

ACCOUNTING

WINTER CLASSES

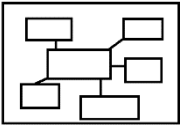



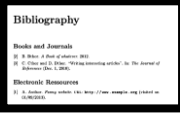
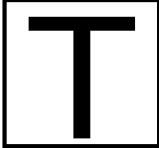
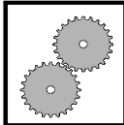

GRADE 12

TERM 2

TEACHER AND LEARNER CONTENT MANUAL



ICON DESCRIPTION

 <p>MIND MAP</p>	 <p>EXAMINATION GUIDELINE</p>	 <p>CONTENTS</p>	 <p>ACTIVITIES</p>
 <p>BIBLIOGRAPHY</p>	 <p>TERMINOLOGY</p>	 <p>WORKED EXAMPLES</p>	 <p>STEPS</p>

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PACE SETTER

DAY 1	(Pre-test+Remedial) Cash Flow Statement
DAY 2	Cash Flow Statement
DAY 3	Cash Flow Statement and Analysis and Interpretation
DAY 4	Analysis and Interpretation
DAY 5	Corporate Governance
DAY 6	Inventory
DAY 7	Inventory
DAY 8	Cost Accounting
DAY 9	Cost Accounting
DAY 10	(Post-test+Remedial) Cash Flow Statement

GRADE 12: PAPER 1

Financial Reporting & Evaluation

Concepts relating to companies	Includes: issuing of shares at issue price (no par value, no share premium); buying back of shares See APPENDICES 5.1, 5.2, 6.1, 6.2 and 6.3.
Concepts relating to GAAP & IFRS	
Unique Ledger Accounts of companies & interpretation thereof	
Accounting equation of companies	
Adjustments, final accounts & trial balances of companies	
Income Statement (Statement of Comprehensive Income) of companies	Includes: fixed asset valuation (see 12.1.11) and inventory valuation (see 12.1.12)
Balance Sheet (Statement of Financial Position) & Notes of companies	
Cash Flow Statement of companies	
Analysis & interpretation of financial statements of companies*	Includes all financial statements (See 12.1.6, 12.1.7, 12.1.8, 12.1.10.)
Analysis & interpretation of published financial statements & audit report of companies*	Refer to financial indicators below.
Valuation of fixed assets for reporting in financial statements	Includes: additions, depreciation & disposal
Inventory valuation for reporting in financial statements	Integrates valuation methods: FIFO; weighted average & specific identification
Professional bodies & Code of conduct	Role of independent auditors See APPENDIX 5.7.
Ethical behaviour & corporate governance in financial environments	See APPENDIX 5.7.
Legislation governing companies (overview only)	Companies Act (general overview only) See APPENDIX 5.7.



CASH FLOW STATEMENT

It shows what happened to the cash balance during a particular financial year. It also contains details of cash inflows and outflows through business operating activities, investing activities and financing activities.

RULES OR LAWS REGARDING THE CASH FLOW STATEMENT:

1. The structure or format is important. Foreign / misplaced items will lead to negative marking.
2. No figure must be used more than once, unless used differently.
3. An increase in Assets is an (Outflow) and a decrease in Assets is an Inflow.
4. An increase in either the Owner's Equity or Liabilities is an Inflow and a decrease in both is an (Outflow).

WHERE DO I FIND THE INFORMATION TO PREPARE A CASH FLOW STATEMENT?

Information to prepare the CFS is usually obtained from prepared Financial Statements, and additional information provided to explain certain figures on the Statements; summarised as follows:

Operating Activities	Income Statement	Sales	xxx
		Less: Cost of sales	(xxx)
		Gross Profit	xxx
		Add: Other operating income	xxx
		Less: operating expenses	(xxx)
		Operating profit	xxx
	Balance Sheet	Current Assets	
		Inventories	xxx
		Trade and other receivables	xxx
		Cash and Cash Equivalents	xxx
		Current liabilities	
		Trade and other payables	xxx
Investing Activities	Balance Sheet	Non-current Assets	
		Tangible/Fixed Assets	xxx
		Financial Assets/Fixed deposit	xxx
Financing Activities	Balance Sheet	Shareholders' Equity	xxx
		Non-current liabilities	xxx

CASH FLOW STATEMENT FOR THE YEAR ENDED

	Note	R
→ Cash effects of operating activities		+ / -
Cash generated (utilised) from operations 1	1	+ / -
Interest paid (check extract of the income statement / adjustments)		(xxx)
Dividends paid (Opening balance + Interim dividends)	3	(xxx)
Income tax paid (\pm Opening balance + Income Tax \pm Closing balance)	4	(xxx)
→ Cash effects of investing activities		+ / -
Purchase of fixed assets (Opening balance – Depreciation – Proceeds from the sale of fixed assets* – Closing balance)	5	(xxx)
Proceeds from sale of fixed assets* (Opening balance – Depreciation + Purchase of fixed assets – Closing balance)		xxx
Investment matured / (placed) (Opening balance – Closing balance)		+ / -
→ Cash effects of financing activities		+ / -
Proceeds of shares issued: (No. of shares issued x issue price) OR (Opening balance – Repurchase of shares on average price – Closing balance)		xxx
Repurchase of shares: (No. shares repurchased x Repurchase price) OR (OSC opening balance + proceeds from issued shares – closing balance)		(xxx)
Loan received / (repaid): (Opening balance – Closing balance)		+ / -
→ Net change in cash & cash equivalents: The sum of all activities	2	+ / -
→ (\pm Operating Activities \pm Investing Activities \pm Financing Activities)		
Cash & cash equivalents at beginning of year:	2	+ / -
→ (Opening balance – Bank Overdraft (if any))		
Cash & cash equivalents at end of year:	2	+ / -
→ (Closing balance – Bank Overdraft (if any))		

***Remember rule number 2:** The account of the proceeds from the sale of fixed assets is used more than once, however, differently.

NOTES TO THE CASH FLOW STATEMENT FOR YEAR ENDED

1. RECONCILIATION BETWEEN NET PROFIT BEFORE TAX AND CASH GENERATED FROM OPERATIONS

Net profit before taxation	+
Adjustments in respect of:	
Depreciation*	+
Interest expense*	+
	<hr/>
Operating profit before changes in working capital	+
Cash effects of changes in working capital	+ / -
Change in inventory (Opening balance – Closing balance)	+ / -
Change in receivables (Opening balance – Closing balance)**	+ / -
Change in payables (Opening balance – Closing balance)**	+ / -
	<hr/>
Cash generated from operations	+ / -

***Remember rule 2:** Depreciation and Interest expenses are both regarded as inflows in the note, but will later be shown as outflows on the face of the statement. Therefore they are both used more than once, however, differently.

****Remember rule number 2:** Do NOT use figures of the accounts that are independent on the face of the cash flow statement, e.g. SARS (Income tax), Shareholders for dividends and Bank overdraft.

Worked Example 1 CASH FLOW STATEMENT AND FINANCIAL INDICATORS (30 marks; 20 minutes)

1.1 CONCEPTS

Choose the correct words from those given below to complete the sentences:

International Financial Reporting Standards (IFRS); Retained income;
Ordinary share capital; Memorandum of Incorporation

- 1.1.1 The share of profit not distributed by the company to shareholders. (1)
- 1.1.2 Guidelines for the preparation of financial statements to ensure consistency. (1)
- 1.1.3 Sets out the rights, duties and responsibilities of shareholders and directors. (1)

1.2 STONEHAVEN LIMITED

The given information relates to Stonehaven Ltd for the financial year ended 29 February 2024.

REQUIRED:

- 1.2.1 Prepare the note for Retained Income on 29 February 2024. (5)
- 1.2.2 Calculate the following on 29 February 2024:
 - Mark-up percentage (2)
 - Debt-equity ratio (3)
- 1.2.3 Calculate the following figures in the 2024 Cash Flow Statement:
 - Taxation paid (4)
 - Proceeds on Fixed assets sold (5)
 - The value of shares issued during the year. (5)
 - Net change in cash and cash equivalents (3)

A. Information from the Statement of Comprehensive Income on 29 February 2024:

	R
Sales	7 200 000
Cost of sales	4 500 000
Depreciation	726 800
Interest expense	64 000
Income tax	315 000

B. Extract from Statement of Financial Position:

	2024 R	2023 R
Fixed assets (carrying value)	6 325 000	5 890 300
Shareholders' equity	7 272 500	5 320 000
Ordinary share capital	6 460 000	4 800 000
Retained income	812 500	520 000
Loan	2 909 000	1 876 000
Cash and cash equivalent	0	27 900
Shareholders for dividends	?	111 000
SARS: Income Tax	34 800 Cr	29 580 Dr
Bank overdraft	28 140	11 900

C. ADDITIONAL INFORMATION:

(i) Share capital and dividends:

The company is registered with an authorised share capital of 1 200 000 ordinary shares.

On 1 March 2023 there were 800 000 shares in issue.

The interim dividends of R170 000 were declared and paid on 1 September 2023.

200 000 additional shares were issued on 30 September 2023.

On 15 January 2024, 50 000 shares were repurchased from a shareholder at R7,50 per share. (70 cent above the average price.)

A final dividend of 25 cents per share was declared on 28 February 2024. Shares bought back do not qualify for dividends.

(ii) **Purchase of Fixed assets:**

Fixed assets purchased during the year amounted to R1 530 700.

(iii) **Income tax:**

Net profit after tax amounted to R735 000.

Income tax for the year was calculated at 30% of the net profit before tax.

Worked Example 1 Solution

1.1

Choose the correct words from those given below to complete the sentences:

1.1.1	Retained income	✓
1.1.2	IFRS	✓
1.1.3	Memorandum of Incorporation	✓

3

1.2.1

Note for Retained income on 29 February 2024

	R	
Balance at the beginning of the year	520 000	
Nett profit after tax	735 000	✓
Buy back of 50 000 at R0,70	(35 000)	✓
Dividends	(407 500)	☑
Interim dividend	170 000	
Final dividend (950 000 x 0,25)	237 500	✓☑
Balance at the end of the year	812 500	

5

1.2.2 Calculate the following on 29 February 2024:

Mark-up percentage	
WORKINGS	ANSWER
$\frac{7\,200\,000 - 4\,500\,000}{4\,500\,000} \times 100$	60% ✓✓ no part marks

2

Debt-equity ratio	
WORKINGS	ANSWER
$2\,909\,000 \checkmark : 7\,272\,500 \checkmark$	0,4 : 1 ☑* one part correct must be in ratio X: 1

3

1.2.3

Calculate the following figures in the 2024 Cash Flow Statement:**Taxation paid**

WORKINGS	ANSWER
$735\,000/70 \times 30$ <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">✓ 315 000 -315 000 (315 000)</div> <div style="text-align: center;">✓ - 29 580 + 29 580 29 580</div> <div style="text-align: center;">✓ - 34 800 + 34 800 34 800</div> </div> <div style="text-align: right; margin-top: 10px;">choose line</div>	250 620 <input checked="" type="checkbox"/> * one part correct

29 580
(315 000)
34 800

4

Proceeds on Fixed assets sold

WORKINGS	ANSWER						
$5\,890\,300 \checkmark + 1\,530\,700 \checkmark - 726\,800 \checkmark - 6\,325\,000 \checkmark$ <table border="1" style="display: inline-table; margin-top: 10px;"> <tr><td>5 890 300</td><td>726 800</td></tr> <tr><td>1 530 700</td><td>369 200</td></tr> <tr><td></td><td>6 325 000</td></tr> </table>	5 890 300	726 800	1 530 700	369 200		6 325 000	369 200 <input checked="" type="checkbox"/> * one part correct
5 890 300	726 800						
1 530 700	369 200						
	6 325 000						

5 890 300
1 530 700
(726 800)
369 200
6 325 000

5

Calculate the value of shares issued during the year

WORKINGS	ANSWER
$6\,460\,000 \checkmark + 340\,000 \checkmark \checkmark - 4\,800\,000 \checkmark =$ $50\,000 \times 6,80$	R2 000 000 <input checked="" type="checkbox"/> * one part correct

5

Net change in cash and cash equivalents

WORKINGS	ANSWER
Net change in cash and cash equivalents	(44 140) <input checked="" type="checkbox"/>
Cash and cash equivalents at the beginning (-11 900 + 27 900)	16 000 <input checked="" type="checkbox"/>
Cash and cash equivalents at the end	(28 140)

3

*☒ operation one part correct

Activity 1 CASH FLOW AND FINANCIAL INDICATORS**(45 marks; 35 minutes)**

- 1.1** Choose the correct term to complete each of the following statements. Write only the term next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

current asset; outflow of cash; non-current asset; non-current liability;
inflow of cash

- 1.1.1 A mortgage bond to finance the purchase of new property is a/an ...
1.1.2 An increase in debtors will indicate a/an ...
1.1.3 Packing material not used at the end of the financial year is a/an ...
- (3 x 1) (3)

1.2 MAREMATLOU LTD

The information below relates to the accounting records of MAREMATLOU Ltd. The financial year ends on 30 June 2024.

REQUIRED:

- 1.2.1 Calculate the following amounts for the Cash Flow Statement and Notes:
- Inventory amount on 30 June 2024 (2)
 - Income tax paid (4)
 - Dividends paid (3)
 - Purchase of fixed assets (5)
- 1.2.2 Prepare the Cash Effects of the Financing Activities section of the Cash Flow Statement for the year ended 30 June 2024. (8)
- 1.2.3 Complete the section of Cash and Cash Equivalents in the Cash Flow Statement. (6)
- 1.2.4 Calculate the following financial indicators on 30 June 2024:
- % net profit before tax on sales (3)
 - Current ratio (3)
 - Dividends per share (4)
 - % returns on shareholders' equity (4)

INFORMATION:**A. Information from the Statement of Comprehensive Income on 30 June 2024**

Sales	8 240 000
Depreciation	113 125
Profit before interest expense	1 323 260
Interest expense	128 460
Income tax	358 440
Net profit after tax	836 360

B. Extract from the Statement of Financial Position on 30 June 2024:

	30 June 2024 (R)	30 June 2023 (R)
Current assets	1 430 000	2 521 000
Inventories	?	450 000
Trade and other receivables	?	1 689 000
Cash and cash equivalents	0	382 000
Shareholders' equity	13 941 500	10 312 350
Ordinary share capital	13 440 000	9 700 000
Retained income	501 500	612 350
Long term loan: CZ Bank	2 850 400	4 500 500
Current Liabilities	650 000	900 000
Shareholders for dividends	315 000	65 000
SARS (income tax)	72 000	102 000

C. Items identified from the Cash Flow Statement and Notes on 30 June 2024:

	Amount	Change
Inventory	390 000	<i>outflow</i>
Cash flow from operating activities	862 700	<i>inflow</i>
Cash flow from investing activities	3 132 600	<i>outflow</i>

D. FIXED ASSETS:

- A new delivery vehicle was purchased halfway during the year. The depreciation on the vehicle purchased was R44 175.
- Depreciation on vehicles is calculated at 15% on cost.
- Equipment purchased during the year amounts to R62 000.
- Marematlou Ltd sold part of its building to one of the directors.

E. ORDINARY SHARE CAPITAL:

- On 1 July 2023, the company had 2 500 000 ordinary shares in issue.
- On 15 September 2023 a further 1 000 000 ordinary shares were issued by directors.
- Ordinary shares were repurchased on 31 May 2024 by the directors at R1 500 000. These shareholders qualify for final dividends.
- On 30 June 2024, there were 3 200 000 ordinary shares in issue.

F. DIVIDENDS:

- The directors paid interim dividends of 5 cents per share on 31 January 2024.
- A final dividend was declared to all shareholders on 30 June 2024.
- Total dividends paid and declared amounted to R490 000.

Activity 1

1.1

1.1.1	
1.1.2	
1.1.3	

45

3

1.2.1

Calculate: Inventory amount at the end of the financial year

WORKINGS	ANSWER

2

Calculate: Income tax paid

WORKINGS	ANSWER

4

Calculate: Dividends paid

WORKINGS	ANSWER

3

Calculate: Purchase of fixed assets

WORKINGS	ANSWER

5

1.2.2	CASH EFFECTS OF FINANCING ACTIVITIES		
			8
1.2.3	NET CHANGE IN CASH AND CASH EQUIVALENTS		
			6
1.2.4	Calculate: % net profit before tax on sales		
	WORKINGS	ANSWER	
			3
	Calculate: Current ratio		
	WORKINGS	ANSWER	
			3
	Calculate: Dividends per share		
	WORKINGS	ANSWER	
			4
	Calculate: % returns on shareholders' equity		
	WORKINGS	ANSWER	
			4

Activity 2: CASH FLOW STATEMENT AND RATIOS**(50 marks; 40 minutes)**

- 2.1** Match the concepts in column A with a description in column B. Write only the letter (A – D) next to the numbers (2.1.1 – 2.1.5) in the ANSWER BOOK.

COLUMN A		COLUMN B	
2.1.1	Risk/Gearing ratios	A	Ability of the business to pay off all its debts
2.1.2	Profitability ratios	B	Ability of the business to pay off its short-term debts
2.1.3	Market value ratios	C	Indicates how efficiently assets are being used and operations being managed.
2.1.4	Liquidity ratios	D	The extent to which a company is financed by loans
2.1.5	Solvency ratio	E	The performance of a company compared to others in the same industry.

(5)

- 2.2** The information relates to JENN LTD for the year ended 28 February 2025.

REQUIRED:

- 2.2.1 Prepare the following notes for the year ended 28 February 2025.
- Ordinary Share Capital (9)
 - Retained Income (9)
- 2.2.2 Complete the Cash Flow Statement for the year ended 28 February 2025. (17)
- 2.2.3 Calculate the following financial indicators for the year ended 28 February 2025:
- % operating expenses on sales (3)
 - Stock turnover rate (4)
 - Interim dividend per share (3)

INFORMATION:

- A.** Extract from the Statement of Comprehensive Income for the year ended 28 February 2025.

	R
Sales	9 888 720
Cost of sales	6 072 000
Gross operating income	3 020 480
Operating expenses	1 633 140
Operating profit	1 659 530
Income tax	?
Net profit before tax	1 540 000

B. Extract from the Statement of Financial Position on:

	28 Feb. 2025 (R)	29 Feb. 2024 (R)
Cash and cash equivalents	?	178 680
Trading stock	174 000	193 000
SARS: Income tax	66 650 Dr	44 675 Cr
Ordinary shareholders' equity	?	8 733 720
Ordinary share capital	?	8 160 000
Retained income	?	573 720
Loan: COFIMVABA Bank	5 440 000	?
Shareholders for dividends	?	?
Bank overdraft	0	28 600

C. Share capital:

- On 1 March 2024, there were 1 200 000 shares in issue.
- 400 000 shares were issued at R10 per share on 30 June 2024.
- On 30 November 2024, 34 000 shares were repurchased at R1,90 (per share) above the average share price.

D. Dividends and dividend pay-out rate:

- Dividends paid and declared:

DIVIDENDS			
Final	29 February 2024	Paid	17 cents per share
Interim	1 September 2024	Paid	R416 000
Final	28 February 2025	Declared	?

- Total dividends paid and declared for the year ended 28 February 2025, R744 860.

E. Loan: COFIMVABA Bank

- Monthly instalments of R97 120, including interest, were paid.
- Interest capitalised amounted to R685 440.

F. Income tax amounts to 30% of the net profit.**G. Net change in cash and cash equivalents, R355 752 outflow.**

Activity 2

2.1 Match the concepts in column A with a description in column B.

2.1.1	
2.1.2	
2.1.3	
2.1.4	
2.1.5	

5

2.2.1 ORDINARY SHARE CAPITAL
AUTHORISED SHARE CAPITAL

2 000 000 ordinary shares

ISSUED SHARE CAPITAL

1 200 000	Ordinary shares on 1 March 2024	8 160 000

9

RETAINED INCOME NOTE FOR THE YEAR ENDED 28 FEBRUARY 2025

Balance at the beginning of the year	
Ordinary share dividends	(744 860)
Balance at the end of the year	

9

2.2.2 CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2025

CASH FLOW FROM OPERATING ACTIVITIES	
Cash generated from operations	
Interest paid	
CASH FLOW FROM FINANCING ACTIVITIES	
NET CHANGE IN CASH AND CASH EQUIVALENTS	
Cash & cash equivalents at the beginning of the year	
Cash and cash equivalents at the end of the year	

17

2.3 Calculate financial indicators for the year ended 28 February 2025:

% operating expenses on sales	
WORKINGS	ANSWER
Stock turnover rate	
WORKINGS	ANSWER
Interim dividend per share	
WORKINGS	ANSWER

3

4

3

Activity 3: SHARE CAPITAL AND CASH FLOW STATEMENT**(25 marks; 20 minutes)**

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

REQUIRED:

- 3.1 Prepare the Ordinary Share Capital Note on 28 February 2022. (6)
- 3.2 Complete the Cash Flow Statement for the year ended 28 February 2022. Certain figures are provided in the ANSWER BOOK. (19)

INFORMATION:**A. Shares and dividends:**

DATE	DETAILS OF SHARES
1 March 2021	900 000 in issue
30 July 2021	100 000 new shares issued
1 January 2022	40 000 shares repurchased at 80 cent more than the average share price
28 February 2022	? shares in issue

- Interim dividend of R192 000 was paid on 30 September 2021.
- A final dividend was declared on 28 February 2022.

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

Sales	R8 600 000
Cost of sales	6 400 000
Net profit before tax	1 375 000
Income tax	430 000
Net profit after tax	945 500

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

	28 Feb. 2022	28 Feb. 2021
	R	R
Petty cash and cash float	101 100	2 800
Ordinary shareholders' equity	8 920 000	7 280 000
Ordinary share capital	8 640 000	7 200 000
Retained income	280 000	80 000
Loan: Bright Bank	2 550 000	1 900 000
SARS: Income tax	47 200 Cr	22 800 Dr
Shareholders for dividends	202 000	133 500
Bank overdraft	0	45 200

Activity 3

3.1 Ordinary Share Capital Note on 28 February 2022

900 000	Ordinary shares at the beginning	
100 000	New shares issued	
	Repurchased shares at	
	Shares at the end of the year	

6

3.2 CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2022

CASH FLOW FROM OPERATING ACTIVITIES	
Cash generated from operations	
Interest paid	
CASH FLOW FROM INVESTING ACTIVITIES	(1 470 000)
CASH FLOW FROM FINANCING ACTIVITIES	
NET CHANGE IN CASH AND CASH EQUIVALENTS	
CASH AND CASH EQUIVALENTS AT BEGINNING	
CASH AND CASH EQUIVALENTS AT END	

19

Activity 4: CASH FLOW STATEMENT AND FINANCIAL INDICATORS

(40 marks; 30 minutes)

- 4.1 Choose a description in COLUMN B that matches the user of financial statements in COLUMN A. Write only the letters (A to D) next to the question numbers (4.1.1 to 4.1.3) in the ANSWER BOOK.

COLUMN A	COLUMN B
4.1.1 Trade unions	A want to be assured that their investment in the company is used wisely
4.1.2 SARS	B use the financial statements to make decisions to manage the company
4.1.3 Shareholders	C monitor fair salaries and reasonable working conditions of their members.
	D need to assure that income tax is levied on the net profit correctly

(3 x 1) (3)

4.2 OMIKRON LTD

The information relates to the financial year ended 28 February 2022. The business is registered with an authorised share capital of 1 500 000 ordinary shares.

REQUIRED:

- 4.2.1 Complete the Note for CASH GENERATED FROM OPERATIONS. (7)
- 4.2.2 Prepare the CASH EFFECTS OF OPERATING ACTIVITIES section of the Cash Flow Statement. (9)
- 4.2.3 Calculate the following for the Cash Flow Statement:
- Fixed assets purchased (5)
 - Funds used to repurchase shares (4)
 - Net change in cash and cash equivalents (2)
- 4.2.4 Calculate the following financial indicators on 28 February 2022:
- Debt-equity ratio (2)
 - % return on average shareholders' equity (4)
 - Dividend pay-out rate (4)

INFORMATION:

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

Sales	R 11 232 000
Depreciation	338 300
Interest on loan	963 000
Income tax	1 120 800
Net profit after tax	2 615 200

B. Extract: Statement of Financial Position on 28 February:

	2022 R	2021 R
Fixed assets (carrying value)	7 110 000	6 814 000
Shareholders' equity	8 320 000	7 500 000
Ordinary share capital	8 176 000	7 160 000
Retained income	144 000	340 000
Loan: Gwede Bank	5 400 000	3 000 000
Inventories	471 000	717 000
Trade debtors	563 000	489 000
Trade creditors	570 000	612 000
Cash and cash equivalents	36 400	0
Bank overdraft	0	112 000
SARS: Income tax	9 900 Cr	12 300 Dr
Shareholders for dividends	313 600	150 000

C. Fixed assets:

- Old fix assets, with a combined carrying value of R685 700, was sold for cash, during the financial year.
- New equipment was purchased.

D. Share capital and dividends:

- On 1 March 2021, there were 1 000 000 shares in issue
- 200 000 shares were issued on 30 June 2021. EFT payments for R1 600 000 were received for these shares.
- 80 000 shares were repurchased on 31 January 2022 at R52 000 above the average share price of R7,30.
- An interim dividend of 35 cents per share was paid on 31 August 2021.
- A final dividend of 28 cents per share was declared on 28 February 2022. Total dividends for the year amounts to R733 600.

E. Earnings per share for the year are 232 cents.

Activity 4

4.1

4.1.1	
4.1.2	
4.1.3	

3

4.2.1 Cash generated from Operations

Depreciation	338 300	
Interest expense	963 000	
Profit before changes in working capital		
Net change in working capital		
Cash generated from operations	5 167 300	

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4.2.2 CASH EFFECTS OF OPERATING ACTIVITIES

Cash generated from operations		
Interest paid	(338 300)	
Income tax paid		
Dividends paid		

9

4.2.3

WORKINGS	ANSWER
Calculate: Fixed Assets purchased	
Calculate: Funds used to repurchase shares	
Calculate: Net change in cash and cash equivalents	

5

4

2

4.2.4

WORKINGS	ANSWER
Calculate: Debt-equity ratio	
	2
Calculate: % return on shareholders' equity	
	4
Calculate: Dividend pay-out rate	
	4



Analysis and Interpretation of Financial Statements

INTERPRETING business activities refers to analyzing financial results to report on success and progress of the organization. **COMMUNICATING** business information would entail transfer of facts and data to all parties interested in using the business information.

Interpreting financial statements would logically follow the lengthy process of preparing financial statements and compiling the annual report to be presented to Shareholders and other stake-holders at the Annual General Meeting of the Company.

Prior knowledge:

Interpreting financial information is generally classified in the higher order cognitive level. Questions in this section would require a candidate to **sift through** the given information to **identify, evaluate** and at times provide creative or practical solutions and advice.

Success in this area demands a thorough understanding of the **basic accounting cycle of activities**, year-end accounting procedures as well as the structure and formats of financial statements.

It must be noted and appreciated that interpretation of financial information is NOT a section or topic on its own. It is often integrated with various other aspects/topics of the syllabus; as such interpretive questions are spread across an entire examination papers.

PREVIEW:

Previous diagnostic reports highlighted the following concerns relating to Interpretation:

- Candidates were not able to identify the relevant financial indicators to address or comment on specific questions.
- They were unable to extract or sift the appropriate information from the financial information given, to calculate financial indicators.
- They fail to understand the requirements of the question; such as comment, give advice, provide the trend, justify his actions etc.
- The inability to work backwards using the given information mainly due to reliance on rote learning or mindless memorising.
- Assessing the length of answers expected by the question (how much to write).

Analysis and interpretation of Income Statements, Balance Sheets and Notes

Revision of the following indicators

- gross profit on sales
- gross profit on cost of sales
- net profit on sales
- operating expenses on sales
- current ratio
- acid test ratio
- stock turnover rate
- stock holding period
- average debtors' collection period
- average creditors' payment period
- solvency ratio

Introduction and coverage of the following financial indicators

- debt-equity ratio (gearing)
- return on shareholders' equity
- return on total capital employed
- net asset value per share
- dividends per share
- earnings per share

Financial indicators / Ratios are mainly used to evaluate the financial performance of a company. Learners must firstly know how to calculate a particular ratio (the formula is very important), then compare it with that of either the previous year (to evaluate the financial performance of a company over a period of time); or another company (to evaluate the financial performance of a company in relation to its competitors); and then present a comment on their findings.

It is important to note that some financial indicators / ratios should not be evaluated in isolation; others are compared with some, related ones, to determine the results

Area of Analysis	Description
Profitability	Indicates if a company is generating a profit and an adequate return on assets and equity.

Indicates how efficiently assets are being used and how effectively operations are being managed.

RATIOS ON PROFITABILITY OF THE COMPANY: These are calculated to determine how a company uses its capital to generate profit in a year under review.

The ratios are; Gross Profit on Sales, Gross Profit on Cost of Sales, Net Income on Sales, Operating Expenses on Sales, Operating Profit on Sales.

Liquidity	Focuses on the company's ability to pay short-term obligations (e.g., creditors, short-term loans, shareholders for dividends and SARS).
-----------	------------------------------------------------------------------------------------------------------------------------------------------

RATIOS ON LIQUIDITY OF THE COMPANY: These are calculated to determine whether, or not, the company is able to meet / pay its short-term debts / commitments, by comparing its current assets with the current liabilities. Furthermore, these ratios are calculated to determine the ability of the business (or lack of it) to convert its assets into cash, and its efficiency to manage the working capital.

The ratios are; Current ratio, Acid test ratio, Stock Turnover Rate, Stock Holding Period, Average Debtors Collection Period, Average Creditors Payment Period.

Solvency	The ability of a company to pay off all its debts.
----------	----------------------------------------------------

RATIO ON SOLVENCY OF THE COMPANY: These are calculated to determine whether, or not, the company is able to meet / pay its long-term debts / commitments, when it closes, by comparing its total assets with the total liabilities.

In other words, we determine the proportion of the company's total assets into its total liabilities.

Solvency Ratio = Total assets : Total liabilities

Return	Shows shareholder's fair/unfair earnings on amount invested.
--------	--------------------------------------------------------------

RATIOS ON RETURNS OF THE COMPANY: These are calculated to determine the return shareholders will earn on their capital invested in the company. Earnings

per share, Dividends per share, Dividends pay-out rate, % Return on shareholders' equity, % Return on Capital Employed, interest rates on investment.

Risk and gearing Indicate how a company is financed, if they will be able to meet long-term obligations, and the risk factor.

RATIOS ON RISK OF THE COMPANY: This is calculated to determine the extent to which the company is financed by means of loans and other debts. Debt/equity ratio, % return on total Capital Employed, Interest rate on loans.

Share price and market prospect Used to see how a company is performing compared to others in the same industry and to compare the company's performance from one year to the next.

RATIOS ON SHARE PRICE OF THE COMPANY: Net asset value (NAV), Issue price / Share price, Average share price, Market price (Securities Exchange)

RATIOS ON PROFITABILITY OF THE COMPANY: These are calculated to determine how a company uses its capital to generate profit in a year under review.

The ratios are; Gross Profit on Sales, Gross Profit on Cost of Sales, Net Income on Sales, Operating Expenses on Sales, Operating Profit on Sales.

RATIOS ON LIQUIDITY OF THE COMPANY: These are calculated to determine whether, or not, the company is able to meet / pay its short-term debts / commitments, by comparing its current assets with the current liabilities. Furthermore, these ratios are calculated to determine the ability of the business (or lack of it) to convert its assets into cash, and its efficiency to manage the working capital.

The ratios are; Current ratio, Acid test ratio, Stock Turnover Rate, Stock Holding Period, Average Debtors Collection Period, Average Creditors Payment Period.

CURRENT RATIO: This indicates how many times more current assets the company has in relation to its current liabilities. This will indicate if the company will potentially be able to pay its creditors.

Current Ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

It is important to note that here the left-hand side is always divided by the right-hand side. The right-hand side is always divided by itself, and this means that the right-hand side will always be equal to one.

ACID TEST RATIO: This indicates how many times more current assets (excluding stock) the company has in relation to its current liabilities. This will

indicate if the company will potentially be able to pay its creditors. The reason for excluding stock is that this is the current asset that normally takes the longest to turn into cash.

Acid Test Ratio = $\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$

It is important to note that here the left-hand side is always divided by the right-hand side. The right-hand side is always divided by itself, and this means that the right-hand side will always be equal to one.

INVENTORY TURNOVER RATE: This indicates the number of times, in a year; a company is able to sell its inventory. There is no ideal rate of stock turnover as it differs based on the type of company under review.

Inventory Turnover Rate = $\frac{\text{Cost of Sale}}{\text{Average Inventory}}$

INVENTORY HOLDING PERIOD: This determines the period it takes, either in days / weeks / months, to sell the available inventory / inventory on hand at the end of the period.

Inventory Holding Period = $\frac{\text{Average Inventory}}{\text{Cost of Sales}} \times \text{period (days / weeks / months)}$

AVERAGE DEBTORS COLLECTION PERIOD: This indicates the period it takes, in days, for debtors to settle their debts.

Average Debtors Collection Period = $\frac{\text{Average Debtors}}{\text{Credit Sales}} \times 365$

AVERAGE CREDITORS PAYMENT PERIOD: This indicates the period it takes, in days, for the company to settle its debts / pay off its creditors.

Average Creditors Payment Period = $\frac{\text{Average Creditors}}{\text{Credit Purchases}} \times 365$

RATIO ON SOLVENCY OF THE COMPANY: These are calculated to determine whether, or not, the company is able to meet / pay its long-term debts / commitments, when it closes down, by comparing its total assets with the total liabilities.

In other words, we determine the proportion of the company's total assets into its total liabilities.

Solvency Ratio = $\frac{\text{Total assets}}{\text{Total liabilities}}$

It is important to note that here the left-hand side is always divided by the right-hand side. The right-hand side is always divided by itself, and this means that the right-hand side will always be equal to one.

RATIO ON RISK OF THE COMPANY: This is calculated to determine the extent to which the company is financed by means of loans and other debts. The more loans a company use, the higher the risk.

Risk:

Gearing: This refers to the relative proportions of debt and equity the company uses to support its operations. Gearing represents a company's leverage (how much of its funding comes from borrowed funds).

The company is said to be positively geared if ROTCE is more than Interest on Loan (ROTCE – Interest on loan = +ve then the company has positive gearing. Alternatively, the company is negatively geared if ROTCE is less than Interest on Loan (ROTCE – Interest on loan = -ve then the company has negative gearing.

Debt – Equity Ratio = Non-Current Liabilities : Shareholders' Equity

It is important to note that here the left-hand side is always divided by the right-hand side. The right-hand side is always divided by itself, and this means that the right-hand side will always be equal to one.

RATIOS ON RETURNS OF THE COMPANY: These are calculated to determine the return shareholders will earn on their capital invested in the company.

RETURN ON SHAREHOLDERS' EQUITY: This indicates the % of the net profit realised to the equity invested in the company.

Return on Shareholders' Equity = $\frac{\text{Net profit after tax}}{\text{Average Shareholders' Equity}} \times 100$

RETURN ON CAPITAL EMPLOYED: This indicates the profits (earnings) that can be gained with the total funds employed.

Return on Capital Employed = $\frac{\text{Profit before interest expenses and tax}}{\text{Average total Capital employed}} \times 100$

NET ASSET VALUE PER SHARE: This indicates the asset value that can be linked to each share issued.

Net Asset Value per Share = $\frac{\text{Shareholders' Equity}}{\text{Number of shares issued}} \times 100$

DIVIDENDS PER SHARE: This is calculated to determine the amount, dividends, shareholders receive per share.

Dividends per Share = $\frac{\text{Ordinary Share Dividends}}{\text{Number of shares issued}} \times 100$

EARNINGS PER SHARE: This is calculated to determine the earnings (gains) generated per each ordinary share issued.

$$\text{Earnings per Share} = \frac{\text{Net profit after tax}}{\text{Number of shares issued}} \times 100$$

DIVIDENDS PAYOUT RATIO: This is calculated to determine the portion of the earnings that is paid to shareholders.

$$\text{Dividends per Share} = \frac{\text{Ordinary Share Dividends}}{\text{Attributable earnings}} \times 100$$

Worked Example 3 ANALYSIS AND INTERPRETATIONS**(15 marks; 10 minutes)****JULIANA LIMITED**

You are provided with information taken from the records of Juliana Limited for the financial year ended 29 February 2024.

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

REQUIRED:

- 3.1 Provide TWO financial indicators to indicate whether the operating efficiency of the business improved or not. (4)
- 3.2 Comment on the liquidity of the company. Quote TWO financial indicators with figures. (5)
- 3.3 The directors took out an additional loan of R1 500 000 during 2024. Explain why this was not a good idea by quoting TWO financial indicators. (6)

INFORMATION

A.

Financial indicator and other relevant data	29 February 2024	28 February 2023
Operating profit on sales	28%	23%
Operating expenses on sales	17%	19%
Current ratio	2,3 : 1	1,9 : 1
Acid test ratio	1,1 : 1	1,2 : 1
Debtors' collection period	38 days	33 days
Solvency ratio	3,3 : 1	6,5 : 1
Debt/Equity ratio	1,2 : 1	0,8 : 1
Return on total capital employed (ROTCE)	13%	16%
Return on shareholders' equity (ROSHE)	17%	22%
Interest rate on loans	12%	12%

15

Worked Example 2 Solution

2.1

Provide TWO financial indicators to indicate whether operating efficiency of the business improved or not.

Financial indicator ✓ ✓ trend with figures ✓ ✓

Operating profit on sales increased from 23% to 28%. / by 5% p. points / 21,7%

Operating expenses on sales decreased from 19% to 17% / by 2% p. points / 10,5%

4

2.2

Comment on the liquidity of the company. Quote TWO financial indicators with figures.

ANY TWO Financial indicator ✓ ✓ trend with figures ✓ ✓ comment ✓

Current ratio has increased from 1,9:1 to 2,3:1 / by 0,4:1

Acid test ratio has decreased from 1,2:1 to 1,1 / by 0,1:1

Debtors' collection period increased from 33 days to 38 days / by 5 days

Comment

Business can meet their short-term responsibilities/Too much cash locked up in stock.

5

2.3

The directors took out an additional loan of R1 500 000 during 2024. Explain why this was not a good idea by quoting TWO financial indicators.

Financial indicator ✓ ✓ trend with figures ✓ ✓ comment ✓ ✓

Debt / Equity ratio has increased from 0,8:1 to 1,2:1, / by 0,4:1.

The ROTCE has decreased from 16% to 13% / by 3% p. points / 18,8%

Comment

The financial risk is too high.

The ROTCE decreased although still higher than the interest rate on loans of 12%.

6

TOTAL MARKS

15

Activity 1 INTERPRETATION OF FINANCIAL INFORMATION (30 marks; 25 minutes)

The information was taken from the books of TLOU LTD, their financial year ends 30 April 2024.

REQUIRED:

- 1.1 Shareholders of TLOU LTD are of the opinion that their liquidity position is good and that they should not be concerned.
- 1.1.1 Quote TWO financial indicators (with figures) and provide a comment in favour / support of their opinion. (6)
- 1.1.2 Quote ONE financial indicator (with figures) and provide a comment against their opinion. (4)
- 1.2 The directors decided to change the dividend pay-out policy in 2024.
- Provide calculations that indicate the policy change. (4)
 - Explain the effect of this change of policy on the company. State TWO points. (4)
- 1.3 One of the directors feels that the company should pay back the loan as soon as possible. State whether this will be a good decision or not? Quote TWO financial indicators with figures to substantiate your answer. (7)
- 1.4 Explain why the shareholders are satisfied with:
- The market price of the shares on the JSE (3)
 - The price at which the 75 000 shares were repurchased on 25 April 2023. (2)

In EACH case, quote figures/financial indicators.

INFORMATION:

The following financial indicators were calculated on 30 April:

	2024	2023
Current ratio	3,8: 1	1,7: 1
Acid-test ratio	1,9: 1	1,3: 1
Stock-holding period	52 days	68 days
Debtors' collection period	47 days	30 days
Debt-Equity ratio	0,3: 1	0,4: 1
Return on average capital employed	11%	13%
Return on average shareholders' equity	13,5%	14,5%
Earnings per share	107 cents	112 cents
Dividends per share	105 cents	40 cents
Net asset value per share	775 cents	768 cents
Market price per share (JSE)	960 cents	777 cents
Repurchase price per share	800 cents	-
Interest rate on loan	14%	13%

Activity 1

1.1

Shareholders of TLOU LTD are of the opinion that their liquidity position is good and that they should not be concerned.
Responses in favour / support of their opinion

Responses against their opinion

10

1.2

The directors decided to change the dividend pay-out policy in 2024. Provide calculations that indicate the policy change.

Explain the effect of this change of policy on the company. State TWO points.

4

4

1.3

One of the directors feels that the company should pay back the loan as soon as possible. State whether this will be a good decision or not? Quote TWO financial indicators with figures to substantiate your answer.

7

1.4

Explain why the shareholders are satisfied with the market price of the shares on the JSE. Quote figures/financial indicators.

3

Explain why the shareholders are satisfied with the price at which the shares were repurchased. Quote figures/financial indicators.

2

TOTAL MARKS
30

Activity 2: INTERPRETATION OF FINANCIAL INFORMATION (45 marks; 35 minutes)

The information relates to LETHABO LTD. The financial year ends on 31 March 2025.

REQUIRED:

2.1 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)

2.2 Liquidity

Explain whether or not the company is managing their working capital efficiently. Quote TWO financial indicators. (5)

2.3 Profitability and operating efficiency:

Comment on the operating efficiency of the company over the past two years. Quote TWO financial indicators. (4)

2.4 Financial risk and gearing:

2.4.1 One of the shareholders cannot understand why the debt-equity ratio decreased in 2025 despite the increase in the loan. Provide him with an explanation. (2)

2.4.2 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)

2.5 Returns, earnings and dividends:

2.5.1 Comment on whether the shareholders should be satisfied with the return on their investment. Provide TWO points, including ONE financial indicator. (4)

2.5.2 Comment on the earnings per share (EPS) and explain its impact on the dividend pay-out policy adopted by directors. (4)

2.6 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)

2.7 Shareholding of Patrick:

2.7.1 Patrick owns shares in Lethabo 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)

2.7.2 The company plans to issue additional new shares equal to 20% of the issued share capital, in the next financial year to existing shareholders. Patrick 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)

2.8 Bonuses for directors and other employees of Lethabo 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. (4)

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

	31 March 2025	31 March 2024
Current ratio	0,8 : 1	1,8 : 1
Acid-test ratio	0,6 : 1	1 : 1
Debt-equity ratio	0,2 : 1	0,3 : 1
Debtors' collection period	52 days	42 days
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%

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

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	R4 000 000	R1 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 Lethabo Ltd:

	Lethabo 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

Activity 2

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

4

2.2 Explain whether or not the company is managing their working capital efficiently. Quote TWO financial indicators, with figures and trends.

5

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

4

2.4.1 One of the shareholders cannot understand why the debt-equity ratio decreased in 2025 despite the increase in the loan. Provide him with an explanation.

2

2.4.2 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.

POINT 1	
POINT 2	

4

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

POINT 1	
POINT 2	

4

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

EARNINGS PER SHARE	
DIVIDEND PAY-OUT POLICY	

4

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

POINT 1	
POINT 2	

4

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

POINT 1	
POINT 2	

4

2.7.2 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.

CALCULATION	
EXPLANATION	

6

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

POINT 1	
POINT 2	

4

Activity 3: RATIOS, ANALYSIS AND INTERPRETATIONS (20 marks; 15 minutes)

LILLY LIMITED

- 3.1** Information from the records of Lilly Ltd for the financial year ended 30 June 2021 is provided. The company is listed on the stock exchange with an authorised share capital of 1 200 000 ordinary shares.

REQUIRED:

- 3.1.1 Calculate the following: (Show calculations to one decimal point.)
- Percentage operating profit on total sales (2)
 - Net asset value per share (3)
 - Debt/equity ratio (3)
- 3.1.2 Comment on the liquidity position of the business. Quote THREE financial indicators with figures in your explanation. (7)
- 3.1.3 Some shareholders feel that the company paid back too much of the loan. What would you say to them? Make reference to TWO financial indicators with figures to motivate your response. (5)

INFORMATION:

- A. **Information extracted from the Statement of Comprehensive Income (Income Statement) for the financial year ended 30 June 2021:**

Sales	14 625 000
Cost of sales	9 745 000
Operating profit	3 250 000

- B. **Extract figures from the Statement of Financial Position (Balance Sheet) and Notes:**

	30 JUNE 2021	30 JUNE 2020
Non-current liabilities	3 840 000	6 400 000
Current assets including inventory	2 800 000	1 800 000
Inventory	1 840 000	600 000
Current liabilities	1 200 000	900 000
Shareholders' equity	9 600 000	7 800 000
Ordinary share capital	?	7 450 000
Retained income	?	350 000

- 1 200 000 shares in issue on 30 June 2021.

C. The following financial indicators were calculated:

	30 JUNE 2021	30 JUNE 2020
Current ratio	2,3 : 1	2,0 : 1
Acid test ratio	0,8 : 1	1,3 : 1
Operating profit on sales	?	29%
Average debtor's collection period	32 days	43 days
Average creditors payment period	52 days	68 days
Debt/equity	?	0,8 : 1
Return on average capital employed	23%	17%
Return on average shareholders' equity	17,5%	15,8%
Net asset value per share	?	750 cents
Interest rate on loans	11%	11%

Activity 3

3.1.1 Calculate the following: (Show calculations to one decimal point.)

Percentage operating profit on total sales	<div></div> <div>2</div>
Net asset value per share	<div></div> <div>3</div>
Debt/equity ratio	<div></div> <div>3</div>

3.1.2 Comment on the liquidity position of the business. Quote THREE financial indicators (with figures) in your explanation.

	<div></div> <div>7</div>
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3.1.3

Some shareholders feel that the company paid back too much of the loan. What would you say to them? Make reference to TWO financial indicators with relevant figures to motivate your response.

5

TOTAL MARKS
20

Activity 4 : INTERPRETATION OF FINANCIAL INFORMATION (35 marks; 30 minutes)

The information was extracted from the records of GREEK LTD. The financial year ends on the last day of February each year.

REQUIRED:

- 4.1 Shareholders are not satisfied with the liquidity position of the business. Explain why you think they may be correct. Quote and explain TWO financial indicators (with figures). (6)
- 4.2 Certain directors feel that the decision to increase the loan was a poor decision. Do you agree with this view? Explain. Quote TWO financial indicators and figures. (8)
- 4.3 Comment on the dividend pay-out policy adopted by the directors. Provide TWO reasons why you think directors decided on this policy. Quote figures. (6)
- 4.4 Charlie Tiger owns 420 000 shares in the company on 1 March 2021. This has remained unchanged during the financial year.
- On 1 March 2021, there were 800 000 shares in issue.
 - On 1 May 2021, the company issued 100 000 additional shares.
 - On 28 February 2022, the directors repurchased 75 000 shares from Charlie's close friend and paid R12,50 per share.
- 4.4.1 Calculate Charlie's % shareholding after the issue of shares on 1 May 2021, and after the repurchase of shares on 28 February 2022. (5)
- 4.4.2 Comment on your findings above. Provide TWO points. (4)
- 4.4.3 Comment on whether the price paid to repurchase the shares on 28 February 2022 was fair or not. Quote TWO financial indicators (with figures). (6)

Information:

Financial Indicators for the last two financial years:

	28 Feb. 2022	29 Feb. 2021
Debt / equity ratio	0,5 : 1	0,1 : 1
Current ratio	2,2 : 1	1,3 : 1
Acid-test ratio	0,6 : 1	0,9 : 1
Average debtors' collection period	45 days	33 days
Average creditors payment period	61 days	70 days
Earnings per share (EPS)	82 cents	102 cents
Dividends per share (DPS)	36 cents	88 cents
Dividend pay-out rate	43,9%	86,3%
% Return on average equity	7,2%	10,4%
% Return on average capital employed	10,2%	14,2%
Net asset value per share (NAV)	938 cents	930 cents
Market price of shares (JSE)	932 cents	940 cents
Interest rate on loan	12%	12%

35

Activity 4

- 4.1 Shareholders are not satisfied with the liquidity position of the business. Explain why you think they may be correct. Quote and explain TWO financial indicators (with figures).

6

- 4.2 Certain directors feel that the decision to increase the loan was a poor decision. Do you agree with this view? Explain. Quote TWO financial indicators and figures.

8

- 4.3 Comment on the dividend pay-out policy adopted by the directors. Provide TWO reasons why you think directors decided on this policy. Quote figures.

6

4.4 Charlie Tiger owns 420 000 shares in the company on 1 March 2021. This has remained unchanged during the financial year.

4.4.1 Calculate Charlie's % shareholding after the issue of shares on 1 May 2021, and after the repurchase of shares on 28 February 2022.

AFTER ISSUE OF SHARES

**AFTER REPURCHASE OF
SHARES**

5

4.4.2 Comment on your findings above. Provide TWO points.

4

4.4.3 Comment on whether the price paid to repurchase the shares on 28 February 2022 was fair or not. Quote TWO financial indicators (with figures).

6

45

Activity 5: FINANCIAL INDICATORS OF TWO COMPANIES

(30 marks; 12 minutes)

5.1 FINANCIAL INDICATORS OF TWO COMPANIES

Your friend, Peter, is considering buying shares in a company that sells sportswear. He asks you for advice and presents you with the following financial indicators of two companies he is contemplating. The companies are of similar size, and they have issued the same number of shares.

NOTE:

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

REQUIRED:

- 5.1.1 Zee Ltd is more liquid than Ryan Ltd. Quote and explain TWO financial indicators (with figures) to prove your agreement. (6)
- 5.1.2 Which company uses more loans? Quote and explain a financial indicator to support your answer. Explain whether this is a good idea or not. (6)
- 5.1.3 Explain why you think the market price of Ryan Ltd's shares is much better than that of Zee Ltd. Quote and explain TWO financial indicators to support your answer. (4)
- 5.1.4 Which company is more likely to expand its business? Explain your answer by using relevant calculations. (5)
- 5.1.5 Ryan Ltd has a better percentage return, earnings and dividends than Zee Ltd. Explain THREE financial indicators to support this opinion. (9)

Activity 5

5.1.1 Zee Ltd is more liquid than Ryan Ltd. Quote and explain TWO financial indicators (with figures) to prove your agreement.

6

5.1.2 Which company uses more loans? Quote and explain a financial indicator to support your answer. Explain whether this is a good idea or not.

6

5.1.3 Explain why you think the market price of Ryan Ltd's shares is much better than that of Zee Ltd. Quote and explain TWO financial indicators to support your answer.

4

5.1.4

Which company is more likely to expand its business? Explain your answer by using relevant calculations.

5

5.1.5

Ryan Ltd has a better percentage return, earnings and dividends than Zee Ltd. Explain THREE financial indicators to support this opinion.

9

30

Section 3: Corporate Governance

Activity 1: CORPORATE GOVERNANCE AND AUDIT REPORT

(15 marks; 10 minutes)

An extract of the external auditors' report of Mthata Ltd is presented.

REQUIRED:

- 1.1 Briefly explain your understanding of 'good corporate governance'. (2)
- 1.2 Explain why a company must have their financial statements audited by an external auditor. (2)
- 1.3 Identify the type of audit opinion that the company received and provide a reason for your answer. (3)
- 1.4 An investigation of the marketing expense mentioned in the audit report revealed that an amount of R180 000 was for a holiday for the CEO and his family that covered accommodation and air tickets.

The bookkeeper was instructed to reflect this as a marketing expense. The CEO tried to convince the independent auditor to ignore this as it had been recorded in the financial statements.

- Explain why the independent auditor did not follow the request of the CEO. Provide TWO reasons. (4)
- Provide TWO possible consequences of this audit report, for the CEO and the company. (4)

INFORMATION:

EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS

We have audited the annual financial statements of Hlubi Ltd for the year ended 28 February 2021. Financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion based on our audit.

International Standards on Auditing require that we perform the audit to obtain reasonable assurance that the financial statements are free of misstatement.

Audit opinion

The financial statements fairly represent the financial position of the company on 28 February 2021, except for the marketing expense in the Statement of Comprehensive Income which could not be verified, as no documentation existed for this expenditure.

Naidoo and Julius
Chartered Accountants (SA)

15 June 2021

Activity 1

1.1 Briefly explain your understanding of 'good corporate governance'.

2

1.2 Explain why a company must have their financial statements audited by an external auditor.

2

1.3 Identify the type of audit opinion that the company received, and provide a reason for your answer.

TYPE:

REASON:

3

1.4 Explain why the independent auditor did not follow the request of the CEO. Provide TWO reasons.

4

Provide TWO possible consequences of this audit report, for the CEO and the company.

4

Activity 2: CORPORATE GOVERNANCE**(15 marks; 12 minutes)****AUDIT REPORTS**

You are provided with extracts from the independent audit reports of Metsi Ltd and Just Water Ltd.

Extract from audit report of Metsi Ltd:

In our opinion, the financial statements fairly present, in all material respects, the financial position of this company on 28 February 2022 and the results of their operations and cash flow for the year ended under International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Extract from audit report of Just Water Ltd:

We found that the internal control procedures were not adhered to – and that documentation did not exist for a significant portion of the transactions tested.

Because of the significance of the matter described in the previous paragraph, we could not obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Therefore, we do not express an opinion on the financial statements for the year ended 28 February 2022.

REQUIRED:

- 2.1 Comment on the audit reports of both companies. If you want to buy shares in a company, explain how the report will affect your decision concerning the shares you would purchase in the company. In which company would you invest? (5)
- 2.2 The board of directors has different committees with different functions. Choose the function in COLUMN B that matches the committee in COLUMN A. Write only the letter (A–D) next to the question numbers (2.2.1 to 2.2.4) in the ANSWER BOOK.

2.2.1 Audit committee	A Review salaries, bonuses and other earnings.
2.2.2 Remuneration committee	B Responsible for performing risk assessment regularly.
2.2.3 Social and ethics committee	C Ensure that the appointment of an auditor complies with the Companies Act and the legislation.
2.2.4 Risk committee	D Monitor the impact of the public activities and their products or service to the environment, health and public safety.

(4)

- 2.3 The purpose of a business rescue plan is to provide a company with temporary supervision and protection against its creditors, to give them a 'breathing space' to reorganise and restructure its financial affairs. Name TWO parties who might be affected by a business rescue plan. (2)
- 2.4 Who is the audit report addressed to? Give a reason for your answer. (2)
- 2.5 Give TWO examples of audit evidence that the auditors would have required to complete the audit. (2)

Activity 2

2.1

Comment on the audit reports of both companies. If you want to buy shares in a company, explain how the report will affect your decision concerning the shares you would purchase in the company.

In which company should you rather invest?

5

2.2

2.2.1

2.2.3

2.2.2

2.2.4

4

2.3

The purpose of a business rescue plan is to provide a company with temporary supervision and protection against its creditors, to give them a 'breathing space' to reorganise and restructure its financial affairs. Name TWO parties who might be affected by a business rescue plan.

2

2.4

Who is the audit report addressed to? Give a reason for your answer.

2

2.5

Give TWO examples of audit evidence that the auditors would have required to complete the audit.

2

Activity 3: CORPORATE GOVERNANCE

(15 marks; 10 minutes)

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

REQUIRED:

3.1 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)

3.2 Refer to Paragraph 3.

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

(2)

(2)

3.3 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)

3.4 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.

Activity 3

- 3.1 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.

WORKINGS	ANSWER

3

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

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

4

- 3.3 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

3.4

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

POINT 1	
POINT 2	

4

TOTAL MARKS
15

GRADE 12: PAPER 2***Managerial Accounting, Internal Auditing & Control***

12.2.1	Analysis & interpretation of reconciliations: bank, debtors, creditors, age analysis	Includes Grade 11 content on reconciliations. See APPENDIX 5.3. Bank reconciliations not examinable in 2021. Calculation of amount payable/ receivable; VAT Control Account
12.2.2	Value-added Tax – input, output and calculations	
12.2.3	Manufacturing – concepts	
12.2.4	Manufacturing: Production Cost Statement & Notes; Abridged/Short-form Income Statement & Notes	Includes Grade 11 content on Ledger Accounts Refer to financial indicator below. See APPENDICES 5.6 and 6.5.
12.2.5	Analysis & interpretation of cost information, unit costs & break-even point #	
12.2.6	Analysis & interpretation of Cash Budget for sole traders and companies	Includes Grade 11 content on preparation of these items See APPENDIX 5.4.
12.2.7	Analysis & interpretation of Projected Income Statement for sole traders and companies	
12.2.8	Application of internal control & audit processes: cash, fixed assets, inventories, debtors, creditors, income & expenses including salaries/ wages & including financial indicators #	Role of internal auditors Refer to financial indicators below.
12.2.9	Recording & control of fixed assets including additions, depreciation & asset disposal	
12.2.10	Perpetual and periodic stock systems and control of inventories	Refer to financial indicators below. See APPENDICES 5.5 and 6.4.
12.2.11	Valuation of inventories: FIFO, Weighted average & Specific identification #	
12.2.12	Ethical behaviour in financial environments	See APPENDIX 5.7.

Section 4: Inventory

Activity 1 INVENTORY VALUATION

(35 marks; 30 minutes)

- 1.1 **RATO COOKWARE:** The business, owned by Lerato Tlou, sells one type of cooking pot and two popular models of microwave ovens. The financial year ended on 28 February 2022.

The periodic inventory system is used.

- The pots are valued using the weighted-average method.
- The microwave ovens are valued using the specific identification method.

REQUIRED:

COOKING POTS

Refer to information A, B and C.

- 1.1.1 Calculate the value of the closing stock of pots on 28 February 2022. (5)
- 1.1.2 Lerato is unsure how long it will take to sell the closing stock of pots. (3)
- Provide a calculation to address her concern.
 - Explain whether the period calculated is acceptable, or not. (2)
- 1.1.3 Calculate the number of pots missing. (5)

1.2 MICROWAVE OVENS

Refer to information D.

- 1.2.1 Calculate the value of the closing stock of microwave ovens. (8)
- 1.2.2 Lerato plans to discontinue selling the Delta model.
Give TWO reasons to support this decision and ONE reason against this decision. Quote figures. (6)
- 1.2.3 The internal auditor discovered that the number of Swift microwave ovens received on 6 January 2022 does not correspond with the number of microwave ovens recorded on the relevant stock card.

MICRO WHOLESALERS DELIVERY NOTE	
Date: 6 January 2022	
Number of units	Details
75	Swift microwave ovens

RATO COOKWARE: STOREROOM STOCK CARD STOCK ITEM: SWIFT MICROWAVE OVENS			
Date	Received from supplier	Dispatched to the shop	Units on hand
1 March 2021			380
31 July 2021	700	530	550
15 December 2021		420	130
6 January 2022	50	15	165

- Identify the problem relating to the Swift microwave ovens on 6 January 2022. Quote figures. (2)

- State TWO internal control measures that the internal auditor should implement to ensure that such incidents do not occur in the future. (4)

INFORMATION:

A. Stock records of cooking pots:

	NUMBER OF COOKING POTS	UNIT PRICE	TOTAL R
Opening stock (1 March 2021)	800		R224 000
Closing stock (28 February 2022)	980		?

B. Purchases and returns:

	NUMBER OF COOKING POTS	UNIT PRICE	TOTAL R
Purchases:			
May 2021	1 500	R320	480 000
September 2021	2 300	R370	851 000
January 2022	1 200	R410	492 000
Returns: September 2021	(300)		(111 000)
NET PURCHASES	4 700		1 712 000

C. Sales and cost of sales:

- 4 270 units were sold at R560 each.
- Cost of sales was calculated as R1 591 040.

D. Record of microwave ovens:

	MODEL	NO. OF UNITS	UNIT PRICE R	TOTAL AMOUNT R
Opening stock	SWIFT	380	2 800	1 064 000
	DELTA	430	3 200	1 376 000
Purchases	SWIFT	750	2 800	2 100 000
	DELTA	600	3 200	1 920 000
Total purchases		1 350		4 020 000
Returns	DELTA	120		384 000
Sales	SWIFT	965	4 200	4 053 000
	DELTA	580	5 600	3 248 000
Gross profit	SWIFT			1 351 000
	DELTA			1 392 000

Activity 1

1.1 RATO COOKWARE

1.1.1 Calculate the value of closing stock of pots on 28 February 2022.

WORKINGS	ANSWER

5

1.1.2 Lerato is unsure how long it will take to sell the closing stock of pots.

Provide a calculation to address her concern.

WORKINGS	ANSWER
Explain whether the period calculated is acceptable, or not.	

5

1.2.3 Calculate the number of pots missing.

WORKINGS	ANSWER

5

1.2.4 Calculate the value of closing stock of microwave ovens.

WORKING	ANSWER
SWIFT:	
DELTA:	

7

1.2.5 **TWO reasons in favour of the decision to discontinue selling the Delta model:**

ONE reason against the decision to discontinue selling the Delta model:

6

1.2.6 **Identify the problem relating to the Swift microwave ovens on 6 January 2022. Quote figures.**

2

State TWO internal control measures that the internal auditor should implement to ensure that such incidents do not occur in the future.

4

TOTAL MARKS

35

Activity 2 INVENTORY VALUATION

(50 marks; 40 minutes)

2.1 Provide a stock valuation method that is best described by each statement below. Write only the valuation method next to each number (2.1.1 – 2.1.3) in the ANSWER BOOK.

- 2.1.1 Unique stock items of high value such as motor cars are valued individually. (3)
- 2.1.2 Stock of appliances such as microwave ovens are always reflected at their most recent cost price.
- 2.1.3 Low-cost items such as golf balls are purchased in large quantities and reflect a similar value over time. (3)

2.2 CASUAL OUTFITTERS

The information relates to Casual Outfitters, owned by Funiwe, for June 2024. The business sells men's jeans. Stock is valued using the weighted average method and the periodic inventory system.

REQUIRED:

- 2.2.1 Calculate:
- Amount paid for carriage on 11 June 2024 (4)
 - Value of the closing stock on 30 June 2024 (9)
- 2.2.2 Funiwe wants to change the method of valuing stock from weighted average to FIFO.
- Calculate the value of closing stock using FIFO method. (5)
 - Explain the effect that this decision will have on the gross profit. (2)
 - Give ONE valid reason **for** and ONE valid reason **against** changing the stock valuation method. (4)
- 2.2.3 Funiwe is concerned about the control of her stock of jeans. She has sold 1 788 pairs of jeans during the year. Provide a calculation to support her concern. (5)
- 2.2.4 Comment on the stock balance on 30 June 2024. Is this appropriate? Explain. Provide ONE point. (3)

INFORMATION:**A. Stock balances:**

DATE	NO. OF UNITS	TOTAL COST
1 June 2024	230	R28 633
30 June 2024	415	?

B. Purchases and returns:

Date	No. of units	Price per unit	Carriage on purchases	Total cost
11 June 2024	835	R130	?	R116 065
18 June 2024	780	R142	R7 020	R117 780
26 June 2024	380	R148	R3 420	R 59 660
Total purchases	1 995			R293 505
Returns from 18 June purchases	15	The supplier refunded the purchase price, excluding the carriage cost.		?

2.3 PROBLEM SOLVING

Jay's Furnishers sells desks and chairs. The financial year ended on 28 February 2025.

REQUIRED:

Where applicable, provide relevant figures for ALL questions below.

2.3.1 Desks:

- What decision did Jay take regarding the selling price of the desks? (3)
- Explain TWO points on how this decision has affected the business. (6)

2.3.2 Chairs:

Jay decided to buy his chairs from a cheaper supplier. Provide TWO points on why you feel that this was NOT a good decision. (6)

INFORMATION:

	DESKS		CHAIRS	
	2025	2024	2025	2024
Orders received from customers	250	330	500	450
Gross units sold	250	318	380	450
Returns by customers	0	12	56	0
Selling price per unit	R420	R360	R126	R168
Cost price per unit	R240	R240	R90	R120
Mark-up %	75%	50%	40%	40%
Gross profit	R45 000	R36 720	R11 664	R21 600
Stock turnover rate	5,4 times	7,4 times	5,2 times	5,2 times

Activity 2: INVENTORY VALUATION

2.1

2.1.1	
2.1.2	
2.1.3	

3

2.2. CASUAL OUTFITTERS

2.2.1

Calculate: The amount paid for carriage on 11 June 2024

4

Calculate: The value of the closing stock on 30 June 2024

9

2.2.2

Calculate the value of closing stock using FIFO method.

WORKINGS

ANSWER

5

Explain the effect that this decision will have on the gross profit.

2

Give ONE valid reason for and ONE valid reason against changing the stock valuation method.

REASON FOR	
REASON AGAINST	

4

2.2.3 Funiwe is concerned about the control of her stock of jeans. She has sold 1 788 pairs of jeans during the year. Provide a calculation to support her concern.

5

2.2.4 Comment on the stock balance on 30 June 2018. Is this appropriate? Explain. Provide ONE point.

3

2.3 PROBLEM SOLVING

2.3.1 What decision did Jay take regarding the selling price of the desks?

3

Explain TWO points on how this decision has affected the business.

6

2.3.2 Jay decided to buy his chairs from a cheaper supplier. Provide TWO points on why you feel that this was NOT a good decision.

6

TOTAL MARKS
50

Section 5

Activity 1 COST ACCOUNTING

(45 marks, 35 minutes)

- 1.1 Choose a cost category from COLUMN B that matches a description in COLUMN A. Write only the letter (A-E) next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK, e.g 1.1.4 F.

COLUMN A	COLUMN B
1.1.1 Commission to salesperson	A Factory overhead cost
1.1.2 Wages of factory maintenance staff	B Administration cost
1.1.3 Office stationery expenses	C Direct labour cost
	D Direct material cost
	E Selling and distribution cost

(3x1)

(3)

1.2 MG TRAVEL BAGS

The information relates to the financial year ended 29 February 2024. The business manufactures travel bags. The business is owned by Kyle Walker.

REQUIRED:

- 1.2.1 Prepare the factory overheads cost note. (11)
- 1.2.2 Complete the Production Cost Statement for the year ended 29 February 2024. (13)
- 1.2.3 Kyle Walker is considering importing raw materials at a lower price than they are currently paying.
- Provide TWO points they should consider before deciding. (4)

INFORMATION:

- A. The following balances were appeared in the books:

	29 February 2024	28 February 2023
Work-in-progress	R94 000	?
Indirect factory material	R18 000	R21 000
Finished goods	R8 750	R5 950

- B. Raw material issued for production amounted to R1 300 028.

- C. Transactions/ information for the year ended 29 February 2024:

	R
Indirect material purchased	36 000
Remuneration to employees	?
Rent expense	291 000
Insurance allocated to the administration section	49 200
Telephone allocated to the administration section	28 800
Sundry factory expenses	189 856

- D. Remuneration to employees are made up of the following:

Wages of factory workers	55%	?
Salary of the factory foreman	?	R435 000
Salary to salespersons	?	R870 000
TOTAL	100%	?

- E. Rent expense must be distributed according to floor space used. The factory occupies 24 400 m², selling and distribution and administration section occupy the remaining 600m².
- F. Telephone is shared between factory and administration section in the ratio of 1 : 4 respectively.
- G. The following amounts were calculated after taking into account the above information:

Sales	R4 567 200
Cost of sales	R3 803 200

1.3 BERGVILLE CALCULATORS

This business produces and sells calculators. The owner is Mjabu Ngubane. The financial year ended on 31 August 2024.

REQUIRED:

- 1.3.1 Provide a calculation to confirm that the break-even point of 61 300 units for 2024 financial year is correct. (4)
- 1.3.2 Mjabu is not happy with the number of units produced and sold. Provide evidence with figures to support his opinion. (2)

- 1.3.3 Mjabu is concerned that most of his workers are not loyal nor committed to the business. Provide TWO different points of evidence, with figures, to support his opinion.

NOTE: No theft has occurred in the business.

(4)

- 1.3.4 Mjabu wants to improve his profit by R79 968 during the next financial year, while maintaining costs. Calculate the additional units that must be produced to achieve this target.

(4)

INFORMATION:

	31 August 2024		31 August 2023	
	Total	Per unit	Total	Per unit
Sales	R7 616 000	R119.00	R7 644 000	R98.00
Variable costs	R4 544 000	R71.00	R4 400 000	R56.41
Fixed costs	R2 942 400	R45.98	R2 520 960	R32.32
Direct material cost	R2 624 000	R41.00	R2 371 200	R30.40
Direct labour cost	R1 472 000	R23.00	R1 528 800	R19.60
Selling and distribution cost	R448 000	R7.00	R500 000	R6.41
Break- even point	61 300 units		60 615 units	
Units produced and sold	64 000 units		78 000 units	

Activity 1

1.1

1.1.1	
1.1.2	
1.1.3	

3

1.2.1

FACTORY OVERHEAD COST

Sundry factory expenses	189 856

11

1.2.2

PRODUCTION COST STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2024

Direct materials cost	1 300 028
Prime cost	
Total manufacturing cost	
Cost of production of finished goods	

13

- 1.2.3 Kyle Walker is considering importing raw materials at a lower price than they are currently paying. Provide TWO points they should consider before deciding.

--

4

- 1.3.1 Provide a calculation to confirm that the break-even point of 61 300 units for 2024 financial year is correct.

WORKINGS	ANSWER

4

- 1.3.2 Mjabu is not happy with the number of units produced and sold. Provide evidence with figures to support his opinion.

--

2

- 1.3.3 Mjabu is concerned that most of his workers are not loyal nor committed to the business. Provide TWO different points of evidence, with figures, to support his opinion. NOTE: No theft has occurred in the business.

--

4

- 1.3.4 Mjabu wants to improve his profit by R79 968 during the next financial year, while maintaining costs. Calculate the additional units that must be produced to achieve this target.

WORKINGS	ANSWER

4

TOTAL MARKS
45

Activity 2: COST ACCOUNTING**(40 marks; 30 minutes)****2.1 PRINGLE TRADERS**

The following information relates to Pringles Traders, a local business that manufactures wooden trays. The financial year ended on 30 June 2024.

REQUIRED:

Complete the following for the year ended 30 June 2024:

2.1.1 Production Cost Statement (20)

2.1.2 Abridged Statement of Comprehensive Income (12)

INFORMATION:**A. Stock balances:**

	30 June 2024	1 July 2023
Work-in-progress stock	?	NIL
Finished goods	R95 000	R55 500

B. Raw material issued to the factory for production, R533 000

C. Direct labour

Information extracted from the production wages records:

Net wages paid to factory workers	Deductions	
	SARS: PAYE	UIF
R376 650	R24 300	?

NOTE: UIF deductions amounts to 1% of gross wages. The business contributes on a Rand-for-Rand basis to the UIF funds.

D. Amounts extracted from the financial records on 30 June 2024:

Factory overhead cost	R147 560
Administration cost	R121 000
Selling and distribution cost	R104 900
Cost of sales	R930 000

E. Errors and omissions:

- (i) The closing stock of raw materials, R102 000, was omitted in error.
- (ii) The entire amount of salary to factory foreman was not recorded. He was on paid leave for the entire year. On 1 January 2024 he received a monthly increase of R500 on his previous monthly salary of R8 000.
- (iii) The telephone account of R13 210 was posted in error to the factory overhead cost. This expense relates to the office.
- (iv) Advertising (selling and distribution) includes R2 700 for a three-month contract which ends on 31 July 2024.

F. Sales and mark-up%:

The business uses a mark-up percentage of 75% on cost. Trade discounts of R60 000 were allowed to cash customers during this financial year.

2.2 UNIT COSTS AND BREAK-EVEN ANALYSIS

Elector Manufacturers is a small business that manufactures men's jackets. The business is owned by Alex Sing. The financial year ended on 30 June 2024.

REQUIRED:

- 2.2.1 Alex, the owner, was unable to achieve the targeted net profit of R150 000 for the year ended 2024.

Calculate how many jackets should have been produced in order to achieve the targeted profit. (5)

- 2.2.2 Despite the fact that there was a decrease in the fixed costs per unit, the owner is still not satisfied with his control over the fixed costs.

Explain and provide calculation(s) to support his opinion. (3)

INFORMATION:

	30 June 2024	30 June 2023
Number of units produced and sold	6 000 units	4 500 units
Selling price per unit	R135,00	R110,00
Break-even units	7 083	9 934 units
	Total cost	Unit cost
		Unit cost
Variable costs:	R510 000	R85,00
Direct material cost	R171 000	R28,50
Direct labour cost	255 000	42,50
Selling and distribution cost	84 000	14,00
Fixed cost	R306 000	R51,00
Factory overheads cost	R168 000	R28,00
Administration cost	138 000	23,00

Activity 2:

2.1 PRINGLE TRADERS

2.1.1 PRODUCTION COST STATEMENT FOR THE YEAR ENDED 30 JUNE 2024.

Prime cost	
	NIL
Cost of production of finished goods	

20

2.1.2 ABRIDGED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2024

Sales	
Cost of sales	(930 000)
Gross profit	
Other expenses	
Administration cost	
Selling and distribution costs	
Net profit for the year	

12

2.2.1 Alex, the owner, was unable to achieve the targeted net profit of R150 000 for the year ended 2024.

Calculate how many jackets should have been produced in order to achieve the targeted profit.

WORKINGS	ANSWER

5

2.2.2 Despite the fact that there was a decrease in the fixed costs per unit, the owner is still not satisfied with his control over the fixed costs.
Explain and provide calculation(s) to support his opinion.

--

3

TOTAL MARKS
40

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- 4 Gauteng Department of Education Trial 2023
- 5 Mpumalanga Department of Education 2020
- 6 Free State Department of Education June 2024
- 7 Free State Department of Education March 2024
- 8 Examination Guideline
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