSIS AND INTERPRETATION

The information relates to the financial year ended 28 February 2018.

REQUIRED:

- 9.3.1 Prepare the Ordinary Share Capital note. (7)
- 9.3.2 Calculate the following financial indicators on 28 February 2018:
 - Net asset value per share (3)
 - Return on shareholders' equity (5)
- 9.3.3 Quote TWO financial indicators (with figures and trends) that indicate an improvement in the liquidity position of the business. (4)
- 9.3.4 The company paid back a large portion of the loan. Explain why this was a good decision. Quote TWO financial indicators (with figures). (6)
- 9.3.5 Comment on the dividend pay-out policy over the past two years. Provide a possible reason for the policy adopted. Quote figures. (5)
- 9.3.6 Explain whether the price paid for the share buy-back was fair. Quote TWO financial indicators (with figures) in your explanation. (4)

INFORMATION:

A. Extract from the Income Statement on 28 February:

	2018 R	2017 R
Interest on loan	77 400	211 700
Net profit after tax	545 600	494 000

B. Extract from the Balance Sheet on 28 February:

	2018 R	2017 R
Shareholders' Equity	4 488 000	3 724 000
Ordinary share capital	4 291 500	?
Retained income	?	76 000
Loan: Buzza Bank (11% p.a.)	692 000	1 920 000

C. Share Capital:

- On 1 March 2017, the company had 760 000 shares in issue.
- On 1 June 2017, 30 000 shares were repurchased at R5,20 per share.
- On 31 October 2017, a further 150 000 shares were issued.

D. Financial indicators on 28 February:

	2018	2017
Current ratio	1,9 : 1	1,4 : 1
Acid test ratio	0,7 : 1	0,8 : 1
Average debtors collection period	38 days	57 days
Average creditors payment period	50 days	63 days
Debt/equity ratio	0,2 : 1	0,5 : 1
Earnings per share	62 cents	65 cents
Dividends per share	31 cents	52 cents
Return on shareholders' equity	?	13,7%
Return on capital employed	20,8%	22,3%
Net asset value	?	490 cents
Market price on JSE	515 cents	485 cents

QUESTION 9: FINANCIAL STATEMENTS, CASH FLOW AND INTERPRETATION

9.1 CONCEPTS: MATCHING

9.1.1	
9.1.2	
9.1.3	
9.1.4	
9.1.5	

5

9.2 KHLOE LTD

9.2.1

Net profit before income tax	988 700
Adjustments for : Interest expense	124 900
Changes in working capital	
CASH GENERATED FROM OPERATIONS	

9

9.2.2 Amounts for the Cash Flow Statement.

WORKINGS	ANSWER
Income tax paid	
Dividends paid	
Fixed assets purchased	

4

4

5

9.2.3 Calculate: Net change in cash and cash equivalents

--

4

9.3 KWEZI LTD

9.3.1 ORDINARY SHARE CAPITAL

760 000	Balance on 1 March 2017		
	Balance on 28 February 2018	4 291 500	
			7

9.3.2 Calculate: Net asset value per share

3

Calculate: Return on average shareholders' equity



5

9.3.3 Quote TWO financial indicators (with figures and trends) that indicate an improvement in the liquidity position of the business.

4

9.3.4 The company paid back a large portion of the loan. Explain why this was a good decision. Quote TWO financial indicators (with figures).

6

9.3.5 Comment on the dividend pay-out policy over the past two years. Provide a possible reason for the policy adopted. Quote figures.

5

9.3.6 Explain whether the price paid for the share buy-back was fair. Quote TWO financial indicators (with figures) in your explanation.



4

Q9: TOTAL MARKS	65	
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