



# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## **NATIONAL SENIOR CERTIFICATE**

**GRADE 12**

**ACCOUNTING P1**

**NOVEMBER 2022**

**MARKS: 150**

**TIME: 2 hours**

**This question paper consists of 13 pages,  
a formula sheet and an 11-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 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: Statement of Comprehensive Income and Statement of Financial Position	60	45
2	Cash Flow Statement and Financial Indicators	35	25
3	Interpretation of Financial Statements	40	35
4	Corporate Governance	15	15
<b>TOTAL</b>		<b>150</b>	<b>120</b>

**QUESTION 1: COMPANY FINANCIAL STATEMENTS: STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF FINANCIAL POSITION (60 marks; 45 minutes)**

The information relates to Laysano Ltd for the financial year ended on 28 February 2022.

**REQUIRED:**

**1.1 Refer to Information B (i).**

Calculate the cost of the stock that was damaged. (5)

**1.2 Refer to Information B (ii).**

Calculate:

1.2.1 The profit/loss on sale of the delivery vehicle (5)

1.2.2 Total depreciation for the year (4)

**1.3 Complete the following for the year ended 28 February 2022:**

1.3.1 Statement of Comprehensive Income (28)

1.3.2 Equities and Liabilities section of the Statement of Financial Position (18)

**NOTE:** Some amounts are provided in the ANSWER BOOK.

**INFORMATION:**

**A. Extract: Balances and totals from the records on 28 February:**

	2022	2021
	(R)	(R)
Ordinary share capital	6 670 000	
Retained income	?	
Loan: Saturn Bank	1 159 000	1 280 750
Debtors' control	2 746 300	
Provision for bad debts	?	85 840
Fixed deposit	1 830 000	
SARS: Income tax (provisional tax payments)	130 000	
Creditors' control	428 000	
Sales	9 355 250	
Cost of sales	5 665 250	
Directors' fees	1 124 000	
Audit fees	83 000	
Salaries and wages (including contributions)	1 381 500	
Commission income	4 560	
Rent income	183 600	
Security expenses	72 500	
Interest on fixed deposit	?	
Interest on loan	142 250	
Depreciation	328 200	
Sundry expenses	?	
Dividends on ordinary shares (interim)	207 000	

**B. Additional information:****(i) Stock records:**

- The business sells sports shirts.
- The weighted-average method is used to value the shirts.
- The following information was extracted from the records:

	UNITS	UNIT PRICE	TOTAL R
Stock balance: 1 Mar. 2021	1 900	R660	1 254 000
Purchases during the year	7 100	R750	5 325 000
<b>Total available for sale</b>	<b>9 000</b>		<b>6 579 000</b>
Stock balance: 28 Feb. 2022	1 185	?	?
Units sold	7 750		

- **NOTE:** Damaged shirts were not included in the closing stock figure. The damaged shirts must be written off as a loss.

**(ii) Fixed assets:**

	2022 R	2021 R
Land and buildings		
Vehicles	?	1 750 000
Accumulated depreciation on vehicles	?	620 000
Equipment	956 000	?
Accumulated depreciation on equipment	?	318 000

- Vehicles are depreciated at 20% p.a. on a diminishing balance.
- Equipment is depreciated at 15% p.a. on cost.

The bookkeeper calculated the total depreciation as R328 200 before taking the following into account:

**Vehicles:**

- An old delivery vehicle, with a carrying value of R170 000 on 1 March 2021, was sold for R140 000 on 1 December 2021.

**Equipment:**

- An alarm system costing R48 000 was installed on 1 August 2021.

- (iii) R33 700 received from a debtor, whose account was previously written off as irrecoverable, was posted in error to the Debtors' Control Account. This must be corrected.

The provision for bad debts must then be adjusted to 3% of the Debtors' Control balance.

- (iv) The business signed a contract with Always-Safe Securities for guarding the premises. An annual premium of R32 400 for the period ended 31 July 2022 was paid in full on 1 August 2021.

- (v) All details in respect of the February 2022 salary of an employee were incorrectly debited to the Sundry Expenses Account. The following information relates to his salary:

NET SALARY	DEDUCTIONS	
	SARS: PAYE	PENSION FUND
R11 525	R3 235	R990

The business contributes R2 for every R1 deducted for the Pension Fund.

**NOTE:** EFT payments have already been processed for all relevant amounts payable.

- (vi) A tenant has been leasing office space on the premises since March 2020. She has paid the rent until 30 April 2022. Note that the monthly amount was reduced by R1 350 with effect from 1 January 2022.
- (vii) **Income tax** for the year is calculated at 30% of the net profit. The net profit after tax is R356 300 after adjustments.

(viii) **Loan: Saturn Bank**

- All transactions with respect to the loan were recorded.
- Interest of R142 250 on the loan is capitalised.
- A fixed monthly instalment (including interest) was paid in full.
- The capital portion of the repayments will increase by 10% over the next financial year.

(ix) **Shares and dividends:**

- On 28 February 2022 there were 1 150 000 shares in issue.
- A final dividend was declared on 28 February 2022.
- Total dividends for the year amounted to R345 000.

(x) **Net asset value per share (NAV):**

After taking into account all adjustments, the net asset value (NAV) was correctly calculated as 675 cents per share.

**QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS**  
**(35 marks; 25 minutes)**

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

2.1.1 (Solvency/Liquidity) is the ability of the business to pay off all debts using existing assets.

2.1.2 Effective control of income and expenses is a reflection of the (risk/profitability).

2.1.3 The use of loans to finance a company is known as (returns/gearing).  
 (3 x 1) (3)

2.2 **EAGLE LTD**

The information relates to the financial year ended 28 February 2022. The business is registered with an authorised share capital of 1 800 000 shares.

**REQUIRED:**

2.2.1 Prepare the Retained Income Note on 28 February 2022. (7)

2.2.2 Calculate the following amounts for the Cash Flow Statement:

- Income tax paid (4)
- Funds used to repurchase shares (5)
- Net change in cash and cash equivalents (4)

2.2.3 Calculate the following financial indicators on 28 February 2022:

- Debt-equity ratio (3)
- % return on average capital employed (5)
- Dividends per share (4)

**INFORMATION:**

**A. Extract: Statement of Comprehensive Income on 28 February 2022:**

Sales	R11 232 000
Depreciation	428 300
Interest on loan	382 000
Net profit before tax	1 297 700
Income tax	389 300
Net profit after tax	908 400

**B. Items identified from the Statement of Financial Position on 28 February:**

	2022	2021
<b>Shareholders' equity</b>	<b>12 350 800</b>	<b>10 750 000</b>
Ordinary share capital	11 968 000	?
Retained income	382 800	?
Loan: Lilly Bank	2 886 000	3 700 000
<b>Total capital employed</b>	<b>15 236 800</b>	<b>14 450 000</b>
<b>Cash and cash equivalents</b>	<b>44 700</b>	<b>8 000</b>
Bank	36 700	0
Petty cash	8 000	8 000
SARS: Income tax	14 400 Cr	21 300 Dr
Shareholders for dividends	?	271 400
Bank overdraft	0	133 000

**C. Ordinary shares:**

	NO. OF SHARES
Number of shares on 1 March 2021	1 180 000
Number of shares issued on 1 July 2021 at R9,30 each	300 000
Number of shares repurchased on 1 January 2022 at R1,40 above the average share price	120 000
Number of shares on 28 February 2022	1 360 000

**D. Dividends:**

- Interim dividends of R710 400 were paid on 31 August 2021.
- A final dividend of 12 cents per share was declared to all shareholders on the share register on 28 February 2022.

**KEEP THIS PAGE BLANK.**



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

- 3.1 Choose the appropriate item from the list provided to fit EACH purpose below. Write only the letter (A–D) next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK.

List of items that would appear in a company's annual report:

A	Statement of Comprehensive Income (Income Statement)
B	Statement of Financial Position (Balance Sheet)
C	Cash Flow Statement
D	Directors' Report

NO.	PURPOSE
3.1.1	To reflect the effects of operating, investing and financing activities
3.1.2	To provide a written explanation of the financial performance of a company
3.1.3	To reflect the performance of a company in terms of its gross, operating and net profit

(3)

3.2 **JESSIE LTD**

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

**BACKGROUND INFORMATION:**

Mike Stuurman was appointed as the chief financial officer (CFO) on 1 March 2021 as a result of his successful track record of improved performances at other companies where he had worked previously. He is not a shareholder of Jessie Ltd.

**REQUIRED:**

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

**3.2.1 Profitability:**

Mike has informed the board of directors that he has identified and rectified a number of incidents of fruitless and wasteful expenditure in the company's records. Provide TWO financial indicators that justify the success of Mike's strategies.

(4)

**3.2.2 Dividends:**

- Explain whether the change in the dividend pay-out rate in 2022 will benefit the company or not.
- Sue Lee, a shareholder who owns 5 000 shares, is satisfied with the dividends she has received despite the change in the dividend policy. Explain why she feels this way.

(3)

(3)

**3.2.3 Risk and gearing:**

Some shareholders feel that Mike was reckless when he increased the loan by R3,35 million soon after his appointment as CFO. Explain why you do not agree with them. Provide TWO points.

(6)

**3.2.4 Share capital and % shareholding: Refer to Information C and D.**

- Calculate Brent's % shareholding on 28 February 2022.
- Brent and Kerina decided that they would combine their votes at the upcoming annual general meeting (AGM).
  - Explain ONE possible reason for this decision, with figures.
  - As an existing shareholder, explain why you would be concerned about the strategy of Brent and Kerina. Provide TWO points.

(5)

(3)

(4)

**3.2.5 Refer to Information A, B and C.**

Mike received an offer for the post of CFO at Premier Ltd, at a much better remuneration package than the current one at Jessie Ltd. The directors of Jessie Ltd met and proposed that they offer him a better package than that offered by Premier Ltd.

Explain THREE points relating to the financial results of the company, besides those mentioned above, that the Remunerations Committee can use to justify offering Mike an improved package to remain at Jessie Ltd.

(9)

**INFORMATION:****A. Financial indicators calculated on 28 February:**

	<b>2022</b>	<b>2021</b>
Mark-up % achieved	70%	60%
% operating expenses on sales	14,8%	27,8%
% net profit on sales	24,7%	10,3%
Solvency ratio	3,6 : 1	5,3 : 1
Debt-equity ratio	0,3 : 1	0,2 : 1
Earnings per share	408 cents	123 cents
Dividends per share	190 cents	120 cents
Dividend pay-out rate	46,6%	97,6%
% return on average shareholders' equity	20,7%	7,3%
% return on average capital employed	16,9%	7,5%
Net asset value per share	1 841 cents	1 685 cents

**B. Additional information on 28 February:**

	<b>2022</b>	<b>2021</b>
Market price of shares on stock exchange	1 920 cents	1 540 cents
Interest rate on loans	7,2%	8,5%
Interest rate on fixed deposits	4,5%	3,5%

**C. Issue and repurchase of shares:**

Based on Mike's advice, the directors decided to issue additional shares to existing shareholders at R21,00 per share. Shareholders were allowed to purchase 10 shares for every 40 shares they owned. All shareholders exercised this right.

	<b>NO. OF SHARES</b>
Number of shares in issue on 1 March 2021	1 300 000
Number of shares repurchased on 31 August 2021	240 000
Number of new shares issued to existing shareholders on 28 February 2022 at R21,00 per share (these shares do not qualify for 2022 dividends)	265 000
Number of shares in issue on 28 February 2022	1 325 000

**D. Extract from shareholders' register:**

Brent Flower and Kerina Moss are shareholders in the company but not directors. None of their shares were repurchased on 31 August 2021.

	<b>BRENT FLOWER</b>	<b>KERINA MOSS</b>	<b>TOTAL</b>
Number of shares they owned on 1 March 2021	300 000	280 000	580 000
% shareholding on 1 March 2021	23,1%	21,5%	44,6%
% shareholding on 28 February 2022	?	26,4%	?

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

Extracts from local newspapers have been adapted and presented on the next page. Use the information presented and your knowledge on companies to answer the questions.

**REQUIRED:****4.1 The Johannesburg Securities Exchange (JSE)****Refer to paragraph 1.**

- Explain why companies might want to be listed on the JSE. (2)
- Explain why the JSE would not tolerate 'incorrect, false and misleading financial results' from companies that are listed. (2)

**4.2 Audit reports****Refer to paragraph 2.**

Explain the difference between a *qualified audit report* and a *disclaimer of opinion audit report*. (2)

**4.3 Concerns of shareholders****Refer to paragraphs 1, 2 and 3.**

As a concerned shareholder, what questions would you raise at the AGM? Provide THREE different questions. In EACH case explain an appropriate reason.

(3 x 3) (9)

**INFORMATION:**

<b>JSE TAKES ACTION AGAINST FORMER NON-EXECUTIVE DIRECTORS OF MALLO LTD</b>
<p><b>Paragraph 1</b></p> <p>Ben Jimo, Kim Lestin and Solly Prins were <b>disqualified</b> by the JSE from serving on the board of directors of any listed company for the next five years. The three directors failed to fulfil their oversight roles in relation to the financial statements. The JSE fined Mallo Ltd R6,5 million for publishing a 'number of sets of <b>incorrect, false and misleading financial results</b>'.</p>
<p><b>Paragraph 2</b></p> <p>They were appointed as members of the Audit and Risk Committee in 2018 when Mallo Ltd was listed on the JSE. They resigned from the board of directors after the company published its unaudited mid-year financial results in 2021. The independent auditors had issued a <b>qualified report</b> in 2019 and a <b>disclaimer of opinion audit report</b> in 2020.</p>
<p><b>Paragraph 3</b></p> <p>Jimo, Lestin and Prins all admitted to having no knowledge of <b>corporate governance</b> or the rules and regulations governing the financial reporting of a JSE-listed company. They admitted that they were inexperienced directors and so had not fulfilled their duty of ensuring that Mallo Ltd had proper financial reporting procedures in place.</p>

**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.



# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## NATIONAL SENIOR CERTIFICATE

**GRADE 12**

**ACCOUNTING P1**

**NOVEMBER 2022**

**MARKING GUIDELINES**

**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. Unless otherwise stated, give full marks for 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 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. 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. This memorandum is 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 operation, 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 memo.
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 guideline. Note that one comment could contain different aspects.
15. Codes: f = foreign item; p = placement/presentation.

**These marking guidelines consist of 11 pages.**

**QUESTION 1****1.1****Calculate: Cost of stock damaged**

WORKINGS		ANSWER						
<div>(9 000 – 7 750 – 1 185) two marks    (6 579 000 / 9 000) two marks</div> <div>65 ✓✓    x    731 ✓✓</div> <div>OR Ledger format</div> <table><tr><td>6 579 000 one mark</td><td>5 665 250 two marks</td></tr><tr><td></td><td>866 235 one mark</td></tr><tr><td></td><td>47 515</td></tr></table> <div>7 750 x 731    6 531 485 1 185 x 731    three marks</div>		6 579 000 one mark	5 665 250 two marks		866 235 one mark		47 515	<div>47 515 ✓</div> <div>one part correct</div>
6 579 000 one mark	5 665 250 two marks							
	866 235 one mark							
	47 515							

5

**1.2.1****Calculate: Profit/loss on sale of delivery vehicle**

<b>WORKINGS</b>		<b>ANSWER</b>
34 000 If 170 000 is x 20% or x 9/12 170 000 ✓    – 25 500 ✓✓    – 140 000 ✓ 144 500 three marks		4 500 ✓ <b>one part correct</b> & if 140 000 is offset against carrying value

5

**1.2.2****Calculate: Total depreciation for the year**

<b>Depreciation before adjustments</b>	<b>328 200</b>
<b>Depreciation on vehicle sold</b>	25 500 ✓ <b>See workings in 1.2.1</b>
<b>Depreciation on alarm system</b>	4 200 ✓✓
<b>TOTAL DEPRECIATION</b>	357 900 ✓ <b>one part correct</b>

4

**NOTE:** The amounts calculated above must be transferred to  
**QUESTION 1.3.1, the Statement of Comprehensive Income.**



**1.3.1 Statement of Comprehensive Income for the year ended 28 February 2022.**

<b>Sales</b>		<b>9 355 250</b>
<b>Cost of sales</b>		<b>(5 665 250)</b>
<b>Gross profit</b>		<b>3 690 000</b>
<b>Other income</b>		200 000 <input checked="" type="checkbox"/> *
<b>Commission income</b>		<b>4 560</b>
Rent income (183 600 ✓ – 24 300 ✓✓) <sup>(12 150 x 2)</sup>		159 300 <input checked="" type="checkbox"/> *
Bad debts recovered		33 700 ✓
Provision for bad debts adjustment (85 840 – 83 400) Must be expressed as an income		2 440 ✓✓
<b>Gross operating income</b>	<b>8</b>	3 890 000
<b>Operating expenses</b>	GOI – OP	(3 315 000) <input checked="" type="checkbox"/>
<b>Directors' fees</b>		<b>1 124 000</b>
<b>Audit fees</b>		<b>83 000</b>
Salaries and wages and contributions (1 381 500 ✓ + 11 525 ✓ + 3 235 ✓ + 990 ✓ + 1 980 ✓).		1 399 230 <input checked="" type="checkbox"/> *
Security expenses (72 500 ✓ – 13 500 ✓✓)		59 000 <input checked="" type="checkbox"/> *
Stock loss/stock written off/trading stock deficit see 1.1		47 515 <input checked="" type="checkbox"/>
Depreciation see 1.2.2		357 900 <input checked="" type="checkbox"/>
Loss on sale of asset ** see 1.2.1		4 500 <input checked="" type="checkbox"/>
<b>Sundry expenses</b>	balancing figure only Do not accept figures for other specified items	239 855 <input checked="" type="checkbox"/>
<b>Operating profit</b>	<b>15</b>	<b>575 000</b>
<b>Interest income</b>	PBIE – OP:	76 250 <input checked="" type="checkbox"/>
<b>Profit before interest expense</b>	NPBT + Int Exp	651 250 <input checked="" type="checkbox"/>
<b>Interest expense</b>		<b>(142 250)</b>
<b>Net profit before tax</b>	NPAT + Inc tax	509 000 <input checked="" type="checkbox"/>
Income tax		(152 700) ✓✓
<b>Net profit after tax</b>	<b>5</b>	<b>356 300</b>

\* one part correct

\*\* If calculated as profit in 1.2.1 award method mark under op. income; check if carrying value is greater or less than R140 000 to assess P/L

-1F foreign items (max -2)

-1P placement or presentation (max -2)

**1.3.2 Extract of the Statement of Financial Position on 28 February 2022**

<b>EQUITY AND LIABILITIES</b>	
<b>ORDINARY SHAREHOLDERS' EQUITY</b>	7 762 500 ✓✓
<b>Ordinary share capital</b>	<b>6 670 000</b>
Retained income <span style="background-color: yellow;">SE – OSC</span> <b>3</b>	1 092 500 ✓
<b>NON-CURRENT LIABILITIES</b>	1 025 075
Mortgage loan <div style="text-align: right; font-size: small;"> 1 280 750 – 1 159 000 two marks  264 000 – 142 250 two marks  1 159 000 ✓ – (121 750 ✓✓ x 1,1 ✓ OR + 12 175)  133 925 three marks </div> <b>5</b>	1 025 075 ✓*
<b>CURRENT LIABILITIES</b>	746 925 ✓*
Trade and other payables (428 000 ✓ + 24 300 ✓ see 1.3.1 Rent Income)	452 300 ✓*
Current portion of loan <span style="background-color: yellow;">see loan above</span>	133 925 ✓
Shareholders for dividends	138 000 ✓✓
SARS: Income tax (152 700 – 130 000) <span style="float: right;">**</span> <div style="text-align: right; font-size: small;"> See 1.3.1 or 356 300 x 30/70      ** If –130 000 </div>	22 700 ✓✓
<span style="background-color: yellow;">SE + NCL + CL</span> <b>10</b>	9 534 500 ✓

\* one part correct

18

-1 F foreign items (max -2)

-1 P presentation (max -2 if no appropriate details)

**TOTAL MARKS****60**

**QUESTION 2**

2.1

2.1.1	Solvency ✓
2.1.2	Profitability ✓
2.1.3	Gearing ✓

3

2.2 **EAGLE LTD**2.2.1 **RETAINED INCOME NOTE ON 28 FEBRUARY 2022**

<b>Balance on 1 March 2021</b> <small>inspect operations from bottom (+ OSD + SBB - NPAT)</small>	516 000 ✓
Net profit after tax	908 400 ✓
Shares repurchased <small>120 000 x R1,40</small>	(168 000) ✓✓
<b>Ordinary share dividends</b> <small>operation</small>	(873 600) ✓
<b>Interim dividends</b>	<b>710 400</b>
Final dividends <small>1360 000 x 12c</small>	163 200 ✓✓
<b>Balance on 28 February 2022</b>	<b>382 800</b>

7

2.2.2

<b>Calculate: Income tax paid</b>	
<b>WORKINGS</b>	<b>ANSWER</b>
389 300 ✓ – 21 300 ✓ – 14 400 ✓ <b>OR:</b> – 389 300 + 21 300 + 14 400 <div style="display: inline-block; border: 1px solid black; padding: 5px; margin-top: 10px;">             Accept brackets here              21 300    389 300  <b>353 600</b>              14 400           </div>	353 600 ✓ one part correct;
<b>Calculate: Funds used to repurchase shares</b>	
<b>WORKINGS</b>	<b>ANSWER</b>
✓                  ✓✓ 120 000 x 8,80 = 1 056 000 <small>three marks</small> 120 000 x 1,40 = 168 000 ✓ <small>see 2.2.1</small> <b>OR:</b> 120 000 x 10,20 = 1 224 000 <small>one mark    three marks</small>	1 224 000 ✓ both parts to be added one part correct
<b>Calculate: Net change in cash and cash equivalents</b>	
<b>WORKINGS</b>	<b>ANSWER</b>
44 700 ✓ + 133 000 ✓ - 8 000 ✓	169 700 ✓ one part correct must be positive

4

5

4

## 2.2.3

Calculate: Debt-equity ratio	
WORKINGS	ANSWER
2 886 000 ✓ : 12 350 800 ✓	0,2 : 1 <input checked="" type="checkbox"/> one part correct in form x : 1
3	
Calculate: % return on average capital employed	
WORKINGS	ANSWER
$\frac{1\,297\,700 \text{ one mark} + 382\,000 \text{ one mark}}{1\,679\,700 \checkmark\checkmark} \times 100^*$ $\frac{1}{2} (15\,236\,800 \checkmark + 14\,450\,000 \checkmark)$ OR $\frac{1}{2} [(12\,350\,800 + 2\,886\,000) + (10\,750\,000 + 3\,700\,000)]$ OR $\frac{1}{2} [(12\,350\,800 + 10\,750\,000) + (2\,886\,000 + 3\,700\,000)]$ 14 843 400 two marks	11,3% <input checked="" type="checkbox"/> one part correct must use average (½) must include OSHE + NCL
5	
Calculate: Dividends per share	
WORKINGS	ANSWER
$\frac{710\,400}{1\,480\,000} \times 100$ 48c ✓✓ + 12c ✓	60c <input checked="" type="checkbox"/> one part correct must be interim + final dividends
4	

TOTAL MARKS

35

**QUESTION 3****3.1**

<b>3.1.1</b>	C ✓	Cash Flow Statement / CFS
<b>3.1.2</b>	D ✓	Director's Report / DR
<b>3.1.3</b>	A ✓	Statement of Comprehensive Income / SOCI

3

**3.2 JESSIE LTD**

**NOTE:** Trends may be implied by the figures for 2 years or by the indication of increased / improved / decreased financial indicators in all responses below

**3.2.1**

**Mike has informed the board of directors that he has identified and rectified a number of incidents of fruitless and wasteful expenditure in the company's records. Provide TWO financial indicators that justify the success of Mike's strategies. Quote figures and trends.**

Financial indicator ✓ ✓ Figures and trends ✓ ✓

- % operating expenses on sales has decreased (from 27,8%) to 14,8% / by 46,8% / by 13% (points)
- % net profit on sales has increased (from 10,3%) to 24,7% / by 139,8% / by 14,4% (points)

\* Mark-up % is a deliberate decision; ignore if mentioned.  
-1 for superfluous additional financial indicators mentioned.

4

**3.2.2**

**Explain whether the change in the dividend pay-out rate in 2022 will benefit the company or not. Quote figures and trends.**

Dividend pay-out rate decreased (from 97,6%) to 46,6% / by 52,3% / by 51% (points). ✓

**OR:** Retained 53,4% of earnings this year (compared to 2,4% last year)

**OR:** Retained 51% more than last year.

Explanation ✓✓ **part marks for incomplete / partial / unclear response**

**Response to benefit company:** They retained funds for future expansion / Intentions to increase productivity and maintain growth achieved this year.

**Response for no benefit to the company:** Consider reasons and award marks accordingly e.g. if investors are discouraged from investing it could affect the market price of the shares.

3

**Sue Lee, a shareholder who owns 5 000 shares, is satisfied with the dividends she has received despite the change in the dividend policy. Explain why she feels this way. Quote figures and trends.**

Explanation ✓ figures and trends ✓✓

**NOTE:** Candidates might mention other financial indicators to compensate for the decline in dividend pay-out rate. Do not penalise for superfluous indicators in this sub-question.

- The DPS of 190c in 2022 is higher than the 120c received in 2021 / 70 cents per share more this year / 58,3% more.
- She earned R3 500 more this (R9 500-R6 000 or 5 000 x 70c).
- Dividend yield was 9,9% or 10,3% (190/1920 or 190/1841) / in comparison to the value of the share she is earning a good return of 9,9% / 10,3%

3

**3.2.3 Some shareholders feel that Mike was reckless when he increased the loan by R3,35 million soon after his appointment as CFO. Explain why you do not agree with them. Provide TWO points, with financial indicators, figures and trends.**

Max -1 for superfluous additional financial indicators mentioned.

- **Indicator:** Debt/equity ratio ✓  
**Figures & trends:** increased (from 0,2 : 1) to 0,3 : 1 / by 0,1 : 1 ✓
- **Indicator:** % return on average capital employed (ROTCE) ✓  
**Figures & trends:** increased / improved (from 7,5%) to 16,9% / by 9,4% (points) / by 125,3% ✓

**Explanation:**

- Still lowly geared / low financial risk / does not rely too much on borrowed capital. ✓
- The company enjoys positive gearing / ROTCE is greater than interest rate of 7,2% / making effective use of loan to generate profits. ✓

6

**3.2.4 Refer to Information C and D.**

**Calculate Brent's % shareholding on 28 February 2022.**

WORKINGS	ANSWER
$\frac{300\ 000 \checkmark + 75\ 000 \checkmark \checkmark}{1\ 325\ 000 \checkmark} \times 100$	28,3% <input checked="" type="checkbox"/> one part correct

5

**Brent and Kerina decided that they would combine their votes at the upcoming annual general meeting (AGM).**

**Explain ONE possible reason for this decision, with figures.**

Accept figures calculated above

Part marks for partial / unclear responses

Figures ☒ Explanation ☒ (mention whether their combined shares are >50% or not)

Combining their shares gives them a clear majority of 54,7% (28,3% + 26,4%) / the other shareholders own 45,3% of the shares / they would enjoy more than 50% of the voting rights / they will be in a position to have more control over major decisions / influence decisions.

**If combined shares are calculated as less than 50% mark explanation accordingly** e.g. they still do not own more than 50% / they are not majority shareholders / their influence on the company might increase / this is not going to help them in controlling decisions at the AGM.

3

**As an existing shareholder, explain why you would be concerned about the strategy of Brent and Kerina. Provide TWO points.**

**Very open-ended: accept any valid points**

Responses will differ if combined votes are <50%

TWO different possible concerns ✓✓ ✓✓

Part marks for partial / unclear responses

- Whether they will use their powers to benefit the company / have other unethical motives (e.g. corruption)
- Whether they want to gain financially through high directors fees in future
- Their past experience in directing a company: their skills and knowledge
- Their understanding of the responsibility / powers of majority shareholders
- Their willingness to serve on the Board / sacrifice their time
- Their attitude: Whether they will support the CEO, CFO and other directors / whether this is an amicable decision or an aggressive effort to gain control / whether they will work as a team with a friendly approach or not
- Quality of their contributions / issues they might have raised at previous AGMs
- Effect on the company if one of them discontinues the coalition / sells shares and is no longer a shareholder / possibility of instability in decision-making

**Examples of responses for less than 50% shareholding:** minority shareholders have rights and are able to express opinions; although not a majority greater combined % is still significant

4

**3.2.5 Refer to Information A, B and C.****NOTE TO MARKERS:**

***Be alert to the fact that this question requires items not mentioned by candidates above.***

The Marking Guide contains the following indicators mentioned in the previous answers above:

% OE on sales                      % NP on sales                      Dividend pay-out rate / DPS / EPS  
Debt/Equity ratio                      ROTCE

***However, if candidates omitted these items in the questions above, they may use them in this question 3.2.5.***

**Explain THREE points, relating to the financial results of the company, besides those mentioned above that the Remunerations Committee can use to justify offering Mike an improved package to remain at Jessie Ltd. Quote relevant financial indicators, figures and trends.**

**part marks for incomplete / partial / unclear response**

**NOTE: Explanations could be common to different financial indicators**

**Financial or other indicator**

**1.✓ 2.✓ 3.✓**

**Explanation of evidence: 1. ✓ ✓ 2. ✓ ✓ 3. ✓ ✓**  
e.g. trend and figures / improvement / additional comment / insight to justify improved package / benefit to company (could be implied)

Mark-up %	Increased (from 60%) to 70% and they were still able to increase gross profit / customers are confident about product quality
Earnings per share (EPS)	Increased to 408c / (from 123c) to 408c / by 231,7%, is a clear indication of improved productivity or profitability.
ROSHE	Increased to 20,7% / (from 7,3%) to 20,7% / by 13,4% points / 183,6%. Shareholders would be pleased with the improved returns as well as it being better than interest on alternative investments (4,5%)
Solvency ratio	Although this declined (from 5,3:1) to 3,6:1 this was due to the fact that large loans had been received and the funds were positively used in the company
Net asset value per share (NAV) Treat as a separate point	Improved to 1 841c / (from 1 685c) to 1 841c / by 156c / 9,3%. An improvement in growth (assets > liabilities)
The market value (market price) Treat as a separate point	Increased to 1 920c / (from 1 540c) to 1 920 / by 380c / by 24,7%. A clear indication of increased demand for shares / investor confidence.
<b>Other indicators (which might not include traditional financial indicators):</b>	
Issue price of new shares	Shares issued at R21,00 which is higher than the market value. This indicates that shareholders were happy to invest more, taking into account the trends.
Offer of additional shares / 'rights issue'	Additional 265 000 shares issued at R21 generated additional capital of R5,6m / shareholders were confident of higher returns in future / shares could be issued to Mike to motivate him to stay in the company.

**TOTAL MARKS**

**40**

**QUESTION 4: CORPORATE GOVERNANCE****4.1 The Johannesburg Securities Exchange (JSE) Refer to paragraph 1.****Explain why companies might want to be listed on the JSE.**ONE valid point ✓✓ **part marks for incomplete / partial / unclear response**

- The public can participate in the purchase of shares / easier access to potential investors / tapping the global investment environment (internet)
- Adds to the prestige of the company (due to additional listing requirements & publicity)
- Ensures compliance with Companies Act and other regulations (e.g. BBEEE scores, audit requirements)
- Easier to access additional funds by advertising new issue of shares / ongoing advertising through JSE publications
- The public can make their shares available to other potential investors if they want to 'cash in' their investments / facilitates transfer of shares /
- Constant update of share prices will indicate investor confidence / demand for shares / a good image of the company.

2

**Explain why the JSE would not tolerate 'incorrect, false and misleading financial results' from companies that are listed.**Explanation ✓✓ **part-marks for incomplete/unclear responses**

- They will not deceive the public as it is their role to ensure that sound business management practices are in place / do not want to cast doubts about their operations
- Would want to avoid any legal action against the JSE for misleading shareholders / Reputation of JSE may become questionable.
- JSE is a vital organisation in facilitating capital funds that stimulate the economy / leads to creation of jobs / public relies on credible information.
- JSE competes with international stock markets / need to guard their activities / ensure adherence to rules & regulations.

2

**4.2 Audit reports****Refer to paragraph 2.****Explain the difference between a *qualified audit report* and a *disclaimer of opinion audit report*.**

Qualified Report ✓ Disclaimer Report ✓ could be a combined or implied explanation

*Combined response for 2 marks:***Part-marks for partial / unclear answers**

A qualified report mentions only specific items which are of concern to the auditor; while a disclaimer report means that the auditors are refusing to express an opinion.

*Examples of separate responses for 1 mark each:*

- **Qualified audit report:** The external auditors identified a few areas of concern / does not allow them to give an unqualified audit report / internal control processes / audit evidence might be deficient.
- **Disclaimer report:** The external auditors refuse to, or were unable to, obtain sufficient evidence to support an audit opinion / the company does not exercise reliable internal control processes / management was incompetent in performing basic recording and reporting tasks / financial statements do not adhere to GAAP & IFRS.

2



**4.3 Concerns of shareholders Refer to paragraphs 1, 2 and 3.*****This is a very open-ended question; be alert to any other valid responses***

<b>As a concerned shareholder, what questions would you raise at the AGM? Provide THREE different questions. In EACH case explain an appropriate reason.</b>		
Any three valid questions ✓✓      ✓✓      ✓✓ Part marks for incomplete / unclear / partial responses Excellent / very good = 2 marks Good / satisfactory = 1 mark		Any three valid reasons ✓      ✓      ✓ Reasons to be appropriate to the questions. The same reason could apply to more than one question / could be verbatim from scenario.
<b>Questions you would raise at the AGM</b>		<b>One reason for each question</b>
<b>QUESTION</b>	Why do the disqualified directors seem to have no skills and/or experience in governance issues? Why are there no criteria for directors' appointments?	For a company listed on the JSE highly qualified directors are required.
<b>QUESTION</b>	Why did the board not take immediate action over the qualified and disclaimer audit reports?	Poor audit reports will severely affect the company and the market price of its shares.
<b>QUESTION</b>	Why have they not implemented disciplinary procedures on these directors (before the JSE disqualified them)?	The board should have taken prompt action to prevent further problems.
<b>QUESTION</b>	Why were very important roles allocated to these directors?	It is reckless to allocate important tasks to directors who cannot carry them out.
<b>QUESTION</b>	Why do the board and the other directors appear to be negligent or careless in appointing or voting for the unskilled directors at the AGM?	The board and the other directors could lay themselves open to legal claims due to negligence / failure to screen directors and conduct background checks.
<b>QUESTION</b>	Where will the funds come from to pay the R6,5m fine?	Transparency required by King Code in all processes. Profits or retained income could be negatively affected.
<b>QUESTION</b>	How has the financial stability or profitability of the company been affected by this incident?	Fraud in financial statements could negatively affect the company's sustainability
<b>QUESTION</b>	How are the vacant non-executive directors' posts going to be filled?	The shareholders and the board must not vote for or appoint directors who lack vital skills.
<b>QUESTION</b>	What measures will the board put in place to prevent this fraud in future? What control measures does the Audit & Risk committee have in place?	Transparency / accountability / improving controls.
	<i>Accept any other valid questions</i>	<i>Accept reasons that correspond to the questions</i>

9

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