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Department:
Education
PROVINCE OF KWAZULU-NATAL

GRADE 12

**NATIONAL
SENIOR CERTIFICATE**

ACCOUNTING

MARCH 2020

COMMON TEST

MARKS: 100

TIME : 1½ hour

**This question paper consist of 8 pages, 1 formula sheet
and an answer book of 7 pages.**

INSTRUCTIONS AND INFORMATION

Read the following instructions and be sure to follow them carefully:

1. This question paper consists of 9 pages.
2. A special **ANSWER BOOK** consisting of 7 pages is provided in which to answer all the questions.
3. Answer **ALL** the questions.
4. **Workings must be shown in brackets in order to earn part marks.**
5. Non-programmable calculators may be used.
6. You may use dark pencil or black / blue pen to answer the questions.
7. Marks will be deducted for missing details and foreign entries.
8. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

Question 1: 44 Marks, 40 Minutes	
The topic of this question is:	Content:
Financial Statements	<ul style="list-style-type: none"> • Balance Sheet • Notes
Question 2: 37 Marks, 33 Minutes	
The topic of this question is:	Content:
Cash Flow Statement and Ratio's and analysis and interpretation	<ul style="list-style-type: none"> • Calculation of amounts for Cash Flow Statement • Net asset value per share • Interpretation
Question 3: 19 Marks, 17 Minutes	
The topic of this question is:	Content:
Companies	<ul style="list-style-type: none"> • Concepts • Audit report and Corporate Governance • Problem Solving

QUESTION 1 FINANCIAL STATEMENT AND AUDIT REPORT (44 Marks; 40 Minutes)

The information below relates to Tholani LTD. The financial year ended on 29 February 2020.

THOLANI LIMITED**REQUIRED**

- 1.1** Prepare the following notes for the financial year ended 29 February 2020:
- 1.1.1 Retained income (10)
- 1.1.2 Trade and other payables (6)
- 1.2** Complete the Balance Sheet (Statement of Financial Position) on 29 February 2020. Where notes are not required show all workings (28)
- A.** Balances extracted from the accounting records on 29 February (Unless otherwise stated).

	2020	2019
Ordinary share capital	3 500 000	1 212 500
Retained income	?	?
Packing material on hand	16 000	4 000
Loan from : Nkunzi Bank	1 376 000	
Fixed assets at carrying value	?	
Fixed deposit : Mooi river Bank	1 499 500	
Trading stock	426 800	
Creditors control	177 500	
Debtors control	400 000	
Accrued expenses (expenses payables)	12 000	
Income received in advance (deferred income)	11 500	
Bank (Dr)	?	
Petty cash	?	
Provision for bad debts	7 500	
SARS Income tax (Dr)	1 180 000	

B. Shares

- New shares were issued on 1 June 2019.
- 150 000 shares were repurchased on 1 December 2019 from a disgruntled shareholder for R532 500. This transaction was recorded and the shareholder does qualify for final dividends.
- 1 250 000 shares were in issue on 29 February 2020.

C. Dividends

The directors declared the following dividends:

- Interim dividends of R980 000 was paid recorded on 31 July 2019.
- Final dividends of 50 cents per share on 29 February 2020.

D. A debtor with a credit balance of R2 000 on 29 February 2020 must be transferred to the creditors ledger.

E. The provision for bad debts must be decreased by R1 500.

F. The loan statement from Nkunzi Bank on 29 February 2020 reflected the following balances:

Balance at the beginning of the financial year	R1 600 000
Repayment during the year	R224 000
Interest capitalised	R34 000
Balance at the end of the financial year	?

The capital portion of the repayment of the loan for the next financial year remains the same as the current financial year.

G. The following financial indicators were calculated on 29 February 2020:

- Net asset value per share (NAV) is 457.6 cents
- Acid test ratio is 1.5 : 1

H. Stock to the value of R5 600 was destroyed in a fire. The insurance company agreed to pay R4 800. This transaction was not recorded.

I. After taking into account all relevant information taxation for the year was accurately calculated to be R1 170 000 at 30%.

QUESTION 2**CASH FLOW STATEMENT AND INTERPRETATION (37 Marks; 33 Minutes)**

You are provided with information relating to Inanda LTD for the financial year ended 29 February 2020.

REQUIRED:

- 2.1** Prepare the ordinary share capital note on 29 February 2020. (7)
- 2.2** Calculate the following figures that will appear on the Cash Flow Statement:
- 2.2.1 Income tax paid (4)
- 2.2.2 Dividends paid (3)
- 2.2.3 Purchases of tangible assets (5)
- 2.2.4 Net change in cash and cash equivalent (3)
- 2.3** Calculate the Net asset value per share (NAV) for the year ended 29 February 2020. (3)
- 2.4 Refer to information C.**
- The CEO, Glencoe Hilton currently owns 46.4% of the issued shares on 1 March 2019. The board of directors decided to repurchase some shares and issue all the unissued shares.
- 2.4.1 Calculate the percentage (%) of shares that Glencoe owns after the repurchased of shares.
NOTE: None of Glencoe's shares were repurchase. (3)
- 2.4.2 Calculate the minimum number of shares Glencoe must buy when the unissued shares have been issued to gain control of the company. (3)
- 2.4.3 Glencoe wants to purchase the additional shares at R3,00 without advertising the shares to the public. Give THREE reasons (with figures) why you would not approve of this. (3)
- 2.5** The directors are of the opinion that the liquidity has decreased. Quote THREE financial indicators (with figures) to support this opinion. (3)

INFORMATION:**A. Information extracted from the Income Statement on 29 February 2020:**

Depreciation	180 000
Interest on loan	36 000
Net profit before tax	1 500 000
Net profit after tax	1 050 000

B. Information from the Balance Sheet on February 2020:

	2020	2019
Fixed assets (at carrying value)	3 350 000	2 000 000
Shareholders' equity	7 697 000	4 345 000
Ordinary share capital	7 644 000	4 200 000
Retained income	53 000	145 000
Bank	Dr 400 000	Cr 560 000
SARS : income tax	Cr 12 400	Dr 8 900
Shareholders for dividends	?	70 000

C. Shares:

- Authorised share capital is 2 000 000 ordinary shares.
- On 28 February 2019, 1 200 000 ordinary shares had been issued.
- On 1 October 2019, 40 000 shares were repurchased at R4.10. (These shares do not qualify for final dividends.)
- On 29 February 2020, all shares that were un-issued as at 28 February 2019 were issued.

D. Dividends:

- Interim dividends of 40 cents per share was declared and paid on 30 August 2019.
- Final dividends of 55 cents per share was declared.

E. Fixed assets:

- Fixed assets were sold for cash at a carrying value of R200 000 during the financial year. Fixed assets were also purchased during the financial year.

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

	2020	2019
Current ratio	0.9 : 1	2 : 1
Acid test ratio	0.5:1	0.9:1
Debtors collection period	21 days	38 days
Stock turnover rate	11 times	15 times
Debt-equity ratio	0.1:1	0.3:1
Return on total capital employed (ROTCE)	?	29%
Return on shareholders' equity (ROSHE)	17%	20%
Earnings per share (EPS)	54 cents	33 cents
Dividend per share (DPS)	95 cents	60 cents
Net asset value per share (NAV)	?	390 cents
Interest rate on investment	9%	9%
Market value (JSE)	400 cents	300 cents

QUESTION 3**COMPANIES: CONCEPTS, AUDIT REPORT, PROBLEM SOLVING (19 Marks; 17 Minutes)**

- 3.1 Choose an accounting concept from **Column B** that best matches the analysis questions in **Column A**. Write only the letter (A – D) next to the number (3.1.1 – 3.1.3) in the ANSWER BOOK. (3)

	COLUMN A	COLUMN B	
3.1.1	To what extent does the business rely on borrowed funds?	A.	Liquidity
3.1.2	Can the business pay off all its debts?	B.	Solvency
3.1.3	Is the business able to pay its short-term debts in the next financial year?	C.	Profitability
		D.	Risk and gearing

3.2 AUDIT REPORT

You are provided with an extract from the audit report of Masakhane Ltd.

REQUIRED:

- 3.2.1 Choose the correct word from those in brackets and explain your choice. (2)
Masakhane Limited received a/an (qualified/unqualified/disclaimer of opinion) audit report.
- 3.2.2 Briefly indicate how this audit report would possibly affect the shares of Masakhane Limited on the Johannesburg Securities Exchange (JSE). Mention TWO points. (2)
- 3.2.3 You have been appointed as the external auditor of Masakhane Limited. The managing director, Aaron Mathabela, has asked you to reflect his directors' fees of R8 million under 'Salaries and wages' in the Income Statement. Would you agree to his request? Give a reason for your answer. (3)

INFORMATION:**Audit Opinion**

Because of the significance of the matter 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 Masakhane Limited for the year ended 29 February 2020.

Mthiyane, Chartered Accountants (CA)

3.3 UVONGO LTD AND UMLAZI LTD

You have R200 000 to invest in a listed company. You decided to focus on two companies in the same industry.

Note: When answering the questions below, compare the information given and quote the relevant financial indicators of both companies (percentages, ratios and/or amounts).

- 3.3.1 Compare and comment on the dividend pay-out policies of the two companies. (3)
- 3.3.2 Comment on the value of the shares of the two companies on the Johannesburg Securities Exchange. Explain how this will influence your choice of company. (3)
- 3.3.3 Comment on the degree of risk and gearing. Explain how this will influence your choice of company. (3)

INFORMATION:

	UVONGO LTD	UMLAZI LTD
Debt-equity ratio	0.4:1	1.1:1
Return on total capital employed (ROTCE)	16%	10%
Return on shareholders' equity (ROSHE)	19%	9%
Earnings per share (EPS)	650 cents	1 000 cents
Dividend per share (DPS)	585 cents	500 cents
Net asset value per share (NAV)	350 cents	800 cents
Market price of shares on JSE	470 cents	700 cents
Interest rate on loans	11%	11%

19

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TOTAL MARKS: [100]

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET

$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$	$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
Total assets : Total liabilities	Current assets : Current liabilities	
(Current assets – Inventories) : Current liabilities		$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$
(Trade and other receivables + Cash and cash equivalents) : Current liabilities		
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$	
$\frac{\text{Trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
Long-term liabilities : Shareholders' equity	$\frac{\text{Net profit after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$	
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$		
$\frac{\text{Net income after tax} + \text{Interest on loans}}{\text{Average Shareholders' equity} + \text{Average Long-term liabilities}}$		$\times \frac{100}{1}$
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$

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ACCOUNTING
ANSWER BOOK
MARCH 2020
COMMON TEST

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

Name: _____ Grade: _____

Question	MARKS	MOD.
1		
2		
3		
TOTAL		

N.B. This answer book consists of 7 pages

QUESTION 1

1.1.1 Retained income

10

1.1.2 Trade and other payables

6

1.2 Balance Sheet (Statement of Financial Position) on 29 February 2020

Assets	
Non-current assets	
Current assets	
Total assets	
Equity and liabilities	
Equity	
Non-current liabilities	
Current liabilities	
Total equity and liabilities	

28

TOTAL MARKS
44

QUESTION 2

2.1

Ordinary share capital		
Authorised 2 000 000 shares		
Issued		

7

2.2

Calculations	Answers
2.2.1 Tax paid	

4

2.2.2

Dividends paid	

3

2.2.3

Purchases of tangible assets	

5

2.2.4

Net change in cash and cash equivalent	

3

2.3

Net asset value per share (NAV)

3

2.4

2.4.1 Calculate the percentage (%) of shares that Glencoe owns after the repurchased of shares.

--

3

2.4.2 Calculate the minimum number of shares Glencoe must buy when the unissued shares have been issued to gain control of the company.

--

3

2.4.3 Glencoe wants to purchase the additional shares at R3,00 without advertising the shares to the public. Give THREE reasons why you would not approve of this.

--

3

2.5 The directors are of the opinion that the liquidity has decreased. Quote THREE financial indicators (with figures) to support this opinion.

--

3

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TOTAL MARKS
37

QUESTION 3

3.1

Choose an accounting concept from **Column B** that best matches the analysis questions in **Column A**.

3.1.1

3.1.2

3.1.3

3

3.2.1

Choose the correct word from those in brackets and explain your choice.
Masakhane Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.

Choice :

Explanation:

2

3.2.2

Briefly indicate how this audit report would possibly affect the shares of Masakhane Ltd on the Johannesburg Securities Exchange (JSE). Mention **TWO** points.

2

3.2.3

You have been appointed as the external auditor of Masakhane Ltd. The managing director, Aaron Mathabela, has asked you to reflect his directors' fees of R8 million under 'Salaries and wages' in the Income Statement. Would you agree to his request? Give a reason for your answer.

Would you agree?

Reason:

3

3.3.1 Compare and comment on the dividend pay-out policies of the two companies.

--

3

3.3.2 Comment on the value of the shares of the two companies on the Johannesburg Securities Exchange. Explain how this will influence your choice of company.

--

3

3.3.3 Comment on the degree of risk and gearing. Explain how this will influence your choice of company.

--

3

TOTAL MARKS
19



education

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PROVINCE OF KWAZULU-NATAL

ACCOUNTING

MEMORANDUM

MARCH 2020

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

MARKS: 100

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item. No double penalty applied.
2. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect.
3. Where penalties are applied, the marks for that section of the question cannot be a final negative.
4. Codes: f = foreign item; p = placement

This memorandum consists of 7 pages.

QUESTION 1

1.1.1

Retained income		
Balance at the beginning		<input checked="" type="checkbox"/> 1 282 500
Net profit after tax (1 170 000 X 70/30)	two or nothing	<input checked="" type="checkbox"/> 2 730 000
Buy- back of shares (532 500 – 420 000)	two or nothing	<input checked="" type="checkbox"/> (112 500)
Dividends	operation one part correct	<input checked="" type="checkbox"/> (1 680 000)
Paid		<input checked="" type="checkbox"/> 980 000
Final (1 400 000 x 0.50)	two or nothing	<input checked="" type="checkbox"/> 700 000
Balance at the end (5 720 000 – 3 500 000)		<input checked="" type="checkbox"/> 2 220 000

10
10

1.1.2

Trade and other payables		
Trade creditors (177 500 + 2 000)	operation one part correct	<input checked="" type="checkbox"/> 179 500
Accrued expenses		<input checked="" type="checkbox"/> 12 000
Income received in advance		<input checked="" type="checkbox"/> 11 500
Shareholders for dividends	see 1.1.1	<input checked="" type="checkbox"/> 700 000
	operation one part correct	<input checked="" type="checkbox"/> 903 000

6
6

1.2 Balance Sheet (Statement of Financial Position) on 29 February 2020

Assets		
Non-current assets (TA – CA)		<input checked="" type="checkbox"/> 5 956 300
Tangible assets (NCA – FA)		<input checked="" type="checkbox"/> 4 456 300
3 Financial assets		<input checked="" type="checkbox"/> 1 499 500
Current assets operation one part correct		<input checked="" type="checkbox"/> 2 076 700
Inventory (426 800 – 5 600 + 16 000)		<input checked="" type="checkbox"/> 437 200
Trade and other receivable (400 000 + 2000 – 6 000 + 10 000 + 4 800)		<input checked="" type="checkbox"/> 410 800
Cash and cash equivalent (1 093 000 x 1.5) = 1 639 500 – 406 800)		<input checked="" type="checkbox"/> 1 232 700
13 Total assets (TA = TE&L)		<input checked="" type="checkbox"/> 8 033 000
Equity and liabilities		
Equity (1 250 000 x 457.6)/100		<input checked="" type="checkbox"/> 5 720 000
Ordinary share capital		<input checked="" type="checkbox"/> 3 500 000
3 Retained income 5 720 000 – 3 500 000		<input checked="" type="checkbox"/> 2 220 000
Non-current liabilities		1 220 000
Loan (1600 000 + 34 000 – 224 000 – 190 000) 1 376 000 two marks + 34 000 one mark – 19 000 one mark		<input checked="" type="checkbox"/> 1 220 000
Current liabilities operation one part correct		<input checked="" type="checkbox"/> 1 093 000
Trade and other payables see 1.1.2		<input checked="" type="checkbox"/> 903 000
Current portion of loan see NCL		<input checked="" type="checkbox"/> 190 000
9 Total equity and liabilities operation one part correct		<input checked="" type="checkbox"/> 8 033 000

28
28

Incorrect or incomplete details -1 (max -2)

-1 for poor presentation

TOTAL MARKS
44
44

Accept figures for balancing items If this are due to prior errors by The candidates.

QUESTION 2

2.1 Ordinary share capital		
Authorised 2 000 000 shares		
Issued		
1 200 000 ✓	shares @ R3.5	4 200 000 ✓
(40 000) ✓	buy-back of shares @ R3.5	(140 000) ✓
800 000 ✓	shares @ R Operation	3 584 000 ✓
1 960 000	Shares	7 644 000 ✓

7
7

2.2	Calculations	Answers
2.2.1	Tax paid	
	450 000 ✓ – 12 400 ✓ – 8 900 ✓ OR Operation one part correct	(428 700) ✓
	12 400 + 8 900 – 450 000 OR	
	-12 400 – 8 900 + 450 000	
2.2.2	Dividends paid	
	70 000 ✓ + 480 000 ✓ OR Operation one part correct	(550 000) ✓
	70 000 + (1 118 000 – 638 000)	
	Candidate cannot get full marks if a foreign amount is introduced (lose method mark on answer)	
2.2.3	Purchases of tangible assets	
	3 350 000 ✓ + 180 000 ✓ + 200 000 ✓ – 2 000 000 ✓ OR	(1 730 000) ✓
	2 000 000 – 180 000 – 200 000 + 3 350 000	
	operation one part correct	
	Candidate cannot get full marks if a foreign amount is introduced (lose method mark on answer)	
2.2.4	Net change in cash and cash equivalent	
	560 000 ✓ + 400 000 ✓	960 000 ✓

4
4
3
3
5
5
3
3

2.3	Net asset value per share (NAV)
	$\frac{7\,697\,000 \checkmark}{1\,960\,000 \checkmark} \times \frac{100}{1}$ <p>392.7 cents ✓ See 2.1 Operation one part correct Accept 393 cents</p> <p>Candidate cannot get full marks if a foreign amount is introduced (lose method mark on answer)</p>

3
3

2.4.1 Calculate the percentage (%) of shares that Glencoe owns after the repurchased of shares.

556 800 shares owned by Glencoe before repurchased of shares

$$\frac{556\ 800 \checkmark}{1\ 160\ 000 \checkmark} \times \frac{100}{1}$$

48%

3
3

2.4.2 Calculate the minimum number of shares Glencoe must buy when the unissued shares have been issued to gain control of the company.

$$980\ 000 + 1 = 980\ 001 \checkmark - 556\ 800 \checkmark \text{ see 2.4.1}$$

$$= 423\ 201 \checkmark$$

OR

$$980\ 000 + 100 = 980\ 100 - 556\ 800 = 423\ 300$$

OR

$$1\ 960\ 000 \times 51\% = 999\ 600 - 556\ 800 = 442\ 800$$

3
3

2.4.3 Glencoe wants to purchase the additional shares at R3,00 without advertising the shares to the public. Give THREE reasons why you would not approve of this.

Any relevant answer



- All shares must be advertised to the public as this is a public company and it is a requirement of the Companies Act.
- She is only offering R3.00 while the market value is 400 cents (R4).
- This is an example of insider trading and it is a criminal offence/Glencoe will be taking advantage of her position to enrich himself.
- The value of R3.00 is below the net asset value of 393 cents **See 2.3.**

3
3

2.5 The directors are of the opinion that the liquidity has decreased. Quote THREE financial indicators (with figures) to support this opinion.

- Acid test ratio decreased from 0.9 : 1 to 0.5 : 1 by 0.4
- Current ratio decreased from 2: 1 to 0.9 : 1 by 1.1
- Stock turnover rate decreased from 15 times to 11 times by 4 times

If candidates provide additional irrelevant indicators, search for the correct ones in the answer provided by the candidate and award marks accordingly.

For those who provide more than three options, penalty of - 1 for any irrelevant indicators (max - 1).

Do NOT accept Debtors collection period

3
3

TOTAL MARKS
37
37

QUESTION 3

3.1 Choose an accounting concept from **Column B** that best matches the analysis questions in **Column A**.

3.1.1	D ✓
3.1.2	B ✓
3.1.3	A ✓

3

3

3.2.1 Choose the correct word from those in brackets and explain your choice.

Masakhane Ltd received a/an (qualified/unqualified/disclaimer of opinion) audit report.

Choice :

Disclaimer of opinion ✓

Explanation:

Auditors could not find sufficient audit evidence to express opinion ✓

2

2

3.2.2 Briefly indicate how this audit report would possibly affect the shares of Masakhane Ltd on the Johannesburg Securities Exchange (JSE). Mention TWO points.

Any TWO valid points ✓ ✓

- Potential investors and shareholders would lose confidence in the company and directors / would not want to invest in the company
- Current shareholders will lose confidence in the company and directors / will try to sell their shares
- Share price of the company will drop (supply and demand)
- Negative image of the company (bad publicity)

2

2

3.2.3 You have been appointed as the external auditor of Masakhane Ltd. The managing director, Aaron Mathabela, has asked you to reflect his directors' fees of R8 million under 'Salaries and wages' in the Income Statement. Would you agree to his request? Give a reason for your answer.

Would you agree? No ✓

Reason: Explanation of reason ✓ ✓

This is a material amount which is of interest to the shareholders who have appointed the directors. (GAAP materiality concept).

The Companies Act No. 71 of 2008 and King Code requires for the director's fees to be disclosed separately

3

3

3.3.1 Compare and comment on the dividend pay-out policies of the two companies. Award part-marks for incomplete answers

Financial indicators or explanations thereof; with figures		Comparison and comment ✓ Do not accept comparison of the DPS only Must mention both companies : One mark
UVONGO Ltd	DPS 585 cents EPS 650 cents Distributes 90% earnings ✓	UVONGO Ltd is distributing a higher percentage of income earned; UMLAZI Ltd has decided to retain half of EPS OR
UMLAZI Ltd	DPS 490 cents EPS 980 cents Distributes 50 % ✓	UVONGO Ltd appears to keep shareholders Satisfied by giving them good dividends; UMLAZI Ltd appears to have plans for growth (better long term benefits)

3
3

3.3.2 Comment on the value of the shares of the two companies on the Johannesburg Securities.

Financial indicators or explanations thereof; with figures		Explanation, must involve a choice Do not accept comparison of JSE prices only
UVONGO Ltd	JSE price of 470 cents greater than NAV of 350 cents ✓	I would invest in UVONGO Ltd as the shares seem to be in demand. OR I would not invest in UVONGO Ltd as the shares might be overpriced. OR
UMLAZI Ltd	JSE price of 700 cents less than NAV of 800 cents ✓	I would invest in UMLAZI Ltd as the shares seem to be under-valued. OR I would not invest in UMLAZI Ltd as the shares might be in low demand.

3
3

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3.3.3 Comment on the degree of risk and gearing. Explain how this will influence your choice of company.

Financial indicators or explanations thereof; with figures		Comparison, must involve a choice Accept valid alternative terminology ✓
UVONGO Ltd	Debt-equity is 0.4:1 ✓ OR ROTCE is 16% while the interest rate is 11%	I choose Uvongo Ltd as financial risk is low and gearing is positive (ROTCE exceeds interest) OR I choose Uvongo Ltd for its positive gearing (ROTCE exceeds interest) but they are not making effective use of loans
UMLAZI Ltd	Debt-equity is 1.1:1 ✓ OR ROTCE is 10% while the interest rate is 11%	OR I do not choose Umlazi Ltd as there is high financial risk and negative gearing / too much money borrowed and not able to use the funds effectively OR I choose Umlazi Ltd as there is high use of loans and, and if they can improve efficiency (ROTCE), profit would improve significantly.

3

3

TOTAL MARKS

19

19