



basic education

Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ACCOUNTING P1

2022

MARKS: 150

TIME: 2 hours

**This question paper consists of 14 pages,
a formula sheet and a 10-page answer book.**

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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. Show ALL workings to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer questions.
6. Where applicable, show ALL calculations to ONE decimal point.
7. If you choose to do so, you may use the Financial Indicator Formula Sheet attached at the end of this question paper. The use of this formula sheet is NOT compulsory.
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	Statement of Financial Position (Balance Sheet) and Notes	45	35
2	Fixed Assets, Cash Flow Statement and Financial Indicators	45	35
3	Interpretation of Financial Information	45	35
4	Corporate Governance	15	15
TOTAL		150	120

QUESTION 1: STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AND NOTES
(45 marks; 35 minutes)

- 1.1 Complete each of the following statements by choosing a word(s) from the list below. Write only the word(s) next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

external auditors; directors; shareholders; internal auditors

1.1.1 The ... are employed by the company to set up and monitor control processes.

1.1.2 ... are appointed to give an unbiased opinion on the financial statements.

1.1.3 ... are appointed by the owners of the company to perform key management functions. (3 x 1)

(3)

1.2 PRUDENCE LTD

The information relates to the financial year ended 28 February 2022.

REQUIRED:

- 1.2.1 Complete the following Notes to the Statement of Financial Position (Balance Sheet):

- Ordinary share capital
- Retained Income

(7)

(7)

- 1.2.2 Prepare the Statement of Financial Position (Balance Sheet) on 28 February 2022.

(28)

INFORMATION:**A. Extract from the accounting records on 28 February:**

Balance Sheet Accounts	2022 R	2021 R
Fixed deposit	489 000	?
Ordinary share capital	7 954 000	?
Retained income	1 196 000	?
Loan: XY Loans	?	?
SARS: Income tax (provisional tax)	450 000	
Creditors' control	617 450	
Shareholders for dividends	213 400	162 000
Debtors' control	875 000	
Provision for bad debts	?	23 640
Trading stock (balancing figure)	?	
Petty cash	5 000	5 000
Bank overdraft (balancing figure)	?	
Nominal accounts		
Audit fees	48 000	
Rent income	102 400	

B. Share capital and dividends:

DATE	DETAILS
1 March 2021	75% of the authorised share capital of 1 200 000 ordinary shares were in issue.
30 August 2021	80 000 shares were repurchased from a retired shareholder. He was paid 20% (R136 000) above the average share price and would no longer qualify for dividends.
31 August 2021	An interim dividend of 28 cents per share was paid.
1 December 2021	An additional 150 000 shares were issued.
28 February 2022	A final dividend was declared.

C. Income tax for the year, after taking into account all adjustments, amounted to R438 000. This is 30% of the net profit.

D. The following adjustments are relevant to complete the Statement of Financial Position:

- The provision for bad debts must be increased by R2 610.
- Only half the audit fees were paid. The balance will be paid in March 2022.
- The tenant occupies part of the premises from 1 May 2021. He has not paid the rent for January and February 2022.

E. R240 000 of the fixed deposit will mature on 1 April 2022.

F. A debit balance of R17 950 from the Debtors' Ledger must be transferred to the Creditors' Ledger.

G. The following financial indicators were calculated on 28 February 2022, after all adjustments were processed:

Current ratio	1,6 : 1
Debt-equity ratio	0,4 : 1

H. The loan from XY Loans will be reduced by a capital portion of R228 000 in the 2023 financial year.

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QUESTION 2: FIXED ASSETS, CASH FLOW STATEMENT AND FINANCIAL INDICATORS
(45 marks; 35 minutes)

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 Unused consumable stores at the end of the financial year are classified as a (current asset/financial asset).

2.1.2 Interest on loans is regarded as a/an (operating activity/financing activity).

2.1.3 The (directors' report/audit report) reflects a verbal explanation of the company's activities and future plans. (3 x 1) (3)

2.2 **JANTJES LIMITED**

The information relates to the financial year ended 28 February 2022.

REQUIRED:

2.2.1 **Refer to Information A.**

Calculate the missing figures indicated by (i) to (iii) on the Fixed Asset Note. (11)

2.2.2 Calculate the following amounts for the 2022 Cash Flow Statement:

- Fixed assets purchased (6)
- Dividends paid (4)
- Decrease in loan (3)

2.2.3 Complete the NET CHANGE IN CASH AND CASH EQUIVALENTS section of the Cash Flow Statement. (4)

2.2.4 Calculate the following financial indicators on 28 February 2022:

- % mark-up achieved (3)
- Acid-test ratio (4)
- Net asset value per share (NAV) (3)
- % return on average shareholders' equity (ROSHE) (4)

INFORMATION:**A. Fixed Asset Note to the Statement of Financial Position (Balance Sheet):**

FIXED ASSETS	BUILDINGS R	VEHICLES R	EQUIPMENT R
Carrying value (1 Mar. 2021)		(i)	28 000
Cost	6 450 000	2 350 000	640 000
Accumulated depreciation	0	(840 000)	(612 000)
Movements			
Additions	?	0	195 000
Disposals	0	(iii)	0
Depreciation	0	(298 000)	(ii)
Carrying value (28 Feb. 2022)			
Cost			
Accumulated depreciation			

- Extensions to the buildings were completed during the financial year.
- Additional equipment was purchased on 1 October 2021.
- Equipment is depreciated at 10% on cost.
- An old vehicle was sold at carrying value on 30 November 2021. The cost price of this vehicle was R252 000 and its accumulated depreciation on 1 March 2021 was R172 000.
- Vehicles are depreciated at 20% p.a. on carrying value.

B. Extract from the Statement of Comprehensive Income for the year ended 28 February 2022:

Sales	R12 600 000
Gross profit	5 400 000
Income tax	295 800
Net profit after tax	609 200

C. Extract from the Statement of Financial Position (Balance Sheet):

	28 Feb. 2022 R	28 Feb. 2021 R
Fixed assets (carrying value)	8 746 500	7 988 000
Shareholders' equity	8 840 700	7 600 000
Ordinary share capital	8 648 000	7 404 000
Loan: CBC Bank	?	2 057 600
Inventory	514 500	456 000
Petty cash	5 000	5 000
Bank	125 000 (Cr)	129 000 (Dr)
SARS: Income tax	22 500 (Cr)	13 800 (Dr)
Shareholders for dividends	264 500	180 000
Total current assets	1 323 000	1 232 000
Total current liabilities	735 000	592 500

D. Share capital:

- There were 1 000 000 shares in issue on 1 March 2021.
- 200 000 shares were issued on 1 May 2021.
- 50 000 shares were repurchased on 1 December 2021.

E. Dividends:

- An interim dividend was paid on 31 August 2021.
- A final dividend was declared on 28 February 2022.
- Total dividends for the financial year amounted to R552 500.

F. Loan: CBC Bank

The loan statement received on 28 February 2022 reflected:

- Repayments: R38 000 per month (including interest)
- Total interest capitalised: R216 000

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QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION**(45 marks; 35 minutes)**

You are provided with information relating to two furniture companies, Vrede Ltd and Nigel Ltd, for the financial year ended 30 April 2022.

The directors of both companies have been trying to improve their results after tough trading times in 2020/2021, but they are using different strategies in the 2022 financial year:

- The directors of Vrede Ltd decided to persist with a conservative approach.
- The directors of Nigel Ltd decided to change to a more aggressive approach.

REQUIRED:

NOTE: Provide figures, financial indicators or calculations in EACH case to support your comments and explanations.

3.1 Profitability/Operating efficiency:

Refer to Information A.

Identify and explain which company has been more efficient in controlling its operating activities. Quote TWO financial indicators.

(5)

3.2 Liquidity:

Refer to Information A.

- Identify and explain which company has better liquidity financial indicators. Quote TWO financial indicators.
- Explain ONE concern you have about the liquidity of the other company. Quote ONE financial indicator.

(3)

(2)

3.3 Dividends:

Refer to Information A.

Comment on the difference between the dividend pay-out policies implemented by the directors of the two companies and explain ONE possible reason for EACH of their decisions in their respective companies. Quote figures or indicators.

(6)

3.4 Gearing, risk, financing and investing activities:

Refer to Information A, B and C.

- Explain the specific decisions taken by the directors of EACH company that have affected gearing and risk. Quote rand amounts.
- Comment on the gearing and risk of Nigel Ltd. Quote TWO financial indicators.
- At the Nigel Ltd AGM, an angry shareholder said that the directors' aggressive strategies would probably lead to the failure of the company in future. Explain TWO points why the shareholder might feel this way.

(4)

(4)

(5)

3.5 Shareholders' assessment of market prices of shares:**Refer to Information A and B.**

Shareholders of Vrede Ltd are not satisfied with the market price of their shares, whereas the shareholders of Nigel Ltd are satisfied. Explain by quoting figures or indicators and, for EACH company, identify a factor that would have affected the market price of the shares.

(6)

3.6 Shareholding of Jay Sonto in Vrede Ltd and Nigel Ltd:**Refer to Information B and D.**

Jay invested a total of R10,2 m in the companies in 2019. He is unsure whether changes in his shareholding and share prices have benefited him. Jay wants to sell 19 000 of his Nigel Ltd shares on the JSE.

- Provide calculations to show the change in Jay's % shareholding in Nigel Ltd over the financial year. Comment on his % shareholding in EACH company. (4)
- Calculate the total profit or loss he is currently making on his shares in EACH company. Advise if it is wise to sell 19 000 shares in Nigel Ltd, or not. (6)

INFORMATION:**A. FINANCIAL INDICATORS**

	VREDE LTD		NIGEL LTD	
	2022	2021	2022	2021
% operating expenses on sales	23,9%		23,0%	
% operating profit on sales	13,6%		19,9%	
% net profit on sales	7,0%		9,2%	
Current ratio	1,8 : 1		1,2 : 1	
Acid-test ratio	0,7 : 1		0,5 : 1	
Stock turnover rate	11 times	12 times	23 times	12 times
Debt-equity ratio	0,3 : 1	0,5 : 1	1,3 : 1	0,6 : 1
Net asset value per share	R32,95		R23,08	
Earnings per share	R2,54		R4,10	
Dividends per share	R1,90	R1,40	R4,40	R2,80
Dividend pay-out rate	74,8%		107,4%	
% return on shareholders' equity	7,8%	11,2%	16,8%	10,4%
% return on total capital employed	10,5%		16,2%	

B. SHARE PRICES, EQUITY, LOANS AND INTEREST

	VREDE LTD 2022	NIGEL LTD 2022
Average issue price	R31,00	R24,00
Market price on stock exchange (date)	R24,00	R32,00
Repurchase price per share	R0,00	R29,00
Interest rate on loans	12,0%	12,0%
Interest expense	R900 000	R2 100 000
Loans at year-end	R7 500 000	R17 500 000
Shareholders' equity at year-end	R29 654 000	R13 846 000

C. EXTRACT FROM CASH FLOW STATEMENT

	VREDE LTD 2022	NIGEL LTD 2022
Financing activities	R7 400 000	R(4 540 000)
300 000 new shares issued	9 900 000	0
260 000 shares repurchased	0	(7 540 000)
Change in loan	(2 500 000)	3 000 000
Investing activities	(3 300 000)	880 000
Change in fixed assets	(3 100 000)	730 000
Change in investments	(200 000)	150 000

D. SHAREHOLDING OF JAY SONTA IN EACH COMPANY

	VREDE LTD	NIGEL LTD
Shares owned by Jay Sonta since 2019:	200 000 shares	320 000 shares
% shareholding on: 1 May 2021	33,3%	37,2%
30 April 2022	22,2%	?
Price paid per share on: 1 May 2019	R27,00	R15,00
Total shares in issue on: 1 May 2021	600 000 shares	860 000 shares
30 April 2022	900 000 shares	600 000 shares

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

Corporate social responsibility (CSR) is an important part of corporate governance.

Definition of CSR

CSR is the continuing commitment to behave ethically and contribute to economic/financial development while improving the quality of life of the workforce and their families as well as the country and society at large.

[Source: unido.org]

REQUIRED:

- 4.1 A wealthy CEO said that it is unfair to place CSR responsibilities on companies because the government should be accountable for attending to these issues.

Explain how you would respond to the CEO's statement. State TWO points. (4)

- 4.2 **Refer to the information regarding Franco Ltd.**

- State whether Franco Ltd is a public or private company. (1)
- Explain why employees and investors (shareholders) were distressed by this incident. (4)
- Explain what went wrong in the company to allow for this fraud to occur. State THREE different/separate points. (6)

INFORMATION:**FRANCO LIMITED***

One of the biggest accounting fraud incidents in the history of South Africa occurred several years ago in this furniture company which is listed on the JSE and the European* Stock Exchange.

An investigation identified fictitious or irregular transactions over 12 years, amounting to more than R100 billion. The share price then collapsed by 90% immediately after the news broke. Former Franco Ltd executives and individuals from outside the company, including a 'senior management executive', were accused of fraudulently overstating the company's profit and asset values.

* Based on true articles; names changed

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	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note 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: * In this case, 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 MARKING GUIDELINES 2022

MARKS: 150

MARKING PRINCIPLES:

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. Full marks for correct answer. If answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). Note: if figures are stipulated in memo 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. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
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 / one part correct, the marker must inspect the reasonableness of the answer.
10. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
11. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
12. 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 ☒.
13. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
14. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 10 pages.

QUESTION 1

1.1

1.1.1	Internal auditor	✓
1.1.2	External auditor	✓
1.1.3	Directors	✓

3

1.2 PRUDENCE LTD**1.2.1 ORDINARY SHARE CAPITAL**

900 000 ✓ 1 200 000 x 75%	Balance on 1 March 2021 900 000 x 8,50* see below	7 650 000 ✓✓* No. of shares x ASP*
(80 000)	Shares repurchased 80 000 x R8,50* any one part correct	(680 000) ✓✓ # do not accept 136 000 as a final answer
150 000	Shares issued on 1 December 2021 Inspect correct operation	984 000 ✓ balancing figure
970 000 ✓ operation & one part correct	Balance on 28 February 2022	7 954 000

7

RETAINED INCOME

Balance on 1 March 2021 Check operation from bottom up; [+ OSD + SRepur – NPAT]	753 000 ✓ balancing figure
Net profit after tax 438 000 x 70/30	1 022 000 ✓✓
Shares repurchased	(136 000) ✓
Ordinary share dividends	(443 000) ✓ Interim + Final Div
Interim dividends 820 000 x 28 cents OR 28% / 0,28	229 600 ✓✓ one part correct
Final dividends	213 400
Balance on 28 February 2022	1 196 000

7

1.2.2 STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ON 28 FEBRUARY 2022

ASSETS		
NON-CURRENT ASSETS	TA – CA	12 030 000 ✓
Fixed assets	NCA – FD	11 781 000 ✓
Fixed deposit 489 000 – 240 000	4	249 000 ✓✓
CURRENT ASSETS		2 080 000
Inventory		966 600 ✓ balancing figure
Trade and other receivables 875 000 ✓ – 26 250 ✓✓ + 25 600 ✓✓ – 17 950 ✓ + 12 000*✓ 12 800 one mark Prov for BD (23 640 + 2 610) Rent inc (12 800 + 12 800) Trf debtor (450 000 – 438 000) SARS (102 400 x 2/8) *SARS: Income tax may be shown separately; must be CA (wrong if CL)		868 400 ✓ Operation; one part correct See principle 4
Cash and cash equivalents (240 000 ✓ + 5 000 ✓)		245 000 two marks
TOTAL ASSETS	see total SHE+NCL+CL	14 110 000 ✓
EQUITY AND LIABILITIES		12
SHAREHOLDERS' EQUITY		9 150 000
Ordinary share capital		7 954 000
Retained income		1 196 000
NON-CURRENT LIABILITIES	9 150 000 x 0,4	3 660 000 ✓✓*
Loan: XY Bank	2 *Award TWO marks if calculation shown on this line	3 660 000
CURRENT LIABILITIES	2 080 000 / 1,6	1 300 000 ✓✓
Trade and other payables 617 450 ✓ + 48 000 ✓ – 17 950 ✓ Audit fees Trf Debtor		647 500 ✓ Operation one part correct See principle 4
Shareholders for dividends**		213 400 ✓
Current portion of loan** **May be part of workings of T&OP		228 000 ✓
Bank overdraft		211 100 ✓ operation; balancing figure
TOTAL EQUITY AND LIABILITIES	SE + NCL + CL 10	14 110 000 ✓

28

TOTAL MARKS

45

QUESTION 2

2.1

2.1.1	current asset ✓
2.1.2	financing activity ✓ or operating activity (due to technicality / display reason)
2.1.3	directors' report ✓

3

2.2 **JANTJES LIMITED**

2.2.1

WORKINGS Accept T- accounts	ANSWER
(i) Carrying value of vehicles on 1 March 2021 2 350 000 – 840 000	1 510 000 ✓
(ii) Total depreciation on equipment 640 000 x 10% = 64 000 (CV is 28 000) 28 000 one mark Old: 28 000 – 1 = 27 999 ✓✓ New: 195 000 x 10 % x [5/12] = 8 125 ✓✓ any one part correct	36 124 ✓ any one part correct
(iii) Carrying value of the vehicle sold Current Depreciation: 80 000 x 20% x [9/12] = 12 000 one mark one method mark OR 298 000 – 286 000 = 12 000 252 000 ✓ – 172 000 ✓ – 12 000 ✓✓ one part correct 80 000 OR: 252 000 – (172 000 + 12 000) 184 000 two marks + one m.mark	68 000 ✓ one part correct

11

2.2.2 **Calculate the following amounts for the 2022 Cash Flow Statement:**

WORKINGS	ANSWER
Fixed assets purchased 334 124 two marks (Depreciation) ✓ ✓ 2.2.1 (iii) ✓ ✓ 2.2.1 (ii) ✓ 7 988 000 – 68 000 – 298 000 – 36 124 – 8 746 500 Accept alternative arrangement for calculations e.g. signs reversed, ledger / note format. Calculating CV(CB) from Note: one mark one mark one mark one mark one mark 1 144 000 + 186 876 – 8 746 500 + 6 450 000 – 195 000 OR: –1 144 000 – 186 876 + 8 746 500 – 6 450 000 + 195 000	1 160 624 ✓ one part correct
Dividends paid 288 000 two marks 180 000 ✓ + 552 500 ✓ – 264 500 ✓ OR: signs reversed or ledger –288 000 two marks one mark one mark one mark –180 000 – 552 500 + 264 500	468 000 ✓ one part correct
Decrease in loan Payments – interest = 456 000 – 216 000 OR: Beginning – end = 2 057 600 – 1 817 600 OR: signs reversed or ledger format –456 000 + 216 000 OR –2 057 600 + 1 817 600	240 000 ✓✓✓ one part correct

6

4

3

2.2.3	NET CHANGE IN CASH AND CASH EQUIVALENTS <i>*One mark if no bracket</i>	(254 000) ✓✓*
Opening balance	129 000 + 5 000	134 000 ✓ Or 129 000
Closing balance	– 125 000 + 5 000 <i>must have brackets</i>	(120 000) ✓ Or (125 000)

4

2.2.4 Calculate the following financial indicators on 28 February 2022:

WORKINGS	ANSWER
% mark-up achieved $\frac{5\,400\,000 \checkmark}{7\,200\,000 \checkmark} \times \frac{100^*}{1}$ <p>(12 600 000 – 5 400 000)</p>	75% ✓ operation; one part correct & as a %;
Acid-test ratio (1 323 000 – 514 500) two marks; <i>no part marks</i> 808 500 ✓✓ : 735 000 ✓	1,1 : 1 ✓ operation; one part correct & if in form x : 1
Net asset value per share (NAV) $\frac{8\,840\,700 \checkmark}{1\,150\,000 \checkmark} \times 100^* \text{ (for cents)}$ <p>(1 000 000 + 200 000 – 50 000) one mark</p>	768,8 cents ✓ operation; one part correct cannot be % accept 769 cents or R7,69
% return on average shareholders' equity (ROSHE) $\frac{609\,200 \checkmark}{\frac{1}{2} \checkmark (7\,600\,000 + 8\,840\,700) \checkmark} \times 100^*$ <p>16 440 700 one mark 8 220 350 two marks</p>	7,4% ✓ operation; one part correct as a % sign not necessary

3

4

3

4

** x 100 is not considered as one part correct***TOTAL MARKS****45**

QUESTION 3**3.1 Profitability / Operating efficiency:**

Identify and explain which company has been more efficient in controlling its operating activities. Quote TWO financial indicators.

Nigel Ltd ✓

TWO indicators: name of indicators ✓ ✓ figures ✓ ✓ (comparison or implied)

-1 for additional incorrect financial indicators provided (max -1)

% Operating expenses on sales 23,0% is lower than that of Vrede 23,9% / diff: 0,9% points

% Operating profit on sales 19,9% is better than Vrede 13,6% / diff: 6,3 % points

% Net profit on sales 9,2% is better than Vrede Ltd 7,0% / diff: 2,2% points

5

3.2 Liquidity:

Identify and explain which company has better liquidity financial indicators. Quote TWO financial indicators.

Vrede Ltd or Nigel Ltd ✓ Names of indicators with figures ✓ ✓

- current ratio; 1,8 : 1 (Vrede) or 1,2 : 1 (Nigel) / diff: 0,6 : 1
- acid test ratio; 0,7 : 1 (Vrede) or 0,5 : 1 (Nigel) / diff: 0,2 : 1
- stock turnover rate 11 times (Vrede) 23 or times (Nigel) / diff: 12 times

3

Explain ONE concern you have over the liquidity of the other company. Quote ONE financial indicator.

Explanation company **not mentioned above** (with financial indicator and figures) ✓✓

- **Nigel Ltd:** Acid test ratio 0,5 : 1 or current ratio 1,2 : 1 might indicate poor management of working capital or cash flow / difficult to meet short term debts / stock turnover rate of 23 times might indicate stock is too low to meet demand
- **Vrede Ltd:** Stock turnover rate 11 times (decreased from 12) / or acid-test ratio of 0,7 : 1 could indicate higher stock levels / lower demand for product

2

3.3 Dividends:

Comment on the difference between the dividend pay-out policies implemented by the directors of the two companies and explain ONE possible reason for EACH of their decisions in their respective companies. Quote figures or indicators.

	COMMENT ON POLICIES (with figures)	POSSIBLE REASON FOR DECISION
VREDE LTD Comment ✓ Figure/s ✓ + Reason ✓	<ul style="list-style-type: none"> • Dividend pay-out rate is 74,8% / company gives 74,8% of EPS to shareholders • They only retain 25,2% as a reserve for the company • Paid 190c DPS of 254c EPS (75%) / retained 64c for future growth 	<ul style="list-style-type: none"> • Trying to keep shareholders satisfied with their investment • To allow for expansion / growth • Decided to hold funds in reserve for contingencies (conservative approach) • Strike a balance between appeasing shareholders and ensuring continuity / sustainability
NIGEL LTD Comment ✓ Figure/s ✓ + Reason ✓	<ul style="list-style-type: none"> • Dividend pay-out rate is 107,4% / used retained income to pay dividends • Dividends of 440c exceeds the EPS of 410c / negative effect of 30c 	<ul style="list-style-type: none"> • Trying to keep shareholders satisfied with their investment • Directors want to create positive image of company or its directors (for re-election) • Aggressive decision / attempt to convince shareholders about strategies

6

3.4 Gearing, risk, financing and investing activities:

Explain the specific decisions taken by the directors of EACH company that have affected gearing and risk. Quote rand amounts. -1 for superfluous items if more than 2 decisions provided in either company (max -1)	
VREDE LTD	Award one mark in each case to decision & amount: Issued shares R9 900 000 ✓ Repaid loan R2 500 000 ✓ Do not accept: Fixed assets or Investments
NIGEL LTD	Award one mark in each case to decision & amount: Shares repurchased R7 540 000 ✓ Increased loan R3 000 000 ✓ Do not accept: Fixed assets or Investments
Comment on the gearing and risk of Nigel Ltd. Quote TWO financial indicators. () Comments could be combined or separate Indicators (with amounts) ✓ ✓ mention high risk ✓ mention positive gearing ✓ <ul style="list-style-type: none"> • Debt/equity ratio of 1,3 : 1; high financial risk / an over-reliance on borrowed capital / bordering on insolvency • ROTC of 16,2% indicates positively gearing (better than interest rate of 12%); making effective use of capital employed to generate profits. 	
At the Nigel Ltd AGM, an angry shareholder said that the directors' aggressive strategies would probably lead to the failure of the company in future. Explain TWO points why the shareholder might feel this way. TWO valid items identified (figures not required) ✓✓ ✓✓ Accept other valid alternatives Part-marks for unclear answers Overall comment could be embedded in comments on strategies: candidates must mention why these decisions could create problems for the company e.g. increase risk, poor cash flow, could lead to big losses, poor image, unsettle shareholders ✓ <ul style="list-style-type: none"> • <u>Shares repurchased</u> (R7 540 000) – big cash flow problems / creating false impression of the share value (downsizing) / did not check to solvency ratio • <u>Increase in loan</u> (R3 000 000) – placing the company at high financial risk / at risk of increase in interest rates • <u>Disposal of assets</u> (R730 000) – reducing productive capacity • <u>Redeeming fixed deposit</u> (R150 000) – investment opportunity lost / more should have been invested / should there be any unforeseen setbacks in the future, the business could will find it difficult to meet all financial obligations (solvency issue) • The company <u>focuses on making profits</u> rather than long-term sustainability / placing the company at risk (solvency issues) • Also accept: high dividends (107,4% or R2,64m) affects cash flow or solvency 	

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3.5 Shareholders' assessment of market prices of shares:

Explain by quoting figures or indicators and, for each company, identify a factor that would have affected the market price of the shares. Comparison of MP to NAV is essential in each case. Part-marks for partial or incomplete answers.	
VREDE LTD	Market price of R24 is below NAV of R32,95 / by R8,95 ✓ Identify factor (figures not required): ✓✓ Accept other valid alternatives Low demand or reluctance to buy shares in this company / ROSHE dropped / retained income less than previous year / conservative decision making by directors / scared to take bold decisions / poor image of company or directors / lack of confidence in management
NIGEL LTD	Market price of R32 is better than the NAV of R23,08 / by R8,92 ✓ Identify factor (figures not required): ✓✓ Accept other valid alternatives Shares are in demand / investors have confidence in company / improved returns (ROSHE) / high dividends or pay-out rate / risk takers / confident / dynamic management (aggressive) / Good or positive image

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3.6 Shareholding of Jay Sonto in Vrede Ltd and Nigel Ltd:

Provide calculations to show the change in Jay's % shareholding in Nigel Ltd over the financial year. $320\,000 / 600\,000 \times 100 = 53,3\%$ ✓✓ <i>Implied comparison</i> Also accept: Changed (from 37,2%) to 53,3% / by 16,1% points / by 43,3%.	
Comment on his % shareholding in EACH company.	
VREDE LTD Any ONE point ✓	<ul style="list-style-type: none"> He is still a minority shareholder (little influence on decisions) His % shareholding dropped further (from 33,3% to 22,2%) Did not buy additional shares when shares were issued
NIGEL LTD Any ONE point ✓	If calculation is more than 50%: He is now a <u>majority shareholder</u> as a result of the repurchase of the shares / shareholding increased Decrease in share capital resulted in increased % shareholding which has made him the <u>majority decision-maker</u> If calculation is less than 50%: He is still a minority shareholder (little influence on decisions) His % shareholding increased / dropped
Calculate the total profit or loss he is currently making on his shares in EACH company.	
VREDE LTD	NIGEL LTD
Invested: $200\,000 \times 27 = R5\,400\,000$ Now worth: $200\,000 \times 24$ R4 800 000 Loss of investment: R600 000 ✓✓ OR: $3 \times 200\,000 = R600\,000$ Also accept 11,1% two marks	Invested: $320\,000 \times 15 = R4\,800\,000$ Now worth: $R320\,000 \times 32$ R10 240 000 Growth in investment: R5 440 000 ✓✓ OR: $17 \times 320\,000 = R5\,440\,000$ Also accept 113,3% two marks
Advise if it is wise to sell 19 000 shares in Nigel Ltd, or not. ONE valid point (with figures) ✓✓ could be influenced by on profit / loss above Part-marks cold be awarded for unclear or partial answers Expected responses: <ul style="list-style-type: none"> It is wise to sell because the share price is currently high (R32,00) It might not be wise to sell if the share price increases above R32 in future. He will raise R608 000 in total ($19\,000 \times R32$) He will gain a profit of R323 000 on this sale He will still be a majority shareholder ($301\,000/600\,000 = 50,2\%$) 	

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TOTAL MARKS

45

Explain what went wrong in the company to allow for this fraud to occur. State THREE different/separate points.

Any THREE valid responses

Explanations must indicate factors that affect points in the scenario i.e. not verbatim repetition from of the scenario.

✓✓ ✓✓ ✓✓

part marks for incomplete/unclear answers

- Unreliable audit reports / external or internal auditors were biased or negligent
- Directors have been acting out of character / in an unethical or fraudulent way (criminal activity)
- Personnel expected / influenced to follow irregular practices which are being sanctioned or overlooked by senior managers
- Bribery / collusion / kickback payments / producing or overlooking material transactions
- Lack of regular / effective internal control measures (e.g. internal audits, division of duties) in place
- No proper application of GAAP / IFRS in compiling financial statements

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TOTAL MARKS	15
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TOTAL: 150