

SECONDARY SCHOOL IMPROVEMENT PROGRAMME (SSIP) 2019



GRADE 12

SUBJECT: ACCOUNTING



LEARNER SOLUTIONS

MODERATE

SESSIONS 1 TO 5

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QUESTION 1

1.1

1.1.1	A✓
1.1.2	C✓
1.1.3	B✓

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1.2.1 Next page

1.2.2 Tangible asset

	Land and buildings	Vehicles	Equipment
Carrying value at the beginning	2 000 000✓	264 000✓	110 000✓
Cost price at the beginning	2 000 000	800 000	760 000✓
Accumulated depreciation at the beginning	-	(536 000)	(650 000)
Movement			
Additions	3 000 000✓	-	110 000✓
Disposal at carrying value	-	(100 000) ✓✓	-
Depreciation	-	(83 200) ✓	(111 374) ☑ See 3.2.1
Carrying value at the end	5 000 000✓	80 800☑ Operation one part correct	108 626☑ Operation one part correct
Cost price at the end	5 000 000	300 000✓✓	870 000✓
Accumulated depreciation at the end	(0)	(219 200) ✓✓	(761 374) ✓

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Trade and Other Receivables

Trade debtors (280 200✓ – 90 000✓ - 720✓) one part correct	189 480☑
Less provision for bad debts (11 000 – 1 526) 5% of the above	(9 474) ✓☑
Net trade debtors	180 006
Prepaid expense	5 000✓
Accrued income (12 100 +2 975) See interest income one part correct	15 075☑
SARS- Income tax (290 000 – 282 000)	8 000✓✓
Operation one part correct	208 081☑

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1.2.1 Income Statement for the year ended 28 February 2017

	Sales (9 472 000✓ – 70 000✓ – 45 000✓ – 45 000✓) – 90 000 two marks	9 312 000✓
	Cost of sales if sales x 100/150	(6 208 000) ✓
7	Gross profit Operation	3 104 000✓
	Other operating income Operation	193 466✓
	Rent income (153 120 - 11 040✓✓)	142 080✓
	Profit on sale of asset	20 000✓
	Bad debts recovered	3 860✓
	Provision for bad debts adjustment (11 000✓ – 9 474✓)	1 526✓ One part correct
	Trading stock surplus (1 620 000✓ - 60 000✓ - 1 534 000✓) OR (-1620 000 + 60 000 + 1 534 000)	26 000✓ One part correct
13	Gross income	3 297 466
	Other operating expenses Operation	(2 378 811) ✓
	Salaries and employers contribution	926 687
	Directors fees	860 000
	Audit fees (79 000 + 6 000✓)	85 000✓
	Packing material (13 600 – 1 200✓)	12 400✓
	Sundry expenses (292 330 – 5 000✓)	287 330✓
	Bad debts (12 100✓ + 720✓)	12 820✓
15	Depreciation (83 200✓ + 109 999✓✓ + 1 375✓) 111 374 three marks	194 574✓ One part correct
	Operating profit Operation	918 655✓
	Interest income (27 000✓ + 12 100✓✓ + 2 975✓ + 9 300✓) 39 100 two marks	51 375✓ One part correct
	Operating profit before interest expense Operation	970 030✓
	Interest expenses	(30 030) ✓
	Net profit before taxation Operation	940 000✓
	Taxation (940 000 x30/100)	(282 000) ✓
12	Net profit after taxation Operation	658 000✓

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Foreign items –1 (max –2) Award marks for workings if item misplaced; -1 for placement; max -2

TOTAL MARKS
80

QUESTION 2 CORRECTION OF NET PROFIT BEFORE TAX

Correction of profit before tax		
Incorrect Profit before tax	840 000	
Trading stock surplus (450 700✓ – 5 700 ✓ – 446 000✓)	☑1 000	
Depreciation (R40 000✓ + R34 000✓)	☑ (74 000)	
Bad debt (4 600 x 60/100)	✓✓ (2 760)	
Provision for bad debts adjustment(9 000 ✓- 8 662✓)	☑ 338	
Income received in advance(Rent income)	✓✓ (5 450)	
Expense Accrued (Audit fees)	✓✓ (6 750)	
Expense prepaid (Directors fees)	✓✓ (40 000)	
Income tax(280 000 + 12 300)	✓✓ (292 300)	
Net profit after tax	☑ 420 078	



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QUESTION 3

3.1

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

$2\,550\,000 - 325\,000 = 2\,225\,000$ ✓✓ no part marks

2

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

Allocate the marks to correct workings even if subtotals not shown.

New:

$422\,550 \times 20/100 \times 6/12 = 42\,255$ ✓✓

Old:

one mark

$350\,000 \times 20/100 = 70\,000$ but can only write off R34 999 ✓✓✓

$(350\,000 - 315\,000) = 35\,000 - 1 = 34\,999$

$42\,255 + 34\,999 = 77\,254$ ✓ one part correct

6

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

Note: Apply Marking Principle 10

Mark one line only – choose line to benefit candidate

$35\,000$ ✓ + $422\,550$ ✓ – $77\,254$ ✓ = $380\,296$ ✓
see (b) above one part correct

OR

$772\,550 - (315\,000 + 77\,254)$ see (b) above = $380\,296$
one mark one mark one method mark one method mark
 392 254 two marks

4

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

Note: Apply Marking Principle 10

Mark one line only – choose line to benefit candidate

$120\,000$ ✓ – ($12\,000$ ✓ + $10\,800$ ✓ + $8\,100$ ✓✓) = $89\,100$ ✓ one part correct
30 900 four marks 18 900 three marks
 22 800 two marks
 108 000 two marks

OR

$120\,000 - 12\,000 - 10\,800 - 8\,100 = 89\,100$
one mark one mark one mark two marks one method mark

6

(e) Calculate the total carrying value of fixed assets on 28 February 2017.

Note: Apply Marking Principle 10

$2\,550\,000$ ✓ + $380\,296$ ✓ + $50\,994$ ✓ = $2\,981\,290$ ✓
see (c) above one part correct

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3.2 BALANCE SHEET OF ODETTE LTD ON 28 FEBRUARY 2017

Accept -ve figures for balancing items if these are due to prior errors by the candidates
Ignore foreign items Placement presentation – 1 if marks earned in each case

	ASSETS		
	NON CURRENT ASSETS (TA – CA)	4 010 940	☑
	Fixed assets See (3.1 e)	2 981 290	☑
3	Financial assets (Fixed Deposit) Non-current assets – Fixed assets	1 029 650	☑
	CURRENT ASSETS CL X 2,1	870 660	☑☑
	Inventory	408 880	
	Trade and other receivables 67 200 ✓ – 270 ✓✓ + 6 800✓✓ +10 350 ✓✓	84 080	☑*
	Cash and cash equivalents CA – Inv – T & OR	377 700	☑
12	TOTAL ASSETS SHE + L	4 881 600	☑
	EQUITY AND LIABILITIES		
	SHAREHOLDERS EQUITY 675 000 ✓ x 620 c ✓ 900 000 x 75%	4 185 000	☑
	Ordinary share capital SE – 520 000	3 665 000	☑
4	Retained income	520 000	
	NON-CURRENT LIABILITIES	282 000	
4	Loan: Beque Bank 376 000–92 000 ✓ ✓ ✓ 284 000 + 48 000 – 50 000 332 000 two marks	282 000	☑*
	CURRENT LIABILITIES	414 600	☑*
	# Trade and other payables 184 000✓ + 5 600✓	189 600	☑*
	## SARS: Income tax 222 000 ✓✓ – 209 000 ✓ 518 000 x 30/70	13 000	☑*
	Shareholders for dividends (675 000 ☑ x 0,24✓) See no. of shares in SHE	162 000	☑*
	Current portion of loan	50 000	✓✓
14	TOTAL EQUITY AND LIABILITIES	4 881 600	☑*

NB: See alternative version to allow for SARS as a T&OR

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*one part correct

#Trade and other payables can combine the other elements under current liabilities. Allocate the part-marks accordingly.
If SARS and S/Hs for divs are included in T&OP, award one method mark in each case for workings included.
Inspect treatment of SARS (income tax) to check if candidate deducts interest from net profit to calculate tax

3.3 AUDIT REPORT

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

Any three different valid points ✓✓ ✓✓ ✓✓

Part-marks for unclear/incomplete explanation

Note: Candidates should not restrict responses to the commenting on the two specific points in the audit report as there would be several concerns arising from those two points.

Expected responses:

- This is a disclaimer report (no audit opinion).
- It will have a negative effect on the company e.g. reputation / share price / demand for shares / bad publicity / potential investors lose confidence in the company.
- The corporate governance of the company is compromised /not in line with King Code.
- The correct procedure of approving directors' fees / bonuses was not followed.
- The directors have abused their position.
- The huge amount paid to directors could negatively affect the financial results/liquidity and solvency/profitability of the company.
- Insufficient audit evidence.

EcoleBooks

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TOTAL MARKS
65

ACTIVITY 4: BONZI LIMITED

4.1.1 Ordinary share capital

AUTHORISED			
6 500 000 ordinary shares			
ISSUED			
4 000 000 ✓	shares in issue at beginning	✓ 10 000 000	
800 000 ✓	shares issued during the year at R5,50 ✓ per share	✓ 4 400 000	
(250 000) ✓	shares repurchased (ASP: R3,00 ✓ per share)	☑ (750 000)	
4 550 000 ✓	shares in issue at end one part correct	☑ 13 650 000	10

4.1.2 Retained income

Balance at beginning of year		567 000	
Funds used for shares repurchased (250 000 x R0,25☑)		☑ (62 500)	
Net profit after tax (3 400 000 ✓ – 918 000✓)	one part correct	☑ 2 482 000	
Ordinary share dividends	one part correct	☑ (2 408 000)	
Interim		✓ 680 000	
Final (4 800 000 x ³⁶ / ₁₀₀)	one part correct	✓☑ 1 728 000	
Balance at end of year	one part correct	☑ 578 500	10

4.2 BONZI LIMITED
BALANCE SHEET ON 28 FEBRUARY 2017

ASSETS			
Non-current assets		<input checked="" type="checkbox"/> 13 378 500	
Fixed assets	balancing figure	<input checked="" type="checkbox"/> 12 748 500	
Fixed deposit: Parys Bank	42 000 ✓ x 12/10 ✓ x 100/8 ✓	<input checked="" type="checkbox"/> 630 000	(7)
Current assets	current liabilities x 1,5	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 3 900 000	
Inventories	current liabilities x 0,4	<input checked="" type="checkbox"/> 1 040 000	
Trade and other receivables (554 000 ✓ – 33 240 ✓ ✓ + 1 6 800 ✓ + 2 440 ✓)		<input checked="" type="checkbox"/> 540 000	
Cash and cash equivalents	balancing figure	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 2 286 000	
SARS: Income tax (952 000 ✓ – 918 000 ✓)		<input checked="" type="checkbox"/> 34 000	
TOTAL ASSETS	same as TE+L	<input checked="" type="checkbox"/> 17 278 500	(15)
EQUITY & LIABILITIES			
Ordinary shareholders' equity		<input checked="" type="checkbox"/> 14 228 500	
Ordinary share capital		<input checked="" type="checkbox"/> 13 650 000	
Retained income		<input checked="" type="checkbox"/> 578 500	(3)
Non-current liabilities		450 000	
Loan: BB Bank (630 000 ✓ – 180 000 ✓ ✓ ✓)		<input checked="" type="checkbox"/> 450 000	(5)
Current liabilities		2 600 000	
Trade and other payables		<input checked="" type="checkbox"/> 692 000	
Current portion of loan		<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 180 000	
Shareholders for dividends	see 2.1.2	<input checked="" type="checkbox"/> 1 728 000	
TOTAL EQUITY & LIABILITIES		<input checked="" type="checkbox"/> 17 278 500	(5)

QUESTION 5

5.1

5.1.1	Directors	✓
5.1.2	Internal auditor	✓
5.1.3	Shareholder	✓
5.1.4	External auditors	✓

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 <small>Balancing figure; check that repurchase added back and issue deducted back</small>	4 725 000 ✓
150 000	Issued on 1 May 2016 at R6,30 each	945 000 ✓✓
(70 000)	Re-purchased 30 August 2017 (ASP: R5,40 ✓✓) <small>5 292 000/980 000 no part marks</small>	(378 000) ✓ <small>ignore brackets one part correct i.e.70 000 or R5,40; do not accept 437 500 as final answer</small>
980 000 ✓	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
Shares repurchased (437 500 ✓ – 378 000 ✓) <small>70 000 x 0,85 Or 70 000 x (6,25 – ASP) OSC above 437 500/70 000</small>	(59 500) ✓* <small>ignore brackets</small>
Ordinary share dividends <small>one part correct</small>	(276 000) ✓* <small>ignore brackets</small>
• Interim dividends (900 000 ✓ x 0,12) <small>one part correct</small>	108 000 ✓
• Final dividends	168 000 ✓✓
Balance on 31 August 2017 <small>one part correct; *both figures must be subtracted</small>	250 000 ✓*

9

5.2.2 SO-FINE LTD: CASH FLOW STATEMENT FOR YEAR ENDED 31 AUGUST 2017

	CASH FLOWS FROM OPERATING ACTIVITIES	Correct use of brackets to earn the mark on the final answer for each item in this column	
	Cash generated from operations	*one part correct and correct use of brackets	
	Interest paid		
	Dividends paid		
4	Income tax paid # -2 400 ✓ + 187 770 ✓ - 11 800 ✓ OR 2 400 - 187 770 + 11 800	? ## (173 570) <input checked="" type="checkbox"/> *	
	CASH FLOWS FROM INVESTING ACTIVITIES		
	Purchases of fixed assets # 6 177 000 ✓ + 320 000 ✓ + 324 000 ✓ - 4 975 000 ✓ -6 177 000 - 320 000 - 324 000 + 4 975 000	? ## (1 846 000) <input checked="" type="checkbox"/> *	
	? ✓ Proceeds from <u>sale of fixed assets</u>	? 324 000 ✓	
7	Change in investments		
	CASH FLOWS FROM FINANCING ACTIVITIES		
	? ✓ Proceeds from <u>issue of share capital</u> see 4.2.1	? 945 000 <input checked="" type="checkbox"/>	
	? ✓ Repurchase of shares	? (437 500) ✓	
4	Change in non-current liabilities		
	Net change in cash and cash equivalents	? 86 000 <input checked="" type="checkbox"/> *	
	Cash and cash equivalents – opening balance (2 500 – 65 100)	? (62 600) ✓✓	
4	Cash and cash equivalents – closing balance	? 23 400 ✓	19

5.2.3 Calculate the percentage operating profit on sales.

$$\frac{697\,000 \checkmark}{8\,652\,000 \checkmark} \times 100 = 8,1\% \checkmark \text{ one part correct Accept } 8,06 \text{ or } 8 \text{ \% sign not necessary}$$

3

Calculate the debt-equity ratio.

5 542 000 two marks See 4.2.1

$$985\,000 \checkmark : (5\,292\,000 \checkmark + 250\,000 \checkmark) = 0,2 : 1 \checkmark \text{ one part correct (accept } 0,18 : 1) \text{ if superfluous items added in workings, but answer is still the same, penalise on answer}$$

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.

$$\frac{900\,000 + 150\,000}{(168\,000 \checkmark / 1\,050\,000 \checkmark \times 100) + 12 \text{ cents } \checkmark} = 28 \text{ cents } \checkmark \text{ one part correct}$$

16 cents two marks

4

5.3 CASTRO LTD

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

Compare issue price to market price or NAV ✓✓ Part-marks for partial or incomplete explanation
 Figures R12,00 or R10,73 ✓ Could quote differences e.g. R2,90 or R1,63

Expected responses:

- The shares were issued at the average share issue price. The existing shareholders are being rewarded as the price is lower than the R12,00 charged on the JSE and the NAV of R10,73.
- The shares could have been issued at the market price of R12,00 or the NAV of R10,73 (they have diluted the value of the shares).

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.

Explanation ✓ ✓ Financial indicators ✓ ✓ Figures ✓ ✓
 Superfluous indicators (i.e. more than two indicators) -1 max

Expected responses:

- Gearing has improved – less risk (as there was an issue of new shares)
 debt-equity ratio decreased from 0,8 : 1 to 0,5 : 1 (by 0,3 : 1)
- ROTCE improved (due to increased efficiency / profits on new branch)
 from 15 % to 20 % (by 5% or 33,3%)

Candidates may also compare ROTCE to their estimate of current interest rate

6

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

$$(700\,000 \times 60\%) - (500\,000 \times 60\%) = 120\,000$$

420 000 300 000

OR two marks one method mark (if x 60%)
 $200\,000 \times 60\% = 120\,000$

3

How much would he have had to pay?

120 000 shares at R9,10 each = R1 092 000 ✓✓ If = no.shares (above) x R9,10

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.

Explanation ✓✓ ✓✓ Figures ✓ ✓
 Part-marks for partial or incomplete explanation

Expected responses: Any two

- His dividends would have increased by R61 200 (51c x 120 000 shares). This is more than the interest he earned on the savings account R54 600 (1 092 000 see above x 5%)
- He could buy the shares for capital growth - bought the shares for R9,10 and then could sell them on the JSE for R12,00 / total profit could have been R348 000 / would be a good buy as R12,00 exceeds NAV R10,73
- He would have earned more dividends on bigger investment (51c/910c = 5,6%)

6

- ROSHE would be 23% on a bigger investment.
- He would lose 120 000 votes at the AGM.

RONKI LTD

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

Explanation: ✓✓ Superfluous indicators (i.e. more than two indicators) -1 max
 The liquidity situation has improved / is able to meet current debts / liquidity ratios have decreased / liquidity ratios are more efficient

Financial indicators any two ✓ ✓ Figures ✓ ✓

- Current ratio has improved/decreased (from 3,5 : 1) to 1,9 : 1
- Acid-test ratio has improved/decreased (from 1,7 : 1) to 1,1 : 1
- Stock-holding period appears to be efficient at 54 days (less than 2 months)

6

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

Expected response: ✓✓ Part-marks for partial or incomplete explanation
 The company is paying a premium above the average share price in order to entice shareholders to give up their shares / they wanted to increase returns by decreasing equity / this is a fair value same as the price on the JSE.

- Compare price paid (R15,00) to Any one figure ✓
- market value R15,00
 - net asset value R13,30
 - average issue price of shares R10,20

3

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

Explanation ✓ ✓ ✓ Figures ✓ ✓ ✓

Expected responses: Three different responses

- He has now become a majority shareholder. His 300 000 shares are 51,7% of the total shares (33,3% before the share buy-back)
- Due to the reduced number of shares, his return has improved i.e. EPS has increased by 95c / from 171c to 266c / ROSHE increased from 13% to 16%. **(NOTE: EPS and ROSHE reinforce the same point).**
- The reduced number of shares could have contributed to an increase in the DPS by 57c / by 55,3% / from 103c to 160c (Directors may have maintained the dividend pay-out policy).

6

CASH FLOW STATEMENT

ACTIVITY 6: CENTO LTD

6.1.1 Calculate income tax paid.

1 175 000 – 846 000 Must be both
 9 800 ✓ + 329 000 ✓✓ + 6 400 ✓ = 345 200 one part correct
 –9 800 – 329 000 – 6 400 = –345 200

Mark one line only. Signs may be reversed but must be consistent.
 Ledger T-account may be drafted. Figures could be in brackets.

5

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

4 698 300 ✓ 4 352 800 ✓ ✓ ✓ one part correct
 (2 598 300 + 2 100 000) – (4 137 700 + 215 100) = 345 500
 2 598 300 + 2 100 000 – 4 137 700 – 215 100 = 345 500
 –2 598 300 – 2 100 000 + 4 137 700 + 215 100 = –345 500

Mark one line only. Signs may be reversed but must be consistent.
 Ledger T-account may be drafted. Figures could be in brackets.

5

6.1.3 Calculate net change in cash and cash equivalents.

(153 000 ✓ – 2 500 ✓) + 88 900 ✓ = 239 400 ✓
 150 500

OR

1 mark 1 mark 1 mark 1 mark
 (88 900 – 2 500) + 153 000 = 239 400
 86 400

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

Net inflow ✓ Depends on calculation above

5

6.2 CASH EFFECTS OF FINANCING ACTIVITIES	1 093 000 <input checked="" type="checkbox"/> Operation, one part correct
Proceeds from shares issued 2 967 000 ✓ + 258 000 ✓✓ – 2 520 000 ✓	705 000 <input checked="" type="checkbox"/> * One part correct, must be inflow 4 marks if amount correct but in brackets
Re-purchase of shares 2 marks 60 000 ✓ x R5,20 ✓✓ 4,30 + 0,90 both figures together	(312 000) <input checked="" type="checkbox"/> * One part correct must be outflow
Increase in non-current liabilities (Loans)	700 000 ✓✓ Must be inflow for 2 marks

12

Ledger account formats may be used to show calculations.
 *If answer is combined as a net inflow, award only 1 method mark on final answer, not 2.
 *If net effect has been shown with workings, mark as follows:
 2 967 000 – 2520 000 – 54 000 = 393 000
 1 mark 1 mark 2 marks 1 method mark

ACTIVITY 7: MAXIE LIMITED

7.1 CASH GENERATED FROM OPERATIONS

Net profit before income tax (240 480 + 93 520)	334 000 ✓✓	
Depreciation	178 000	
Interest expense	52 000	
Operating profit before changes in working capital	564 000	
Cash effects of changes in working capital	11 000 ✓	
Change in inventories (262 000 – 194 600)	67 400 ✓✓	
Change in receivables (214 000 – 198 000)	(16 000) ✓✓	
Change in payables (165 200 – 124 800)	(40 400) ✓✓	
Cash generated from operations	575 000 ✓	10

7.2 MAXIE LTD

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2015

CASH EFFECTS OF OPERATING ACTIVITIES	289 890 ✓	
Cash generated from operations	575 000 ✓	
Interest paid	(52 000) ✓	
Income tax paid (93 520 ✓ – 2 110 ✓ – 6 300 ✓)	(85 110) ✓	
Dividends paid (88 000 ✓ + 60 000 ✓)	(148 000) ✓	
CASH EFFECTS OF INVESTING ACTIVITIES	(492 340) ✓	
Purchase of fixed assets (2 568 730 ✓ + 178 000 ✓ – 2 174 390 ✓)	(572 340) ✓	
Investments matured (230 000 – 150 000)	80 000 ✓✓	
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	(42 450) ✓	
Cash and cash equivalents (1 March 2014)	34 700 ✓	
Cash and cash equivalents (28 February 2015)	(7 750) ✓✓	21

7.3.1

Calculate the current ratio.

413 600 ✓ : 239 850 ✓

= 1,7 : 1 one part correct

3

7.3.2

Calculate the debt-equity ratio.

500 000 ✓ : 2 392 480 ✓

0,2 : 1 one part correct

3

7.3.3

Calculate the net asset value per share.

$\frac{2\,392\,480}{480\,000} \times 100$ ✓

= 498,4 cents one part correct

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.

Yes/No ✓

Explanation ✓✓ Valid financial indicators with figures ✓✓

Compare 500c issue price to the NAV of 462c

Compare 500c issue price to the market value of 490c.

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.

No ✓

Quoting valid indicators and figures ✓✓ ✓✓

Debt/Equity decreased from 0,4 : 1 to 0,2 : 1 (lowly geared)

ROTCE worsened from 13,2% to 10,2%.

Explanation ✓✓

The business' return is lower than the current interest rate on loan (12%) and is therefore negatively geared.

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 Decision ✓✓ Amount ✓✓	FUTURE EFFECT ON COMPANY Valid explanation ✓✓
Purchase of fixed assets R572 340(Refer to 5.2)	Capital growth – investment in fixed assets will lead to expanded business activities Creation of employment Cater for more customers to increase profits
Issue of shares R1 000 000	Financing expansions/extensions Expanded shareholder base will affect dividends Improve cash flow
Repurchase of shares R540 000	Large cash outlay led to bank overdraft Could result in cash flow problems

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.

Qualified ✓

Briefly explain your choice.

Explanation ✓✓

- The auditors found one item to be unsatisfactory.
- This is to alert the users/readers of the financial statements that there is a problem.

3

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

Any TWO valid explanations ✓✓ ✓✓

- The CEO has flouted the procedures and must be accountable.
- This report will influence the appointment of directors by shareholders.
- Negative mark against the company that could affect the demand for shares. This will affect the share price.
- Potential investors will be cautious about investing in this company.
- Shareholders might want to replace the CEO – affects continuity, but might improve future prospects of the company.

QUESTION 8

8.1

8.1.1	C	✓
8.1.2	D	✓
8.1.3	A	✓
8.1.4	B	✓

4

8.2 MALOTRA LTD

Ignore brackets in final answer

8.2.1

	Workings	Answer
(a)	6 192 350 ✓ – 4 256 350 ✓	R 1 936 000 ✓
(b)	535 250 ✓ + 419 750 ✓	R 955 000 ✓
(c)	1 415 000 ✓ – 955 000 ✓ <small>refer (b)</small>	R 460 000 ✓ <small>Operation, one part correct</small>
(d)	$ \begin{array}{r} 905\ 000 \\ \checkmark \qquad \checkmark \\ (1\ 500\ 000 - 595\ 000) \times 20\% \end{array} $	R 181 000 ✓ <small>Operation, must be multiplied by 20%</small>
(e)	1 500 000 – 595 000 one mark for both 905 000 ✓ – 181 000 ✓ – 626 000 ✓ <small>refer (d)</small>	R 98 000 ✓ <small>Operation, one part correct</small>

16

8.2.2

Calculate the net profit after income tax on 28 February 2018.	
Workings	Answer
286 200 ✓ x $\frac{70}{30}$ ✓ or 954 000 one mark – 286 200 one mark	R667 800 ✓

3

8.2.3

Calculate the dividends paid.	
Workings	Answer
176 000 ✓ + 332 000 ✓ – 132 000 ✓ 200 000 two marks	R376 000 ✓* <small>Operation, one part correct</small>
Calculate the funds used to repurchase shares.	
Workings	Answer
$ \begin{array}{r} 6\ 512\ 000 \div 880\ 000 \\ 120\ 000 \checkmark \times (7,40 \checkmark \checkmark + 0,60 \checkmark) \\ \text{R}8,00 \text{ three marks} \end{array} $ OR: One mark One mark One mark One mark (120 000 x 7,40) + (120 000 x 0,60) 888 000 72 000	R960 000 ✓* <small>Operation, one part correct</small> <small>888 000 or 72 000 as final answer = only two marks</small>

5



Calculate the proceeds from shares issued.	
Workings	Answer
$120\,000 \times 7,40$ (ASP above) $6\,512\,000 \checkmark + 888\,000 \checkmark \checkmark - 5\,760\,000 \checkmark$	$R1\,640\,000 \checkmark$ Operation, one part correct

5

*Brackets not needed as it is a calculation, not a CFS

8.2.4	Net change in cash and cash equivalents	$146\,000 \checkmark$ Operation, from bottom up	4
	Cash and cash equivalents (opening balance)	$(109\,600) \checkmark \checkmark$ Must be in brackets	
	Cash and cash equivalents (closing balance)	$36\,400 \checkmark$	

8.2.5 Calculate the acid-test ratio.	
Workings	Answer
$665\,600$ two marks $1\,136\,700 \checkmark - 471\,100 \checkmark : 512\,000 \checkmark$	$1,3 : 1 \checkmark$ Operation, one part correct (x :1)

4

Calculate the debt-equity ratio.	
Workings	Answer
$1\,500\,000 \checkmark : 6\,843\,300 \checkmark$	$0,2 : 1 \checkmark$ Operation, one part correct (x :1)

3

Calculate the return on shareholders' equity.	
Workings	Answer
See 5.2.2 $\frac{667\,800 \checkmark}{\frac{1}{2} \checkmark (6\,843\,300 \checkmark + 5\,826\,500 \checkmark)} \times 100$ 6 334 900 three marks 12 669 800 two marks	$10,5\% \checkmark$ Operation, one part correct: must be shown as %

5

8.2.6	<p>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).</p> <p> \checkmark Debt/equity ratio is $0,2:1 \checkmark$ (see 5.2.5) / $0,1:1$ / from $0,1:1$ to $0,2:1$ \checkmark Return of capital employed is $14,6\% / 16,4\% \checkmark$ Do not accept any other financial indicators </p> <p>Explanation must contain reasons Part-marks for unclear /incomplete explanation Response for two marks: There is <u>positive gearing</u> (ROTCE exceeds interest rate on loans) and it is <u>low risk</u> (not making extensive use of borrowed capital). $\checkmark \checkmark$</p> <p>Response for one mark:</p> <ul style="list-style-type: none"> This is a good decision because of <u>positive gearing</u> This is a good decision because it is still <u>low risk</u> 	6
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8.2.7 Comment on the price paid for the shares repurchased on 1 January 2018. Quote TWO financial indicators (with figures).

Must compare NAV and market price to repurchase price (not average share price price)

The company paid a *higher price for the share R8,00 ✓ see 5.2.3 than the ✓ NAV of ✓ 778 cents and the ✓ market price of ✓ 780 cents.

*This might be higher/lower/equal if error is made in calculation in 5.2.3.

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: If workings correct, but answer not a %, award marks but -1 in each case for no %

% shareholding before the share issue $416\ 000 / 800\ 000 = 52\%$ ✓✓

% shareholding after the share issue $416\ 000 / 1\ 000\ 000 = 41,6\%$ ✓✓

% shareholding after repurchase $416\ 000 / 880\ 000 = 47,3\%$

Explanation:



Explanation (must mention or imply majority shareholding i.e. 50% + 1 share) ✓✓

Thandi was the majority shareholder before the issue of the additional shares. As she did not increase her number of shares, she is no longer the majority shareholder. (Even after the repurchase of 120 000 shares she remains with less than 50% of the shares).

Response for two marks:

She has lost out on earning a maximum of R80 000 of dividends on the extra shares she could have bought / she has lost out on extra capital growth or extra returns of the shares.

Note: $200\ 000 \times 40\ \text{cents} = R80\ 000$ dividends extra could have been earned
(She would have had to pay $200\ 000 \times R8,20 = R1,64\text{m}$)

6

TOTAL MARKS

70

QUESTION 9: FINANCIAL STATEMENTS, CASH FLOW AND INTERPRETATION

9.1 CONCEPTS: MATCHING

9.1.1	F ✓	Accept only single answers. E.g. If F/C is given as an answer for 4.1.1, mark wrong.
9.1.2	E ✓	
9.1.3	A ✓	
9.1.4	C ✓	
9.1.5	B ✓	

5

9.2 KHLOE LTD

9.2.1

Net profit before income tax		988 700
Adjustments for :	Interest expense	124 900
	Depreciation	221 400 ✓
		1 335 000
Changes in working capital		4 400 <input checked="" type="checkbox"/> *
Decrease in inventories	(163 300 – 123 800)	39 500 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *
Increase in debtors	(134 700 + 14 400) – 155 600	(6 500) <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *
Decrease in creditors	162 600 – (122 900 + 11 100)	(28 600) <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> *
CASH GENERATED FROM OPERATIONS		1 339 400 <input checked="" type="checkbox"/>*

9

*one part correct

OR one mark for amount and one mark for the correct use of the bracket

9.2.2 Amounts for the Cash Flow Statement.

WORKINGS	ANSWER
Income tax paid (988 700 – 692 100) one mark 27 200 ✓ + 296 600 ✓ + 12 700 ✓ OR: – 27 200 – 296 600 – 12 700 OR SARS: IT Account	336 500 <input checked="" type="checkbox"/> one part correct
Dividends paid 175 000 two marks (interim dividends) 111 000 ✓ + 317 400 ✓ – 142 400 ✓ OR: – 111 000 – 317 400 + 142 400	286 000 <input checked="" type="checkbox"/> one part correct
Fixed assets purchased 1 437 200 ✓ + 221 400 ✓ + 283 500 ✓ – 1 120 400 ✓ –1 437 200 – 221 400 – 283 500 + 1 120 400	821 700 <input checked="" type="checkbox"/> one part correct

4

4

5

Accept **alternative presentation of information** such as signs reversed, ledger accounts etc.
Choose the option that gives learners the maximum benefit (mark single line consistently)

9.2.3 Calculate: Net change in cash and cash equivalents

(76 750 – 15 500) two marks or no marks

124 300 ✓ + 61 250 ✓✓
= 185 550 one part correct

Net Change	method mark	185 550
Opening balance	two marks	(108 800)
Closing balance	one mark	76 750

Or: 76 750 – (15 500 – 124 300) = 185 550

4

9.3 KWEZI LTD

9.3.1 ORDINARY SHARE CAPITAL

3 724 000 – 76 000

760 000	Balance on 1 March 2017	3 648 000 ✓✓
(30 000)	Share re-purchased (ASP: R4,80 ✓✓)	(144 000) <input checked="" type="checkbox"/> *
150 000	Shares issued balancing figure	787 500 <input checked="" type="checkbox"/>
880 000 ✓	Balance on 28 February 2018	4 291 500
		*one part correct

7

9.3.2 Calculate: Net asset value per share

$\frac{4\,488\,000}{880\,000} \times 100 = 510 \text{ cents}$ one part correct
see 4.3.1

3

Calculate: Return on average shareholders' equity

$\frac{545\,600}{\frac{1}{2}(3\,724\,000 + 4\,488\,000)} \times 100 = 13,3\%$ one part correct
OR 13,29% (not 13%)
4 106 000 three marks

5

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

Current ratio ✓ improved from 1,4 : 1 to 1,9 : 1. ✓
Average debtors collection period ✓
improved from 57 days to 38 days. ✓ (by 19 days)

OR any form to indicate a trend (increase/decrease; from/to; by)

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).

TWO financial indicators ✓ ✓ figures ✓ ✓ explanation ✓ ✓

- Debt/equity improved from 0,5 : 1 to 0,2 : 1.
The business is now lowly geared / not making extensive use of loans.
- ROTCE dropped from 22,3% to 20,8%.
The company is still positively geared as this return is better than the interest rate on loans (11%).

Explanation can be a combined statement.

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.

Comment on EPS and DPS for 2017 (with figures) : ✓✓

The company paid 52 cents of 65 cents earned/(80%).

OR: Only 20% of the net profit was retained.

Comment on EPS and DPS for 2018 (with figures) : ✓✓

The company paid 31 cents of 62 cents earned/(50%).

OR: 50% of the net profit was retained.

Reason for change ✓

A bigger % was retained for future expansion/growth.

Efforts being made to increase profitability or to address cash flow problems.

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.

Financial indicators (with figures) ✓ ✓ Explanation ✓✓

Not necessary to quote both figures for each financial indicator.

R5,20 was paid which was more than the market price of 485 cents (515 cents at end of year) and the NAV of 490 cents (510 cents at end of year).

Although the NAV and market price show an upward trend, the company paid too much for these shares.

4

Q9: TOTAL MARKS	65	
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