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

These marking guidelines consist of 9 pages.
QUESTION 1

1.1

1.1.1 Limited ✓
1.1.2 Payables ✓
1.1.3 Materiality ✓

1.2

<table>
<thead>
<tr>
<th>NO.</th>
<th>ACCOUNT DEBITED</th>
<th>ACCOUNT CREDITED</th>
<th>AMOUNT</th>
<th>A</th>
<th>O</th>
<th>L</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2.1</td>
<td>Shareholders for dividends ✓</td>
<td>Bank ✓</td>
<td>136 000</td>
<td>–</td>
<td>0</td>
<td>– ✓*</td>
</tr>
<tr>
<td>1.2.2</td>
<td>Bank ✓</td>
<td>Ordinary share capital ✓</td>
<td>450 000</td>
<td>+</td>
<td>+</td>
<td>0 ✓*</td>
</tr>
<tr>
<td>1.2.3</td>
<td>Income tax / taxation ✓</td>
<td>SARS: Income tax ✓</td>
<td>338 200</td>
<td>0</td>
<td>–</td>
<td>+ ✓*</td>
</tr>
</tbody>
</table>

1.3.1 Identify the type of audit report that the company received. Give a reason for your answer.

TYPE OF REPORT: Unqualified ✓
REASON: Any valid reason ✓ accept short, incomplete statements if message is clear

- The audit report indicates 'fairly present'.
- The auditors did not identify any problems.

1.3.2 Explain why the auditor referred to pages 8 to 23

Any suitable explanation ✓ ✓ part mark for unclear/incomplete/partial answers

- The auditors are responsible only for reports presented on these pages of the Annual Report.
- The audited financial reports / statements are found on these pages of the full report presented to the shareholders at the AGM

1.3.3 Name any TWO items of audit evidence that the auditors may have used.

Any TWO examples of evidence ✓ ✓ individual examples of documents is one point

Stock sheets / fixed assets register / source documents including EFT records / bank; debtors; creditors statements / signed contracts / employee profiles/ physical inspection of assets / journals

TOTAL MARKS 20
QUESTION 2

2.1 Calculate the value of the closing stock on 28 February 2021 using the weighted-average method.

<table>
<thead>
<tr>
<th>WORKINGS</th>
<th>ANSWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>$11,005,000$ two marks</td>
<td>$1,704,000$ ✔</td>
</tr>
<tr>
<td>$2,433,000\sqrt{\ + \ 8,572,000\sqrt{\ + \ 4,000\sqrt{\ + \ 11,500\sqrt{\ + \ 11,005,000/15,500 = 710 four marks}}}} \times 2,400$</td>
<td></td>
</tr>
</tbody>
</table>

Mark numerator and denominator, as such.

2.2 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2021

<table>
<thead>
<tr>
<th>Item</th>
<th>WORKINGS</th>
<th>ANSWER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$24,182,600$ ✔ □ □</td>
<td>$24,182,600$ ✔</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>$9,301,000$ ✔ □ □</td>
<td>$(9,301,000)$ ✔</td>
</tr>
<tr>
<td>Gross profit</td>
<td>$4$</td>
<td>$14,881,600$ ✔</td>
</tr>
<tr>
<td>Other income</td>
<td>operation, one part correct</td>
<td>$203,400$ ✔</td>
</tr>
<tr>
<td>Bad debts recovered</td>
<td></td>
<td>$5,800$ ✔</td>
</tr>
<tr>
<td>Rent income $(208,250 – 17,000 ✔)$</td>
<td>adjustment amt subtracted</td>
<td>$191,250$ ✔</td>
</tr>
<tr>
<td>Provision for bad debt adjustment $(9,800 – 9,350)$</td>
<td></td>
<td>$450$ ✔ ✔</td>
</tr>
<tr>
<td>Profit on sale of asset $(88,400 – 82,500)$</td>
<td>CV subtracted</td>
<td>$5,900$ ✔</td>
</tr>
<tr>
<td>Gross operating income</td>
<td>$9$</td>
<td>$15,085,000$ ✔</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>operation; inspect</td>
<td>$(13,065,600)$ ✔</td>
</tr>
<tr>
<td>Directors’ fees</td>
<td></td>
<td>$4,836,000$ ✔</td>
</tr>
<tr>
<td>Audit fees</td>
<td></td>
<td>$497,200$ ✔</td>
</tr>
<tr>
<td>Advertising</td>
<td></td>
<td>$342,400$ ✔</td>
</tr>
<tr>
<td>Sundry expenses</td>
<td></td>
<td>$88,000$ ✔</td>
</tr>
<tr>
<td>Trading stock deficit $2,000,000 \sqrt{\ - \ 1,704,000}$ see 2.1</td>
<td># could be surplus</td>
<td>$296,000$ ✔ □</td>
</tr>
<tr>
<td>Salaries and wages $(6,425,000 + 23,800\sqrt{\ + 10,200\sqrt{\ + 9,500\sqrt{\ + 4,500\sqrt{\ + 34,000\sqrt{\ + 28,300\sqrt{\ + 6,463,500}}}}}}$</td>
<td></td>
<td>$6,463,500$ ✔ □</td>
</tr>
<tr>
<td>Depreciation $(41,250 + 337,000 \sqrt{\ + 90,500}$</td>
<td></td>
<td>$468,750$ ✔ □</td>
</tr>
<tr>
<td>Packing material</td>
<td></td>
<td>$39,700$ ✔</td>
</tr>
<tr>
<td>Bad debts 28,800 one mark + 5,250 one mark</td>
<td></td>
<td>$34,050$ ✔</td>
</tr>
<tr>
<td>Operating profit</td>
<td>$17$</td>
<td>$2,019,400$ ✔</td>
</tr>
<tr>
<td>Interest income</td>
<td>balancing figure; could be a negative</td>
<td>$57,000$ ✔</td>
</tr>
<tr>
<td>Profit before interest expense</td>
<td>NPbT + IE</td>
<td>$2,076,400$ ✔</td>
</tr>
<tr>
<td>Interest expense</td>
<td>$2,150,000 – 710,400 – 1,652,000$ OR $1,652,000 – 1,439,600$</td>
<td>$(212,400)$ ✔ □ □</td>
</tr>
<tr>
<td>Net profit before tax</td>
<td>NPAT + IT</td>
<td>$1,864,000$ ✔</td>
</tr>
<tr>
<td>Income tax</td>
<td>NPAT x 28/72</td>
<td>$(521,920)$ ✔ ✔</td>
</tr>
<tr>
<td>Net profit after tax</td>
<td>$7$</td>
<td>$1,342,080$ ✔</td>
</tr>
</tbody>
</table>

*: foreign items (-1 max); misplaced items, mark workings only; ignore brackets but check operation when awarding method mark

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### 2.3 RETAINED INCOME NOTE

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of financial year</td>
<td>2 978 000</td>
</tr>
<tr>
<td>Net profit after tax</td>
<td>1 342 080 √</td>
</tr>
<tr>
<td>Buy back of shares Ignore brackets</td>
<td>(62 500) √ √</td>
</tr>
<tr>
<td>Dividends operation Ignore brackets</td>
<td>(1 900 500)</td>
</tr>
<tr>
<td>Interim</td>
<td>672 000 √</td>
</tr>
<tr>
<td>Final (3 412 500 x R0,36) one part correct</td>
<td>1 228 500 √ √</td>
</tr>
<tr>
<td>Balance at end of financial year one part correct; share buy-back and dividends must be subtracted</td>
<td>2 357 080 √</td>
</tr>
</tbody>
</table>

| TOTAL MARKS | 50 |
QUESTION 3

3.1.1 Calculate: Debt-equity ratio

**WORKINGS**

\[ \frac{2450000}{10387600} \]

\( (7280000 + 3107600) \) one mark

**ANSWER**

0.2 : 1  

one part correct;  

must be shown as \( x : 1 \)  

3

3.1.2 Calculate: Net asset value per share

**WORKINGS**

\[ \frac{10387600}{800000} \times 100 \text{ cents}^* \]

\( (700000 + 120000 - 20000) \) one mark

**ANSWER**

1298.5 cents  

one part correct  

R/c not necessary  

accept 1298c /1299c /  

R12.98 / R12.99  

3

3.1.3 Calculate: Dividend pay-out rate

**WORKINGS**

\[ \frac{77}{2} \text{ two marks} \]

\[ \frac{45 + 32}{350} \times 100^* \]

OR

\[ \frac{0.45 + 0.32}{3.50} \]

\[ \frac{631400}{2870000} \text{ two marks} \times 100 \]

**ANSWER**

22%  

one part correct  

shown as a %  

4

3.1.4 Calculate: Return on average shareholders’ equity (ROSHE)

**WORKINGS**

\[ \frac{2870000}{(10387600 + 6910000)} \]

\( 17297600 \) one mark  

\( 8648800 \) two marks

**ANSWER**

33.2%  

one part correct  

Accept 33%  

% sign not necessary  

4

3.2.1 For the Cash Flow Statement calculate: Change in receivables

**WORKINGS**

\[ 418000 - 390000 \]

Ignore workings and brackets;

Award marks for answer / detail if not in the relevant columns

**ANSWER**

28000 \( \checkmark \)  

Outflow \( \checkmark \)  

3

3.2.2 For the Cash Flow Statement calculate: Change in payables

**WORKINGS**

\[ 520000 + 16000 \]

\[ 536000 - 359200 \]

Ignore workings and brackets

**ANSWER**

176800 \( \checkmark \)  

Inflow \( \checkmark \)  

3
### 3.3.1 Calculate: Taxation paid

**WORKINGS**

1 085 000 \( \checkmark \) – 124 000 \( \checkmark \) – 354 000 \( \checkmark \)

\[
\text{OR} \quad -1 085 000 + 124 000 + 354 000
\]

**ANSWER**

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>607 000 ( \checkmark ) one part correct</td>
<td></td>
</tr>
</tbody>
</table>

Accept ledger format or brackets as workings

---

### 3.3.2 Calculate: Dividends paid

**WORKINGS**

\[
(820 000 \times 0.45) \text{ two marks}
\]

210 000 \( \checkmark \) + 369 000 \( \checkmark \) \( \checkmark \) \( \checkmark \)

**ANSWER**

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>579 000 ( \checkmark ) one part correct</td>
<td></td>
</tr>
</tbody>
</table>

Accept ledger format or brackets as workings

---

### 3.3.3 Calculate: Proceeds from sale of fixed assets

**WORKINGS**

\[
8 865 000 – 1 360 000 + 785 000 – 8 878 000 \quad \text{OR}
\]

\[
8 878 000 + 1 360 000 – 785 000 – 8 865 000
\]

**ANSWER**

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>588 000 ( \checkmark ) one part correct</td>
<td></td>
</tr>
</tbody>
</table>

Accept ledger format, brackets as workings or fixed asset note format

---

### 3.3.4 Calculate: Funds used for the repurchase of shares

**WORKINGS**

\[
20 000 \times R13.65 \quad \text{OR} \quad 182 000 + 91 000
\]

\[
20 000 \times 9.10 \quad 20 000 \times 4.55
\]

**ANSWER**

<table>
<thead>
<tr>
<th>Workings</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>273 000 ( \checkmark ) one part correct</td>
<td></td>
</tr>
</tbody>
</table>

---

**TOTAL MARKS** 35
**QUESTION 4**

### 4.1

<table>
<thead>
<tr>
<th>4.1</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1.1</td>
<td>B ✓</td>
</tr>
<tr>
<td>4.1.2</td>
<td>C ✓</td>
</tr>
<tr>
<td>4.1.3</td>
<td>A ✓</td>
</tr>
</tbody>
</table>

### 4.2 LIBRA LIMITED

#### 4.2.1

Identify TWO other liquidity indicators which also show that the company is likely to have serious liquidity concerns in future. Explain ONE point in EACH case (with figures).

<table>
<thead>
<tr>
<th>Financial indicator</th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stockholding period</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Increased (from 43 days) to 78 days / by 35 days / 81,4%</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Danger of stock becoming obsolete</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Cash tied up in stock / stock piling</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Average debtors' collection period</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Increased (from 32,6 days) to 58,9 days / by 26,3 days / 80,1%</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Slower collections will negatively affect the cash flow</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Poor control over collection from debtors</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Do not accept creditors payment period

### 4.2.2

Comment on how the increase in the loan affected the risk and gearing in 2021. Quote TWO financial indicators. State ONE point in EACH case (with figures).

<table>
<thead>
<tr>
<th>Financial indicator</th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
<th>✓</th>
</tr>
</thead>
<tbody>
<tr>
<td>POI INT 1</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Debt/equity ratio increased (from 0,2:1) to 0,7:1 / by 0,5 : 1</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Higher financial risk taken by the company.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>The business is now making more use of loans</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>POI INT 2</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>ROTCE decreased (from 9,1%) to 6,4% / by 2,7%</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Negatively geared; return is lower than interest on loans (12%)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Not making effective use of loans.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

### 4.2.3

Explain whether the decision to purchase additional property had the desired effect on demand for this product (with figures).

| Explanation (not Yes or No)   | ✓  | ✓  | ✓  | ✓  | ✓  |
| Figures (showing / implying comparison) | ✓  | ✓  | ✓  | ✓  | ✓  |
| Sales has decreased by R2 574 000 / (from R11 550 000) to R8 976 000 / by 22,3% | ✓  | ✓  | ✓  | ✓  | ✓  |
| Decrease in the mark-up % achieved from 75% to 60% did not result in more sales / 15% reduction | ✓  | ✓  | ✓  | ✓  | ✓  |

---

Please turn over
4.2.3 Explain why the public was not interested in buying the new shares issued at R6,00 per share. Quote THREE financial indicators (excluding indicators stated in QUESTION 4.2.2). State ONE point in EACH case (with figures).

Any THREE of: Financial indicator ✓ ✓ ✓ (with figures) ✓ ✓ ✓ Explanation ✓ ✓ ✓

They do not have confidence in the company, as indicated by:
- EPS decreased from 102c (to 54c) by 48c – indicating that the company is experiencing problems to maintain profit levels
- DPS dropped from 90c (to 25c) – shareholders not receiving a reasonable return.
- Drop in the dividend pay-out rate from 88,2% (to 46,3%) is an indication that directors were not concerned about growth, but is making some attempt to rebuilding.
- ROSHE was 5,3% and dropped to 4,9%; still below the interest on fixed deposits (8%)
- R6,00 was not a good deal when compared to the market price of R6,10 (R5,80), especially if they were then prepared to sell the shares at R4,80 (desperate attempt to raise capital)
- NAV (711c), higher than the MP of 610c is an indication of low demand for shares.
- Liquidity issues: current ratio is low (1,1 : 1) and acid test ratio indicated cash flow problems (0,8 : 1); debtors not paying within limits (32 days)
- High mark-up % (75%) and poor control over expenses (32% of sales) will cause customers to go elsewhere; decreasing trend in profits.

4.2.4 State TWO different points to justify their opinion. Quote figures or financial indicators.

TWO valid points ✓ ✓ figure ✓ ✓

POINT 1 Compulsory point: comment on directors’ fees
- Buys has given himself a 45% increase /
- R900 000 increase is 50% more than fee of other directors /
- Other directors did not receive an increase (maintained at R600 000 each)

POINT 2 Possible additional response. Any ONE of:
- EPS dropped (from 102c) to 54c (by 48c);
- ROSHE dropped (from 5,3%) to 4,9%
- ROTCE dropped (from 9,1%) to 6,4%
- Poor control over expenses, (from 32,6%) to 44% of sales

4.2.5 Explain why the other directors were unhappy with the price paid for the shares repurchased from Anton Buys. State TWO points. Quote financial indicators or figures to support EACH point.

Both points may be included in the same statement; 2020 figures must be quoted.

Explanation (including financial indicator) ✓ ✓ Figures ✓ ✓

POINT 1 The shares were repurchased for R4,89 above the Net asset value per share (1200c – 711c) / 69% above NAV / received an inflated price / compromised the cash flow of the business.

POINT 2 The shares repurchase price is R5,90 more than the market price of the shares (1200c – 610c) / this is an unreasonable price as there is no demand for shares.

Give a calculation to show whether the repurchase of these shares affected Anton Buys’ status as majority shareholder, or not.

WORKINGS  ANSWER

1 240 000 ✓ x 100 OR 1 240 000 x 100
2 370 000 ✓ 1 2 450 000 1

52,3% ✓
one part correct; as a %

Mark numerator and denominator, as such: x 100 is not one part correct

Copyright reserved  Please turn over
4.2.6 Explain what is meant by *good corporate governance* and explain why it is important to the shareholders.

**Explanation and importance to shareholders may be expressed in the same response.**

**Explanation** ✅ ✅ part mark for unclear/incomplete/partial answers

- Managing the business on sound business and ethical principles;
- Looking after the interest of all role players / stakeholders (including the community) by being fair, equitable, transparent.
- Ensure that the company has proper rules, policies and practices to create long term shareholder value, and are implementing them.

**Importance to shareholders** ✅ accept short, incomplete statements if message is clear

- Impact on the image of the business / goodwill
- Improvement in share price
- Potential investors will be attracted
- Confidence in management and control

---

Explain a possible reason why Anton Buys says he will vote against the proposal by Excellence Ltd.

**ONE point** ✅ ✅ part mark for unclear/incomplete/partial answers

- He will lose his majority control on the Board
- He may also lose his CEO status
- He may be investigated for negligence
- He will not be able to manipulate his remuneration in future

---

Explain why you agree with the directors.

**ONE valid point** ✅ ✅ part mark for unclear/incomplete/partial answers

- He has taken irresponsible decisions
- Enriched himself / selfish gain / act of enriching (45%)

---

Give the directors advice on how they should handle this.

**ONE valid point** ✅ ✅ part mark for unclear/incomplete/partial answers

- Call up a special meeting of shareholders;
- Issue a grievance report
- Start disciplinary proceedings (investigations/enquiry on mismanagement)
- Ask him to step aside.

**TOTAL MARKS** 45

**TOTAL: 150**