

Confidential



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ACCOUNTING P1

MAY/JUNE 2024

MARKS: 150

TIME: 2 hours

**This question paper consists of 12 pages,
a formula sheet and a 10-page answer book.**

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

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

| QUESTION | TOPIC | MARKS | MINUTES |
|--------------|--|------------|------------|
| 1 | Company Financial Statements | 55 | 45 |
| 2 | Cash Flow Statement and Financial Indicators | 40 | 30 |
| 3 | Interpretation of Financial Information | 40 | 35 |
| 4 | Corporate Governance | 15 | 10 |
| TOTAL | | 150 | 120 |

QUESTION 1: COMPANY FINANCIAL STATEMENTS (55 marks; 45 minutes)

The information relates to DBN Ltd. The company sells household products. The financial year ended on 29 February 2024.

REQUIRED:**1.1 Refer to information A.**

The bookkeeper has recorded all the entries regarding fixed assets in the books. Complete the amounts denoted by **(i)** to **(iii)** on the Fixed Asset Note. (12)

1.2 Refer to information C and D.

Calculate the correct net profit **after tax** for the year ended 29 February 2024. Indicate (+) for increase and (-) for decrease, next to each amount. (13)

1.3 Complete the Statement of Financial Position on 29 February 2024. (30)

NOTE: Some amounts are provided in the ANSWER BOOK.

INFORMATION:**A. Fixed assets:**

| | Buildings R | Vehicles R | Equipment R |
|-------------------------------|------------------------|-----------------------|------------------------|
| Carrying value: (01/03/2023) | | 249 850 | |
| Cost | (i) | | 436 000 |
| Accumulated depreciation | | | |
| Movements: | | | |
| Additions (at cost) | 0 | 260 000 | 0 |
| Disposals (at carrying value) | (420 000) | 0 | (iii) |
| Depreciation | | (ii) | (32 000) |
| Carrying value: (29/02/2024) | 9 421 300 | | |
| Cost | | 786 000 | 356 000 |
| Accumulated depreciation | | | |

- Depreciation is calculated as follows:
 - Vehicles: 15% p.a. on cost
 - Equipment: 20% on the diminishing-balance method
- A new vehicle was bought on 1 October 2023.
- Extract from the Fixed Assets Register in respect of equipment sold:

| KINOPA MWALIMU 234 | |
|----------------------------------|-----------------------|
| Cost price: R80 000 | |
| Date purchased: 1 September 2021 | |
| Date sold: 31 May 2023 | Sold for: R53 000 |
| | CARRYING VALUE |
| 28 February 2022 | R72 000 |
| 28 February 2023 | R57 600 |
| 31 May 2023 | ? |

B. Balances on 29 February 2024:

| | |
|---|------------|
| Fixed assets at carrying value | R9 952 480 |
| Ordinary share capital | ? |
| Retained income | ? |
| Loan: PTA Bank | ? |
| Fixed deposit | 425 000 |
| Trading stock | 1 064 200 |
| Net trade debtors | 744 900 |
| Creditors' control | 518 950 |
| SARS: Income tax (provisional tax payments) | 322 800 |

**C. The bookkeeper has calculated the net profit before tax as R1 150 000.
The pre-adjustment balances to be adjusted are:**

| | |
|-----------------|-----------|
| Audit fees | R144 000 |
| Trading stock | 1 064 200 |
| Rent income | 287 300 |
| Directors' fees | 852 800 |

Only the adjustments listed below must still be taken into account.

- (i) Audit fees of R45 600 were still owing on 29 February 2024.
- (ii) A donation of 100 blankets was made to a children's hospital, but the donation has not been recorded. The business uses the weighted-average method for valuing blankets. The stock records for blankets reflect the following:

| | Quantity (units) | Unit price | Total cost |
|-----------------------------------|---------------------|------------|------------|
| Purchases during the year: | 1 500 | | R603 000 |
| 15 April 2023 | 600 | R330,00 | 198 000 |
| 22 June 2023 | 900 | R450,00 | 405 000 |
| Sales | 1 220 | | |
| Stock on hand: 29 Feb. 2024 | 280 | | |

- (iii) Rent was increased by R1 300 per month from 1 January 2024. Only the rent for the period 1 March 2023 to 31 January 2024 was received and recorded.
- (iv) The company had one director, Jenny, at the beginning of the financial year. Jenny had been paid in advance for two months. A second director, Frank, was appointed on 1 December 2023. His monthly fee is 20% lower than that of Jenny. Frank received the fees due to him.

D. Income tax:

The assessment from SARS indicated total income tax for the financial year as R351 000, after all adjustments had been made.

E. Share capital and dividends:

| DATE | DETAILS |
|------------------|---|
| 1 March 2023 | 2 120 000 shares in issue |
| 30 June 2023 | 230 000 shares repurchased: The average share price was R5,90 at the date of the repurchase |
| 29 February 2024 | 1 890 000 shares in issue |

- Interim dividends were not declared during the financial year.
- Final dividends of 25c per share were declared on 29 February 2024 to all shares in the share register.

F. Transfer of debtor's balance to Creditors' Ledger:

A debtor with a debit balance of R8 400 in the Debtors' Ledger must still be transferred to his account in the Creditors' Ledger.

G. Loan: PTA Bank

Extract from the Loan Statement from PTA Bank:

| | |
|--|------------|
| Balance on 1 March 2023 | R1 400 000 |
| Repayments for the financial year (including interest) | ? |
| Interest capitalised | 168 000 |
| Balance on 29 February 2024 | 1 004 000 |

NOTE:

- All entries for the repayments and interest have been made.
- Directors expect to maintain the capital repayments made this year, during the next financial year.

QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS**(40 marks; 30 minutes)****CONCEPTS**

2.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.

2.1.1 The current ratio is a financial indicator which is relevant to the (liquidity/solvency) of a company.

2.1.2 An increase in a fixed deposit will lead to an (inflow/outflow) of cash in the Cash Flow Statement.

2.1.3 A decrease in inventories will lead to an (inflow/outflow) of cash in the Cash Flow Statement.

(3)

JINGLE LTD

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

REQUIRED:

2.2 Prepare the Retained Income Note for the financial year ended 29 February 2024.

(8)

2.3 Refer to the partially completed Cash Flow Statement provided. Calculate and/or provide the figures denoted by (i) to (v).

(17)

2.4 Calculate the following financial indicators for the financial year ended 29 February 2024:

- Acid-test ratio (4)
- Interim dividend per share (in cents) (4)
- % return on average shareholders' equity (ROSHE) (4)

INFORMATION:**A. Share capital:**

| Number of shares | Details |
|------------------|---|
| 1 450 000 | Shares in issue on 1 March 2023 |
| 30 000 | Shares repurchased on 1 June 2023, at R3,70 above the average share price |
| 250 000 | Shares issued on 1 November 2023, at R17,20 per share |
| 1 670 000 | Shares in issue on 29 February 2024 |

B. Dividends:

- Interim dividends were paid on 31 August 2023 to all shares in the share register.
- A final dividend was declared on 29 February 2024.

C. Extract from the Statement of Comprehensive Income for year ended 29 February 2024:

| | |
|-----------------------------------|------------|
| Depreciation | R1 620 000 |
| Operating profit | 4 826 000 |
| Interest on loans | 966 000 |
| Income tax (at a tax rate of 30%) | 1 950 000 |

D. Extract from the Statement of Financial Position on 28/29 February:

| | 2024 | 2023 |
|--------------------------------|-------------------|-------------------|
| Fixed assets at carrying value | R43 095 000 | R39 365 000 |
| Current assets (Note 1) | 9 623 000 | 8 029 000 |
| Current liabilities (Note 2) | 18 310 000 | 12 044 000 |
| Shareholders' equity | 28 248 000 | 25 729 000 |
| Ordinary share capital | ? | 22 910 000 |
| Retained income | ? | 2 819 000 |

Note 1: Items included under Current assets

| | 2024 | 2023 |
|-------------------------|------------|------------|
| Inventories | R4 190 000 | R3 883 000 |
| Cash & cash equivalents | 55 000 | 1 030 000 |

Note 2: Items included under Current liabilities

| | 2024 | 2023 |
|----------------------------|------------|------------|
| Shareholders for dividends | R2 338 000 | R2 320 000 |
| SARS: Income tax | 115 000 | 86 000 |
| Bank overdraft | 3 274 000 | 0 |

E. Fixed assets:

- A vehicle was sold at carrying value.
- Fixed assets were also purchased during the financial year.

F. Partially completed Cash Flow Statement on 29 February 2024:

| | |
|--|-------------|
| Cash effects of operating activities | |
| Cash generated from operations | |
| Interest paid | (966 000) |
| Dividends paid | (5 728 000) |
| ? | (i) |
| Cash effects of investing activities | |
| ? | (ii) |
| Proceeds from sale of fixed assets | 232 000 |
| Change in investments | |
| Cash effects of financing activities | |
| ? | (iii) |
| ? | (iv) |
| Change in loans | |
| Net change in cash & cash equivalents | |
| Cash & cash equivalents on 1 March 2023 | 1 030 000 |
| ? | (v) |

QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION**(40 marks; 35 minutes)**

The information relates to Britesun Ltd. The company sells high-quality solar panels to businesses and homeowners to generate electricity. The financial year ends on 28/29 February each year.

REQUIRED:

NOTE: Where comments or explanations are required, you must:

- Quote financial indicators and trends, with figures
- Give a reason or an explanation on the relevant financial indicators

3.1 Mark-up percentage

Explain how the customers reacted to the change in the mark-up percentage and whether this benefited the company or not.

(4)**3.2 Profitability and operating efficiency:**

Comment on the operating efficiency of the company over the past two years. Quote TWO financial indicators.

(4)**3.3 Financial risk and gearing:**

3.3.1 One of the shareholders cannot understand why the debt-equity ratio increased in 2024 despite the increase in the loan. Provide him with an explanation.

(2)

3.3.2 The chief financial officer (CFO) is of the opinion that the increase in the loan was a good decision. Apart from the debt-equity ratio, provide TWO points to support his opinion, including ONE relevant financial indicator.

(4)**3.4 Returns, earnings and dividends:**

3.4.1 Comment on whether the shareholders should be satisfied with the return on their investment. Provide TWO points, including ONE financial indicator.

(4)

3.4.2 Comment on the earnings per share (EPS) and explain its impact on the dividend pay-out policy adopted by directors.

(4)**3.5 Share price on the stock exchange:**

Comment on the performance of the share price on the stock exchange (JSE). Provide TWO points, with figures and trends.

(4)

3.6 Shareholding of Allan Ashwin:

3.6.1 Allan Ashwin owns shares in Britesun Ltd. He is pleased with his investment in the shares of this company. Provide TWO points, with figures or calculations, to support his opinion. (4)

3.6.2 The company plans to issue additional new shares equal to 20% of the issued share capital, in the next financial year to existing shareholders. Allan has indicated that he will not take up this offer. Explain how this decision will affect his % shareholding. Provide a calculation or figures to support your explanation. (6)

3.7 Bonuses for directors and other employees of Britesun Ltd:

Bonuses for directors and other employees are included in the company's budget. Shareholders will be required to vote at the AGM on whether these bonuses should be paid or not.

Apart from the points provided above, state TWO different factors that will influence shareholders to vote in favour of approving such bonuses. (4)

INFORMATION:**A. Financial indicators and additional information:**

| | 29 Feb. 2024 | 28 Feb. 2023 |
|--|--------------|--------------|
| Current ratio | 1,8 : 1 | 4,3 : 1 |
| Acid-test ratio | 0,9 : 1 | 2,5 : 1 |
| Debt-equity ratio | 0,2 : 1 | 0,3 : 1 |
| Earnings per share (EPS) | 224 cents | 113 cents |
| Dividends per share (DPS) | 90 cents | 90 cents |
| Dividend pay-out rate | 40% | 80% |
| % return on average equity (ROSHE) | 15,6% | 8,0% |
| % return on total capital employed (ROTCE) | 19,7% | 11,0% |
| Net asset value per share (NAV) | 1 543 cents | 1 413 cents |
| Solvency ratio | 2,5 : 1 | 3,6 : 1 |
| % operating expenses on sales | 22,0% | 28,0% |
| % operating profit on sales | 15,6% | 10,2% |
| % net profit after tax on sales | 13,5% | 8,8% |
| % mark-up | 60% | 40% |
| Number of directors and other employees | 38 | 43 |
| Number of customers | 245 | 280 |
| Average sales per customer | R160 000 | R120 000 |
| Market price of shares on JSE | 1 610 cents | 1 342 cents |
| % interest rate on investments | 7% | 7% |
| % interest rate on loans | 13% | 13% |

B. Extracts from Cash Flow Statement:

| | 29 Feb. 2024 | 28 Feb. 2023 |
|---------------------------------------|--------------|--------------|
| Cash generated from operations | R6 785 000 | R3 863 500 |
| Proceeds of shares issued | R2 800 000 | 0 |
| Increase in loan | R1 000 000 | R4 000 000 |
| Fixed assets purchased | 0 | R750 000 |
| Fixed assets sold* | R1 100 000 | 0 |
| *Unproductive fixed assets were sold. | | |

C. Shareholding of Allan Ashwin in Britesun Ltd:

| | Britesun Ltd |
|---|--------------|
| Shares in issue on 29 February 2024 | 700 000 |
| Number of shares owned by Ashwin | 360 000 |
| Purchase price per share paid by Ashwin | 780 cents |
| Dividends earned per share | 90 cents |

QUESTION 4: CORPORATE GOVERNANCE**(15 marks; 10 minutes)**

You are provided with a media article relating to Gadram Ltd.

REQUIRED:**4.1 Refer to Paragraph 4.**

The three board members implicated in this case each own 150 000 shares. Calculate the loss that Loma and the two directors each were able to avoid by selling their shares on 13 April 2023.

(3)**4.2 Refer to Paragraph 3.**

- Explain why the text message is so important to the investigators. **(2)**
- Explain why you think this crime is referred to as 'insider trading'. **(2)**

4.3 Explain how the rapid decline in the share price and the fraudulent financial statements are likely to affect the existing shareholders and its workers. **(4)**

4.4 If you were a shareholder in Gadram Ltd, what other questions would you raise at the AGM? Explain TWO points. **(4)**

INFORMATION:

Use the information in the article and your knowledge on companies to answer the questions.

SOCIAL MEDIA LIFTS THE LID ON MAJOR INSIDER TRADING**Paragraph 1**

Bizmiz News reported last month on the disclaimer audit report received by Gadram Ltd and that a police investigation into the false financial statements had recently begun. But this is not the end of the company's problems.

Paragraph 2

In March 2024, the Financial Sector Conduct Authority (FSCA) imposed a penalty of R50 million on Loma Leonard, CEO (chief executive officer) of Gadram Ltd, for breaching the Financial Markets Act (Act 19 of 2012) when he sent text messages to two directors, warning them to sell their Gadram shares.

Paragraph 3

The incriminating message from Loma read: 'You always ask for my opinion. It will take a long time for Gadram to get rid of all the bad news. Sell your shares immediately at the current price. Delete this message now and don't tell anyone.'

Paragraph 4

In deciding on the fine, the FSCA noted that on 10 April 2023 Loma had sent the message and on 13 April 2023, the three board members, Loma and the two directors, sold their shares on the JSE at R105,00 per share. The subsequent rapid decline to R8,00 per share in the market price of the shares occurred in the following two days.

15**TOTAL: 150**

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET

| | |
|---|---|
| $\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$ | $\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$ |
| $\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$ | $\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$ |
| $\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$ | $\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$ |
| Total assets : Total liabilities | Current assets : Current liabilities |
| (Current assets – Inventories) : Current liabilities | Non-current liabilities : Shareholders' equity |
| (Trade & other receivables + Cash & cash equivalents) : Current liabilities | |
| $\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$ (See Note 1 below) | $\frac{\text{Cost of sales}}{\text{Average trading stock}}$ |
| $\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$ | $\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$ (See Note 2 below) |
| $\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$ | $\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (See Note 3 below) |
| $\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$ | |
| $\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$ | $\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$ |
| $\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$ | $\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$ |
| $\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$ | $\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$ |
| $\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$ | |

NOTE:

1. Trading stock at the end of a financial year may be used if required in a question.
2. Credit purchases may be used instead of cost of sales (figures will be the same if stock is constant).
3. If there is a change in the number of issued shares during a financial year, the weighted-average number of shares is used in practice.



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ACCOUNTING P1 MAY/JUNE 2024 MARKING GUIDELINES

MARKING PRINCIPLES:

MARKS: 150

1. Unless otherwise stated in the marking guidelines, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Unless otherwise stated, give full marks for a correct answer. If answer is incorrect, mark workings.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark as a working mark for that figure (not the method mark for the answer). Note: if figures are stipulated in the marking guidelines for components of workings, these do not carry the method mark for final answer as well.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. If candidates provide more than the required number of responses, inspect all responses to give benefit to the candidate. Penalties may be applied for foreign entries if candidates earn full marks on a question (max -2 per Q).
8. These marking guidelines are not for public distribution as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
9. Where penalties are applied, the marks for that section of the question cannot be a final negative.
10. Where method marks are awarded for an operation, the marker must inspect reasonableness of the answer.
11. 'Operation' means check operation. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷ as per candidate's calculation (if valid) or per marking guidelines.
12. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
13. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a ☒.
14. Be aware of candidates who provide valid alternatives beyond the marking guidelines. Note that one comment could contain different aspects.
15. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 10 pages.

1.3 STATEMENT OF FINANCIAL POSITION ON 29 FEBRUARY 2024

| | | |
|--------------------------------------|--|---|
| ASSETS | | |
| NON-CURRENT ASSETS | | 10 377 480 |
| Fixed assets | | 9 952 480 |
| Investment: Fixed deposit | | 425 000 |
| CURRENT ASSETS | operation, one part correct | 3 848 020 <input checked="" type="checkbox"/> |
| Inventories | 1 064 200 ✓ – 40 200 <input checked="" type="checkbox"/> see 1.2 | 1 024 000 <input checked="" type="checkbox"/> * |
| Trade and other receivables | see 1.2 see 1.2 744 900 ✓ + 27 300 <input checked="" type="checkbox"/> + 104 000 <input checked="" type="checkbox"/> – 8 400 ✓ Rent inc. Dir. fees | 867 800 <input checked="" type="checkbox"/> * |
| Cash and cash equivalents | | 1 956 220 |
| TOTAL ASSETS | 10 NCA + CA | 14 225 500 <input checked="" type="checkbox"/> |
| EQUITY AND LIABILITIES | | |
| ORDINARY SHAREHOLDERS' EQUITY | TE & L – CL – NCL | 12 164 650 <input checked="" type="checkbox"/> |
| Ordinary share capital | | 11 151 000 ✓✓ |
| Retained income | 4 Balancing figure accept negative amount | 1 013 650 <input checked="" type="checkbox"/> |
| NON-CURRENT LIABILITIES | | 608 000 |
| Loan: PTA Bank | 564 000 two marks – 168 000 one mark 1 004 000 ✓ – 396 000 ✓✓✓ 5 | 608 000 <input checked="" type="checkbox"/> * |
| CURRENT LIABILITIES | operation | 1 452 850 <input checked="" type="checkbox"/> * |
| Trade and other payables | audit fees 518 950 ✓ + 45 600 <input checked="" type="checkbox"/> – 8 400 ✓ | 556 150 <input checked="" type="checkbox"/> * |
| Shareholders for dividends | | 472 500 ✓✓# |
| Current portion of loan | see NCL | 396 000 <input checked="" type="checkbox"/> # |
| SARS Income tax | | 28 200 ✓✓# |
| TOTAL EQUITY AND LIABILITIES | 11 See Total Assets | 14 225 500 <input checked="" type="checkbox"/> |

*one part correct

Inspect: if included in T&OP

- 1 foreign item (max -2); presentation -1 (max -1); misplaced items, award marks for workings only

Note Principle 11 when awarding method marks: Operation as per candidate's operation, unless specified.

TOTAL MARKS**55****30**

QUESTION 2

| | | | |
|-----|-------|-----------|---|
| 2.1 | 2.1.1 | Liquidity | ✓ |
| | 2.1.2 | Outflow | ✓ |
| | 2.1.3 | Inflow | ✓ |

3

2.2 RETAINED INCOME NOTE

*one part correct

| | |
|--|------------------|
| Balance at the beginning of the year | 2 819 000 |
| Net profit after tax (1 950 000 x 70/30) OR 6 500 000 – 1 950 000 | 4 550 000 ✓✓* |
| Buy back of shares ignore brackets | (111 000) ✓✓ |
| Dividends Int Div + Final Div ignore brackets | (5 746 000) ✓ |
| Interim dividend (5 728 000 – 2 320 000) | 3 408 000 ✓✓* |
| Final dividend | 2 338 000 |
| Balance at the end of the year Inspect operation from top, must subtract SBB and OSD | 1 512 000 ✓* |

8

2.3 CASH FLOW STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2024

Be aware of signs reversed & use of brackets or ledger account formats

| | |
|---|---|
| Cash effects of operating activities | |
| Cash generated from operations | |
| Interest paid | (966 000) |
| Dividends paid | (5 728 000) |
| Income tax paid (86 000 ✓ + 1 950 000 ✓ – 115 000 ✓) OR – 86 000 – 1 950 000 + 115 000 | (i) 4 (1 921 000) ✓*# |
| Cash effects of investing activities | |
| Fixed assets purchased 43 095 000 ✓ + 232 000 ✓ + 1 620 000 ✓ – 39 365 000 ✓ OR – 43 095 000 – 232 000 – 1 620 000 + 39 365 000 | (ii) 5 (5 582 000) ✓*# |
| Proceeds of sale of fixed assets | 232 000 |
| Change in investments | |
| Cash effects of financing activities | |
| Proceeds of shares issued | (iii) 4 300 000 ✓✓ |
| Shares repurchased (30 000 x 15,80) (30 000 x 3,70) 474 000 ✓✓ + 111 000 ✓ see 2.2 OR (30 000 x 19,50) three marks | (iv) 6 (585 000) ✓* |
| Change in loans | |
| Net change in cash & cash equivalents | |
| Cash & cash equivalents on 1 March 2023 | 1 030 000 |
| Cash & cash equivalents on 29 February 2024 | (v) 2 (3 219 000) ✓✓ one mark if figure correct but no brackets |

17

*One part correct and in brackets; if no brackets, award marks to workings only

2.4 Calculate the following financial indicators for the financial year ended 29 February 2024:

| Acid-test ratio | |
|---|--|
| WORKINGS | ANSWER |
| $\frac{[9\ 623\ 000 - 4\ 190\ 000]}{5\ 433\ 000} \times 100$ <p style="text-align: center;">[9 623 000 – 4 190 000] two marks 5 433 000 ✓✓ : 18 310 000 ✓</p> | <p>0,3 : 1 ✓</p> <p>one part correct In the form x : 1 Accept 0,29 : 1</p> |

| |
|---|
| |
| 4 |

| Interim dividend per share (in cents) | |
|---|--|
| WORKINGS | ANSWER |
| $\frac{3\ 408\ 000}{1\ 420\ 000} \times 100$ <p style="text-align: center;">See 2.2 3 408 000 ✓ 1 420 000 ✓✓ (1 450 000 – 30 000) two marks</p> | <p>240 cents ✓</p> <p>one part correct cents is not necessary accept R2,40</p> |

| |
|---|
| |
| 4 |

| % return on average shareholder's equity (ROSHE) | |
|--|--|
| WORKINGS | ANSWER |
| $\frac{4\ 550\ 000}{\frac{1}{2}(28\ 248\ 000 + 25\ 729\ 000)} \times 100$ <p style="text-align: center;">See 2.2 4 550 000 ✓ ½ (28 248 000 ✓ + 25 729 000 ✓) 53 977 000 two marks 26 988 500 two marks</p> | <p>16,9% ✓</p> <p>one part correct, must use average (½) % sign not necessary; Accept 17%</p> <p>Do not accept 0,169 or 0,17</p> |

| |
|---|
| |
| 4 |

2.4 All calculations

- The 'x 100' is not deemed as 'one part correct'
- Numerators and denominators must be marked as such.
- Do not award marks for any operations done to stand-alone figures e.g. no tick if anything else added to R3 408 000 or R4 550 000.

TOTAL MARKS**40**

QUESTION 3**3.1**

Explain how the customers reacted to the change in the mark-up percentage and whether this benefited the company or not.

TWO valid points (with figure) ✓✓ ✓✓

part marks for incomplete or unclear response

- Average spending of clients increased (from R120 000) to R160 000 / by R40 000.
- Sales revenue increased (from R33,6m) to R39,2m.
- Customers still supported the business although the % mark-up increased (from 40%) to 60%.
- Drop in customer numbers (from 280) to 245 / by 35 / by 12,5%.

| |
|---|
| |
| 4 |

3.2

Comment on the operating efficiency of the company over the past two years. Quote TWO financial indicators.

TWO financial indicators ✓ ✓ figures and trends ✓ ✓

- % operating expenses on sales improved/decreased (from 28%) to 22% / by 6% points / by 21,4%.
- % operating profit on sales improved/increased (from 10,2%) to 15,6% / by 5,4% points / by 52,9%.
- % net profit on sales improved/increased from 8,8% to 13,5% / by 4,7% points / by 53,4%.

Do not accept mark-up %

| |
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3.3.1

One of the shareholders cannot understand why the debt-equity ratio increased in 2024 despite the increase in the loan. Provide an explanation for him.

Reason ✓✓

The company increased the share capital / The company increased the loan.

| |
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| 2 |

3.3.2

The chief financial officer (CFO) is of the opinion that the increase in loan was a good decision. Apart from the debt-equity ratio, provide TWO points to support his opinion including ONE relevant financial indicator.

Financial indicator ✓ figures and trend ✓

Explanation (comparing interest) ✓✓

| | |
|----------------|---|
| POINT 1 | <ul style="list-style-type: none"> • % ROTCE improved / increased from 11% to 19,7% / by 8,7% points / by 79%. |
| POINT 2 | <ul style="list-style-type: none"> • The degree of gearing has moved (from negative) to positive. Now exceeds the interest rate on loans (13% p.a.). |

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3.4.1 Comment on whether the shareholders should be satisfied with the return on their investment. Provide TWO points, including ONE relevant financial indicator.

Financial indicator ✓ figures and trend ✓
 Explanation (compare alternative investment) ✓✓

| | |
|----------------|--|
| POINT 1 | % ROSHE improved significantly from 8% to 15,6% / by 7,6% points / by 95%. |
| POINT 2 | This greatly exceeds the returns on most other investments (7% p.a.). |

4

3.4.2 Comment on the earnings per share (EPS) and explain its impact on the dividend pay-out policy adopted by directors.

EPS: figures and trend ✓ Explanation on EPS ✓
 DPR: figures and trend ✓ Explanation on DPR ✓

| | |
|--------------------------------|--|
| EARNINGS PER SHARE | <ul style="list-style-type: none"> • EPS increased (from 113 cents) to 224 cents / by 111 cents / by 98%. • This shows improved profits in the company. |
| DIVIDEND PAY-OUT POLICY | <ul style="list-style-type: none"> • The dividend pay-out rate decreased from 80% to 40% / by 40% points / 100%. • The business retained more earnings that would be used to benefit the business in the future. |

4

3.5 Comment on the performance of the share price on the stock exchange (JSE). Provide TWO points, with figures and trends.

| | |
|----------------|---|
| POINT 1 | <ul style="list-style-type: none"> • The market price of the share improved from 1 342c to 1 610c / by 268c.✓ • due to the good returns earned / positive image of the company.✓ |
| POINT 2 | <ul style="list-style-type: none"> • In 2024 the market price (1 610c) exceeded the NAV of (1 543c) by 67c ✓ indicates good demand for shares.✓ <p>OR</p> <ul style="list-style-type: none"> • In 2023 NAV (1 413c) was higher than the market price (1 342c) by 71c; This indicates poor demand for shares <p>NB: Do not award marks if only the NAV for both years were compared.</p> |

4

3.6.1

Allan Ashwin owns shares in Britesun Ltd. He is pleased with his investment in the shares of this company. Provide TWO points with figures or calculations to support his opinion.

Be aware of combined explanation with figures/calculations

TWO valid points ✓ ✓ with figures ✓ ✓

| | |
|----------------|--|
| POINT 1 | <ul style="list-style-type: none"> His return (dividends) is 11,5% of the price he paid for the shares; $(90 / 780) /$ He earned R324 000 $(360\ 000 \times 90/100)$. |
| POINT 2 | <ul style="list-style-type: none"> He paid 780c per share that is now worth 1 610c. This is 830c more than he paid for the shares, or 106,4%. His return increased from 8% to 15,6% / by 7,6% points / by 95%. |

NOTE: Contact the DBE IMs if candidates used Dividend Yield (DPS/MP) as an answer.

4

3.6.2

The company plans to issue additional new shares equal to 20% of the issued share capital, in the next financial year to existing shareholders. Allan has indicated that he will not take up this offer. Explain how this decision will affect his % shareholding and provide a calculation or figures to support your explanation.

Be aware of combined explanation with figures/calculations

Part marks for incomplete or unclear response

| | |
|--|--|
| CALCULATION figures or calculation | <ul style="list-style-type: none"> He is currently a majority shareholder as he owns 51,4% ✓✓ $(360\ 000/700\ 000)$ of the shares. His % shareholding will drop to 42,9% ✓✓ $(360\ 000/840\ 000)$. |
| EXPLANATION Any ONE point ✓✓ Be alert to valid explanations in calculations column | <ul style="list-style-type: none"> He will no longer be the majority shareholder in the company. He cannot fully influence decision-making in the company. He cannot make a difference in the company anymore. |

6

3.7

Apart from the points provided above, state TWO different factors that will influence shareholders to vote in favour of approving such bonuses.

Any TWO valid points ✓✓ ✓✓
Figures not required.

Part marks for incomplete or unclear response:

| | |
|----------------|--|
| POINT 1 | <ul style="list-style-type: none"> Liquidity / working capital is more efficiently controlled (CR 1,8:1 & ATR 0,9:1). Unproductive fixed assets were sold (R1 100 000) and this will improve the cash flow in the company. |
| POINT 2 | <ul style="list-style-type: none"> Cash generated from operations has improved (by R2 921 500 / by 75,6%). Performance of the company improved with lesser employees and directors as compared to 2023 (from 43 to 38). |

4

TOTAL MARKS

40

QUESTION 4

- 4.1 The three Board members implicated in this case each own 150 000 shares. Calculate the loss that Loma and the two directors were able to each avoid by selling their shares on 13 April 2023.**

| WORKINGS | ANSWER |
|---|--|
| $\begin{aligned} & \text{(R105 – R8)} \\ & 150\,000 \checkmark \times R97 \checkmark \\ & \text{OR } 15\,750\,000 - 1\,200\,000 \\ & \text{OR } (47\,250\,000 - 3\,600\,000) / 3 \\ & \text{Be alert to alternative arrangements for workings} \end{aligned}$ | $\begin{aligned} & R14,55\text{-million} \checkmark \\ & \text{OR} \\ & R14\,550\,000 \end{aligned}$ |

| |
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| 3 |

- 4.2 Explain why the text message is so important to the investigators.**

Any valid point ✓✓

Part marks for incomplete or unclear response

It provided evidence that a crime had been committed / they would know which directors to charge / the person who leaked the information can be easily traced / It will provide evidence of parties involved / Investigators will establish the intent knowledge / It provides consistency between different sources of evidence which strengthens the case against individuals implicated.

Explain why you think this crime is referred to as ‘insider trading’.

Any valid point ✓✓

Part marks for incomplete or unclear response

Because it is fraud based on private information regarding the trading (buying / selling) of shares which is not yet known to others who affected / The directors (insiders) did have access to this privileged information / Using of sensitive information to one’s benefit – abuse of power.

| |
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- 4.3 Explain how the rapid decline in the share price and the fraudulent financial statements are likely to affect the existing shareholders and its workers.**

Part marks for incomplete or unclear response

| | |
|------------------------------------|--|
| Existing shareholders ✓✓ | They will lose their investment in the company / loss of life savings (Financial loss) / loss of dividends / will be likely to sell their shares / there may not be a demand for shares. |
| Workers ✓✓ | Employees would be retrenched / lose their jobs / no job security (job insecurity) / increase in unemployment in the country / Employee’s morale and productivity / Change on compensation and benefits (reduced salary/benefits/bonus) / Cost cutting measures (layoffs). |

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4.4

If you were a shareholder in Gadram Ltd, what other questions would you raise at the AGM? Explain TWO points.

Any TWO valid points. ✓✓ ✓✓

Part marks for incomplete or unclear response

| | |
|----------------|---|
| POINT 1 | <ul style="list-style-type: none"> • Were any checks done into the background of culprits before they were appointed to the Board? • What disciplinary action will be taken by the company or the Board against the culprits? • Is it possible to rescue the company / who will take over the running of the company? • Is there any way in which the losses can be recovered from the culprits e.g. confiscate and sell their possessions? • How will the board intervene to rectify this situation? • What action will be taken against the directors? • How will this impact on the image of the company and the share price in long term? |
| POINT 2 | <ul style="list-style-type: none"> • Will the matter be reported to the relevant professional bodies for disciplinary action against these directors? • What specific actions is the company taking to address the allegations of false financial statements / Disclaimer report? • Can the board provide a detailed explanation for the circumstances leading to the disclaimer report? • What measures are being implemented to ensure the accuracy and transparency of future financial reporting? • Can shareholders expect timely and transparent communication regarding the investigation's progress and findings? • What impact, if any, do the allegations and investigation have on the company's long-term strategic plan? |

4

TOTAL MARKS**15****TOTAL: 150**