education

Department:
Education
PROVINCE OF KWAZULU-NATAL

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1

PREPARATORY EXAMINATION

SEPTEMBER 2020

MARKS: 150

TIME: 2 HOURS

This question paper consists of 10 pages and an answer booklet of 7 pages.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

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

QUESTION 1: 60 marks; 45 minutes	
Topic of the question	**This question integrates:**
Cash Flow Statement and Notes	Concepts Ordinary share capital Calculation of ratio's Cash Flow Statement

QUESTION 2: 50 marks; 40 minutes	
Topic of the question	**This question integrates:**
Balance Sheet, Notes and Interpretation.	Company transactions analysis Trade and other payables Balance sheet Note for Ordinary share capital Calculations of financial indicators Analysis and interpretation

QUESTION 3: 40 marks; 35 minutes	
Topic of the question	**This question integrates:**
Notes and Interpretation	Concepts Retained income Analysis and interpretation

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QUESTION 1 CASH FLOW STATEMENT AND NOTES (60 marks, 45 minutes)

1.1 CONCEPTS

Choose the correct term to complete each of the following statements. Write only the term next to the question number (1.1.1–1.1.4) in the ANSWER BOOK.

capital employed; inflow of cash; interest on loan; outflow of cash; depreciation; working capital

1.1.1 An increase in creditors will indicate a/an ...

1.1.2 Shareholders' equity added to the non-current liabilities is referred to as ...

1.1.3 ... is regarded as a non-cash item.

1.1.4 An increase in trading stock will indicate a/an ...

(1 x 4) = **(4)**

1.2 NKANDLA LIMITED

You are provided with information for the financial year ended 30 June 2020.

REQUIRED:

1.2.1 Prepare the 'Ordinary share capital' note. **(8)**

1.2.2 Complete the Cash Flow Statement for the year ended 30 June 2020. **(32)**

1.2.3 The Cash Flow Statement reflects some important decisions taken by the directors.
Apart from the dividends, identify TWO good decisions. Explain the effect of each decision on the company. Quote figures. **(4)**

1.2.4 Calculate the following for 2020:

- Net asset value per share (NAV) **(3)**
- Return on average shareholders' equity (ROSHE) **(5)**

1.2.5 The directors are pleased that the operating efficiency of the business has improved. Quote and explain TWO financial indicators to support their opinion. **(4)**

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INFORMATION:

A. Extract from the Income Statement on 30 June 2020:

	(R)
Depreciation	61 000
Interest on loan	82 000
Net profit before tax	257 400
Income tax	75 600

B. Extract from the Balance Sheet on 30 June:

	2020	2019
	(R)	(R)
Fixed assets (at carrying value)	1 505 400	1 201 500
Financial assets	195 000	185 000
Shareholders' equity	7 683 200	4 495 400
Ordinary share capital	7 644 000	4 200 000
Retained income	39 200	295 400
Loan	400 000	560 000
SARS : income tax	Cr 12 500	Dr 8 000
Shareholders for dividends	174 000	210 000
Cash and cash equivalent	2 922 000	2 000
Bank overdraft	-	17 100

C. Shares:

- Authorised share capital is 2 000 000 ordinary shares.
- On 30 June 2019, 1 200 000 ordinary shares had been issued.
- On 1 January 2020, 40 000 shares were repurchased at R4.10
- On 30 June 2020, all shares that were un-issued as at 30 June 2019 were issued.

D. Dividends:

- Interim dividends of 20 cents per share were declared and paid on 31 December 2019.
- Final dividends were declared on 30 June 2020.

E. Fixed assets:

- An old vehicle was sold at its book (carrying) value of R23 500 during the financial year.
- Additional fixed assets were purchased during the financial year.

F. Financial indicators:

	30 June 2020	30 June 2019
Solvency	3.3 : 1	2.1 : 1
% gross profit on cost of sales	63%	51%
% operating expenses on sales	31.5%	39.2%
% operating profit on sales	12.7%	6.5%

60

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QUESTION 2 BALANCE SHEET, NOTES AND INTERPRETATION

(50 marks; 40 minutes)

2.1 COMPANY TRANSACTIONS

The following information was extracted from the accounting records of Sizwe Limited on 30 June 2020, the end of the accounting period.

REQUIRED:

Analyse each transaction according to the headings provided. An example is completed for you. (13)

Example: EFT payment for audit fees due, R25 000.

No.	Account debited	Account credited	Amount
Eg	Audit fees	Bank	R25 000

TRANSACTIONS:

A. On the 1 June 2020, the company board of directors authorised the buy- back of 45 000 of the company's shares from existing shareholders. A repurchase price of R5,00 above the average share price. An electronic transfer of R405 000 was made to shareholders for shares repurchased. (Two entries)

B. There were two directors at the start of the accounting period. They earn the same directors fees. Directors fees, totaling R360 000, have been paid for the first half of the accounting period only. On 1 January 2020, a third director was appointed. His remuneration 10% lower than the other directors. Provide for the outstanding directors fees.

C. Bright Sophie, the debtor who originally owed R32 000, has been declared insolvent. His estate paid 40 cents in a Rand. The balance must be written off as irrecoverable. No entries have as yet been made. (Two entries)

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2.2 BERGVILLE LIMITED

You are provided with information for the financial year ended 29 February 2020.

REQUIRED:

Prepare the Statement of Financial Position (Balance Sheet) on 29 February 2020. Show all workings. (28)

INFORMATION:

A. List of balances extracted on 29 February 2020, the end of the financial year.

	(R)
Ordinary share capital	?
Retained income	280 000
Loan from Iniwe Bank	?
Fixed assets at carrying value	?
Fixed deposit: Khula Bank	200 000
Trading stock	?
Creditors control	440 000
Bank (unfavourable)	25 000
Accrued expenses (expenses payable)	11 500
Net trade debtors	?
SARS – income tax (provisional tax payments)	525 000
Shareholders for dividends	?
Petty cash and cash float	?

B. Extract from the Bank Reconciliation Statement on 29 February 2020:

Item	Reason	Amount
Outstanding cheque	Post-dated for 31 March 2020	R5 000

C. Loan : Iniwe Bank

The loan statement received reflected the following:

Balance on 1 March 2019	R920 000
Total repayment including interest	R153 600
Interest capitalised	R65 400
Balance on 29 February 2020	?

NOTE:
The capital repayment will remain the same in the next financial year.

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D. Net profit and taxation:

- After taking into account all relevant information, the net profit before tax was accurately calculated to be R1 800 000
- Income tax at the rate of 30% must still be brought into account.

E. The following information/financial indicators were calculated after all adjustments had been taken into account:

Current ratio	1.5 : 1
Trade and other receivables	58% of the current assets
Acid test ratio	0.9 : 1
Debt/equity ratio	0.65 : 1

2.3 AUDIT REPORT

You are provided with an extract of the independent auditor's report of Ekuvukeni Limited for the financial year ended 29 February 2020.

REQUIRED:

2.3.1 What type of audit report did Ekuvukeni Ltd receive? Give a reason for your answer. (2)

2.3.2 To whom is an audit report addressed? Give a reason for your answer. (3)

2.3.3 Explain why the auditor mentioned the following in the report:

- IFRS (2)
- Companies Act (Act 71 of 2008) (2)

INFORMATION:

Extract from the audit report:

> In our opinion, the financial statements fairly present in all material respects the financial position of the company at 29 February 2020 as well as the financial results of its operations and the cash flows for the year ended. This is in accordance with the International Financial Reporting Standards (IFRS) and the manner required by the Companies Act (Act 71 of 2008) in South Africa.

50

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QUESTION 3 NOTES AND INTERPRETATION (40 marks; 35 minutes)

3.1 CONCEPTS

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 (3.1.1 to 3.1.3) in the ANSWER BOOK.

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

(3)

3.2 MAHLABATHINI LIMITED:

The information relates to the financial year ended 30 June 2020.

REQUIRED:

3.2.1 Prepare the Retained Income note. (11)

3.2.2 The company intends issuing an additional 100 000 shares in the next financial year. The directors proposed that a fair issue price would be R10.20 per share.

- As an existing shareholder what factors/ financial indicators would you assess in determining whether R10.20 per share is a fair issue price? Provide reasons for your choices. (4)
- A shareholder, Khethiwe, owned 43% of the shares in issue on 30 June 2019. Calculate the minimum number of shares she must purchase in order to become the majority shareholder in the company. (3)
- Koos Trimp (the CEO) has suggested that Khethiwe should be given the first option to purchase the additional shares before they are advertised to the public. What advice would you offer to the directors concerning this proposal? (2)

3.2.3 Companies buy back shares from time to time. Explain TWO benefits of share buy-backs. (4)

3.2.4 Quote TWO financial indicators (with figures and trends) that indicate an improvement in the liquidity position of the business. (4)

3.2.5 The company paid back a large portion of the loan. Explain why this was a good decision. Quote TWO financial indicators (with figures). (4)

3.2.6 Calculate the dividend pay-out policy over the past two years. Provide a possible reason for the policy adopted. Quote figures. (5)

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INFORMATION:

A. Extract from the Income Statement on 30 June:

	2020	2019
Interest on loan	R17 000	R12 000
Income tax (30% of the net profit before tax)	R90 000	R81 000

B. Shares:

- The company is authorised to sell 400 000 shares.
- 300 000 shares were in issue on 30 June 2019.
- On 1July 2019 30 000 shares were repurchased at R9,00 per share. The average share price was R7,00. These shares did not qualify for any interim and final dividends during the financial year.
- 270 000 shares were in issue on 30 June 2020.

C. Financial indicators on 30 June:

	2020	2019
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	30 days	63 days
Debt/equity ratio	0.2 : 1	0.5 : 1
Earnings per share (EPS)	84 cents	63 cents
Dividends per share (DPS)	34 cents	52 cents
Return on shareholders' equity (ROSHE)	11%	9%
Return on capital employed (ROTCE)	20.8%	22.3%
Net asset value per share (NAV)	1 033 cents	490 cents
Market price on JSE	850 cents	485 cents
Interest on investment	7%	5%
Interest rate on loans	11%	10%

40

TOTAL MARKS : 150

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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	$\frac{\text{Net profit after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$	
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$		
$\frac{\text{Net income after tax + Interest on loans}}{\text{Average Shareholders' equity + Average Long-term liabilities}} \times \frac{100}{1}$		
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$

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ACCOUNTING P1

ANSWER BOOK

SEPTEMBER 2020

NATIONAL SENIOR CERTIFICATE

GRADE 12

Name:_____ **Grade:**_____

QUESTION	MARKS	MOD BY THE SCHOOL	MOD BY THE CLUSTER	MOD BY THE PROVINCE
1				
2				
3				
TOTAL				

N.B. This answer book consists of 7 pages.

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QUESTION 1

1.1

1.1.1	
1.1.2	
1.1.3	
1.1.4	

4

1.2.1

Ordinary share capital Authorised: 2 000 000 shares Issued:		
1 200 000	Shares in issue at the beginning	

8

1.2.2

Cash Flow Statement for the year ended 30 June 2020	
Cash flow from operating activities	
Cash generated from operations	639 100
Cash flow from investing activities	
Cash flow from financing activities	
Net change in cash and cash equivalent	
Cash and cash equivalent at the beginning	
Cash and cash equivalent at the end	

32

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1.2.3 Apart from the dividends, identify TWO good decisions. Explain the effect of each decision on the company. Quote figures.

	Decision	Consequence
(a)		
(b)		

4

1.2.4 Calculate: Net asset value per share (NAV)

3

Calculate: Return on average shareholders' equity (ROSHE)

5

1.2.5 The directors are pleased that the operating efficiency of the business has improved. Quote and explain TWO financial indicators to support their opinion.

4

TOTAL MARKS
60

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QUESTION 2

2.1

NO	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT
A.			
B.			
C.			

13

2.2 STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ON 29 FEBRUARY 2020.

ASSETS	
NON-CURRENT ASSETS	
CURRENT ASSETS	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
SHAREHOLDERS' EQUITY	
Retained income	280 000
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	884 700
Bank overdraft	
Shareholders for dividends	
TOTAL EQUITY AND LIABILITIES	

28

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2.3.1 **Type of audit report:**

Reason:

2

2.3.2 **To whom is an audit report addressed?**

Reason:

3

2.3.3 **IFRS:**

2

Companies Act (71 of 2008)

2

TOTAL MARKS
50

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QUESTION 3

3.1

3.1.1	
3.1.2	
3.1.3	

3

3.2.1 Retained income:

Balance at beginning	560 000
Paid	27 500
Balance at end	

11

3.2.2

As an existing shareholder, what factors/ financial indicators would you assess in determining whether R10.20 per share is a fair issue price? Provide reasons for your choices.

4

Khethiwe owns 43% of the shares in issue on 30 June 2019. Calculate the number of additional shares she must purchase in order to be a majority shareholder.

3

Koos Trimp (the CEO) has suggested that Khethiwe should be given the first option to purchase the additional shares before they are advertised to the public. What advice would you offer to the directors concerning this proposal?

2

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3.2.3	**Companies buy back shares from time to time. Explain TWO benefits of share buy-backs.**	4
3.2.4	**Quote TWO financial indicators (with figures and trends) that indicate an improvement in the liquidity position of the business.**	4
3.2.5	**The company paid back a large portion of the loan. Explain why this was a good decision. Quote TWO financial indicators (with figures).**	4
3.2.6	**Calculate the dividend pay-out policy over the past two years. Provide a possible reason for the current policy adopted.**	5

TOTAL MARKS
40

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ACCOUNTING P1

MEMORANDUM

SEPTEMBER 2020

NATIONAL
SENIOR CERTIFICATE

GRADE 12

MARKS: 150

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. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as the final figure, award one mark. Not the method mark for the answer. Note: if figures are stipulated in memo for components of workings, these do not carry the method for final answer.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in a certain question.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
10. Operation' means 'Check operation'. 'One part correct' means 'Operation & one part correct'. Note: check operation must be +,-,x,+, or per candidates operation.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect, indicate with a ☒. Note: do not award marks for workings if numerator and denominator are swapped-this also applies to ratios.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f=foreign item; p=placement.

This memorandum consists of 7 pages

QUESTION 1

1.1

1.1.1	Inflow of cash ✓
1.1.2	Capital employed ✓
1.1.3	Depreciation ✓
1.1.4	Outflow of cash ✓

4

1.2.1

Ordinary share capital		
Authorised:		
2 000 000 shares		
Issued:		
1 200 000	**Shares in issue at the beginning**	4 200 000✓
(40 000) ✓	Shares repurchased (ASP: R3.50✓) Operation	(140 000) ☑
800 000☑	Shares issued during year at R4.48 each Operation	3 584 000☑
1 960 000✓	Shares in issue at end	7 644 000✓

8

1.2.2

Cash Flow Statement for the year ended 30 June 2020	
Cash flow from operating activities operation one part correct	52 000✓☑
Cash generated from operations	**639 100**
Interest paid	(82 000) ✓
Taxation paid (75 600 ✓– 8 000✓ – 12 500✓) or (–75 600 + 8 000 + 12 500) Operation one part correct	(55 100) ☑ (4)
Dividends paid Operation one part correct (210 000✓ + 240 000✓✓) or (210 000 + 414 000 -174 000)	(450 000) ☑ (4)
Cash flow from investing activities Operation one part correct	(374 900) ✓ ☑
Purchase of fixed assets Operation one part correct (1 505 400✓ + 61 000✓ + 23 500✓ – 1 201 500✓) or (–1 505 400 – 61 000 – 23 500 + 1 201 500)	(388 400) ☑ (5)
Sale of fixed assets	23 500✓
Change in fixed deposit	(10 000) ✓
Cash flow from financing activities Operation one part correct	3 260 000✓☑
Sale of shares See 1.2.1	3 584 000☑
Shares repurchased (40 000✓ x R4.10✓) Operation one part correct	(164 000) ☑ (3)
Repayment of loan	(160 000) ✓
Net change in cash and cash equivalent	2 937 100☑
Cash and cash equivalent at the beginning (2 000✓ – 17 100✓)	(15 100) ☑ (3)
Cash and cash equivalent at the end Operation one part correct	2 922 000☑ 32

NB: Use brackets is compulsory for outflow

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1.2.3 **Apart from the dividends, identify TWO good decisions. Explain the effect of each decision on the company. Quote figures.**

Decision with figures	Consequence
Sale of shares, R3 584 000✓	Improves cash flow – business can take advantage of investment opportunities✓
Purchase of fixed assets, R388 400✓	Improves operating efficiency – business can earn greater profits✓
Share repurchased, R164 000	Improve NAV which could impact positively on the market price of shares/improves DPS hence present shareholders will be satisfied/ improve EPS which creates better image of the company.
Repayment of loan, R160 000	Lower financial risk/Low geared

4

1.2.4 **Calculate: Net asset value per share (NAV)**

$\frac{7\ 683\ 200\ ✓}{1\ 960\ 000\ ☑}$ x $\frac{100}{1}$

See 1.2.1

= 392 cents☑ Operation one part correct

3

Calculate: Return on average shareholders' equity (ROSHE)

181 800 Two marks

$\frac{257\ 400\ ✓ - 75\ 600✓}{^1/_2\ (7\ 683\ 200\ ✓ + 4\ 495\ 400✓)}$ x $\frac{100}{1}$

12 178 600 Two marks

= 3%☑ Operation one part correct (Check average and multiply by 100)

5

1.2.5 **The directors are pleased that the operating efficiency of the business has improved. Quote and explain TWO financial indicators to support their opinion.**

Financial indicator with figures ✓ ✓ Explanation ✓ ✓

% operating expenses on sales – decreased from 39.2% to 31.5% - effective control over expenses.

% operating profits on sales – increased from 6.5% to 12.7% - effective control of expenses and higher mark-up % achieved.

4

TOTAL MARKS
60

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QUESTION 2

2.1

NO	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT
A.	Ordinary share capital✓	Bank✓ (One mark for both bank accounts)	R180 000✓
	Retained income✓	Bank	R225 000✓
B.	Directors fees✓	Accrued expense✓	R522 000✓
C.	Bank✓	Debtors control✓	R12 800✓
	Bad debts✓	Debtors control	R19 200✓

(one mark for both debtors control accounts)

1

2.2 **STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ON 29 FEBRUARY 2020.**

	ASSETS	
	NON-CURRENT ASSETS (2 772 300 – 1 327 050) (TA-CA)	1 445 250 ☑
	Fixed assets (1 445 250 – 200 000) (NCA – FA)	1 245 250 ☑
3	Financial assets: Fixed deposit	200 000 ✓
	CURRENT ASSETS (884 700 x 1.5)	1 327 050✓✓
	Inventories Operation one part correct	530 820 ☑
	Trade and other receivables 796 230 (CA x 58%)	769 689 ☑
	Cash and cash equivalents (CL x 0.9) – 769 689	26 541 ✓
6	**TOTAL ASSETS** Operation one part correct	2 772 300 ☑
	EQUITY AND LIABILITIES	
	SHAREHOLDERS' EQUITY (743 600 – 0.65) See NCL	1 144 000 ✓☑
	Ordinary share capital (1 144 000 – 280 000)	864 000 ☑
3	**Retained income**	**280 000**
	NON-CURRENT LIABILITIES Operation one part correct	743 600
5	Loan (920 000 ✓– 153 600 ✓+ 65 400 ✓ – 88 200 ✓)	743 600☑
	CURRENT LIABILITIES	**884 700**
	Trade and other payables (440 000 ✓+ 11 500 ✓+ 5 000 ✓)	456 500 ☑
	Current portion of loan check NCL	88 200 ☑
	SARS: Income tax (540 000 – 525 000)	15 000✓✓
	Bank overdraft (25 000 – 5 000)	20 000✓✓
	Shareholders for dividends (missing figure)	305 000 ☑
11	**TOTAL EQUITY AND LIABILITIES** Operation one part correct	2 772 300 ☑

SARS can be part of Trade and other payables.

Foreign entries – 1 Max – 2 Presentation – 1

2

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2.3.1 **Type of audit report:**

Unqualified ✓

Reason:

Any valid reason ✓

Fairly present / no irregularities found/ no problems encountered

2

2.3.2 **To whom is an audit report addressed?**

Shareholders ✓

Reason:

Accept short explanations; may be phrased differently
Part-marks for unclear/incomplete explanation

Any valid reason ✓✓

Independent auditors are appointed by the shareholders/the shareholders are the owners of the company.

3

2.3.3 **IFRS:**

Accept short explanations; may be phrased differently
Part-marks for unclear/incomplete explanation

Any valid explanation ✓✓

Financial statements comply with international financial reporting standards/the company operates in a global economy/shareholders are from various parts of the world

2

Companies Act (71 of 2008)

Any valid explanation ✓✓

Company is abiding by the law/stipulated standards are maintained/shareholders' investment is safe/creates investor confidence in the company/the Companies Act stipulates the manner in which financial statements must be prepared.

2

TOTAL MARKS
50

QUESTION 3

3.1

3.1.1	C ✓
3.1.2	D ✓
3.1.3	A ✓

3

3.2.1 **Retained income:**

Balance at beginning	**560 000**
Net profit after tax (90 000 ✓ x 70/30 ✓) Operation one part correct	210 000☑
Share buy-back (30 000 ✓ x 2 ✓) Operation one part correct	(60 000)☑
Dividends (270 000 ✓ x 34/100 ✓) operation one part correct	(91 800)☑
Paid	**27 500**
Final/declared (91 800 – 27 500) Dividends less interim Operation	64 300 ☑
Balance at end operation one part correct	618 200 ☑

11

3.2.2 **As an existing shareholder, what factors/ financial indicators would you assess in determining whether R10.20 per share is a fair issue price? Provide reasons for your choices.**

Accept short explanations; may be phrased differently
Part-marks for unclear/incomplete explanation

Financial indicators (with figures) showing the trends ✓✓ ✓✓

NAV: improved from 490 cents to 1 033 cents/ by 543 cents
Market price: improved from 485 cents to 850 cents / by 365 cents

4

Khethiwe owns 43% of the shares in issue on 30 June 2019. Calculate the number of additional shares she must purchase in order to be a majority shareholder.

She currently owns: 300 000 x 43% = 129 000 shares ✓
To be majority shareholder she needs: (370 000 x 50%) + 1 = 185 001 shares ✓
She needs to buy: 185 001 – 129 000 = 56 001 shares ✓
Anything above 50%

3

Koos Trimp (the CEO) has suggested that Khethiwe should be given the first option to purchase the additional shares before they are advertised to the public. What advice would you offer to the directors concerning this proposal?

Accept short explanations; may be phrased differently
Part-marks for unclear/incomplete explanation
Any valid advice ✓✓

Legislation and governance regulations must be followed by everyone/the directors must apply the law to safeguard the integrity of the business/insider trading is illegal and unethical/nepotism as the CEO is abusing his position.

2

3.2.3 **Companies buy back shares from time to time. Explain TWO benefits of share buy-backs.**

Accept short explanations; may be phrased differently
Part-marks for unclear/incomplete explanation

Any two valid benefits ✓✓ ✓✓

It improves the NAV which could impact positively on the market price of shares/it improves EPS which creates a better image of the company/it improves the DPS hence present shareholders will be satisfied/ shows that the company is solvent and liquid.

4

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

Accept short explanations; may be phrased differently
Part-marks for unclear/incomplete explanation

Financial indicators (with figures) showing the trends ✓✓ ✓✓

Current ratio: increased from 1.4:1 to 1.9:1
Average debtors collection period: decreased from 57 days to 38 days
Don't accept any other indicator.

4

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

Accept short explanations; may be phrased differently
Part-marks for unclear/incomplete explanation

Financial indicators (with figures) showing the trends ✓✓ ✓✓

Debt/equity ratio: decreased from 0.5:1 to 0.2:1. Lower financial risk/low geared
ROTCE: decreased from 22.3% to 20.8%. Still positively geared as it is greater than interest on loan (11%).

4

3.2.6 **Calculate the dividend pay-out policy over the past two years. Provide a possible reason for the current policy adopted.**

2019: 52/63 x 100 = 82.5% ✓✓

2020: 34/84 x 100 = 40.5% ✓✓

A greater % was retained in 2020 for future expansion purposes. ✓
Any valid reason

5

TOTAL MARKS
40

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