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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **QUESTION 2** | | | | | | | | | |
|  |  | | |  | | | | |  |
| **2.1** | **2.1.1** | | | Gearing | | 🗸 | |  | |  | | --- | |  | | **3** | |
|  | **2.1.2** | | | Solvency | | 🗸 | |  |
|  | **2.1.3** | | | Profitability | | 🗸 | |  |
|  |  | | | | | | | |  |
| **2.2** | | **LONGDIVE LIMITED** | | | | | | |  |
|  | |  | | | | | | |  |
| **2.2.1** | | **WORKINGS** | | | | | **ANSWER** | |  |
|  | | **(i)** | **Carrying value of vehicles on 1 March 2022**  2 640 000 – 990 000 **1** | | | | 1 650 000 🗸 | | |  | | --- | |  | | **11** | |
|  | | **(ii)** | **Carrying value of the vehicle sold**  94 000 x 20/100 x 9/12  **OR** 286 000 🗸 – 192 000 🗸 – 14 100 **🗸☑** one part correct  **5**    **OR**: 286 000 – (192 000 + 14 100)  206 100 two marks + one metode.mark | | | | 79 900 ☑\*  one part correct | |
|  | | **(iii)** | **Total depreciation on equipment**    660 000 x 10% = 66 000 (CV is 30 000)  Old: 30 000 – 1 = 29 999 🗸🗸 **5**  New: 156 000 x [10/100 x 6/12] = 7 800 🗸☑  any one part correct | | | | 37 799 ☑\*  any one part correct | |
|  | |  | | |  | | | |  |
| **2.2.2** | | **Calculate the following amounts for the 2023 Cash Flow Statement:** | | | | | | |  |
|  | | **WORKINGS** | | | | | **ANSWER** | | |  | | --- | |  | | **4** | |
|  | | **Income tax paid** | | | | |  | |
| + 18 800🗸 – 288 000🗸 + 29 550🗸  **OR** – 18 800 + 288 000 – 29 550  **OR** 18 800 (288 000) 29 550 | | | | | (239 650) ☑\*  one part correct | |
|  | | **Dividends paid** | | | | |  | |  |
|  | | 252 800 two marks  + 190 000 🗸 + 585 300 🗸 – 332 500 🗸  **OR** – 190 000 – 585 300 + 332 500    **OR** (190 000 ) + (252 800) | | | | | (442 800) ☑\*  one part correct | | |  | | --- | |  | | **4** | |

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| --- | --- | --- | --- | --- |
| **2.2.3** | **NET CHANGE IN CASH AND CASH EQUIVALENTS** | (177 800) | ☑\* |  |
|  | Opening balance (69 000 + 6 000) both | 75 000 | 🗸 | |  | | --- | |  | | **4** | |
|  | Closing balance (– 111 800 + 9 000) must have brackets | (102 800) | 🗸☑\* |
|  |  | \*☑ one part correct |  | |
| **2.2.4** | **Calculate the following financial indicators on 28 February 2023:** | | |  |
|  | **WORKINGS** | **ANSWER** | |  |
|  | **% mark-up achieved**  4 300 000 🗸 x 100\*  8 600 000 🗸 1  (12 900 000 – 4 300 000) | 50%☑\*  operation; one part correct | | |  | | --- | |  | | **3** | |
|  | **Acid-test ratio** |  | |  |
|  | 970 500 + 9 000  (1 535 000 – 555 500) two marks; no part marks  979 500 ✓✓ : 653 000 ✓ | 1,5 : 1🗹\*  operation; one part correct  & if in form x : 1 | | |  | | --- | |  | | **4** | |
|  | **Net asset value per share (NAV)** |  | |  |
|  | 9 960 000 🗸 x 100\* (for cents)  1 000 000 🗸 | 996,0 cents OR R9,96 🗹\*  operation; one part correct  cannot be %. Must be R or cent and x by 100 | | |  | | --- | |  | | **3** | |
|  | **% Return on average shareholders' equity (ROSHE)** |  | |  |
|  | 612 000 🗸 x 100\*  ½ 🗸(9 960 000 + 8 640 000)🗸  9 300 000 two marks | 6,6% 🗹\*  operation; one part correct and x 100 | | |  | | --- | |  | | **4** | |
|  |  | | |  |

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| --- |
| **TOTAL MARKS** |
|  |
| **40** |

|  |  |  |
| --- | --- | --- |
| **QUESTION 3** | |  |
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| **3.1** | **Shadow** **is of the opinion that Candy Ltd has the better control over its net current assets and liquidity. Explain why she feels this way. Quote THREE financial indicators.** |  |
|  | Financial indicator 🗸 🗸 🗸 Figures and comparison 🗸 🗸 🗸   * Current ratio is 1,9:1 and Cola is 0,8:1 (by 1,1:1) * Acid-test ratio is 0,8:1 and Cola and is 0,3:1(by 0,5:1) * Stock turnover rate is 6 times per year and Cola is 4 times per year   (2 times)   * Debtors are paying in 30 days and Cola 39 days (9 days) | |  | | --- | |  | | **6** | |
|  |  |  |
| **3.2** | **Comment on the degree of risk and gearing of each company. Explain how this should influence Shadow’s choice of company.** |  |
|  | Financial indicator and figure: risk – both 🗸 Comment: risk – both 🗸  Financial indicator and figure: gearing – both 🗸 Comment: Gearing – both 🗸  **CANDY LTD**  Debt equity ratio is 1,2 : 1  Return on total capital employed is 18,1%    **Explanation:**  Candy Ltd has high risk – too much reliant on loans, will struggle to obtain additional loans.  Positive gearing – makes effective use of loan to generate profit.  ROTCE is higher than interest rate on loan.  Financial indicator and figure: risk – both 🗸 Comment: risk – both 🗸  Financial indicator and figure: gearing – both 🗸 Comment: Gearing – both 🗸  **COLA LTD**  **Financial indicator:**  Debt equity ratio is 0,5 : 1  Return on total capital employed is 10,3%    **Explanation:**  Cola Ltd has low risk – more reliant on own capital, will easily obtain additional loans.  Negative gearing - does not make effective use of loan to generate profit. /ROTCE is lower than interest on loan. | |  | | --- | |  | | **8** | |

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| --- | --- | --- |
| **3.3** | **She is of the opinion that the earnings per share (EPS) of Candy Ltd of 520 cents is actually better than the 690 cents of Cola Ltd. Explain why her reasoning is correct.** |  |
|  | Compare EPS with NAV/MP 🗸 figures/percentage both 🗸 🗸  Candy Ltd: EPS to NAV is 520/780 or 66,6%  Cola Ltd: EPS to NAV is 690/1100 or 62,7%  **OR**  Candy Ltd: EPS to MP is 520/650 or 80%  Cola Ltd: EPS to MP is 690/1200 or 57,5% | |  | | --- | |  | | **3** | |

|  |  |  |
| --- | --- | --- |
| **3.4** | **Comment on the value of the shares of the two companies on the Johannesburg Securities Exchange (JSE). Explain how this should influence Shadow choice of company.** |  |
|  | Financial indicator and figure 🗸🗸 🗸🗸 Explanation 🗸 🗸  **CANDY LTD**  **Financial indicator:** JSE price 650c and is less than the NAV 780c  **Explanation**:  The net asset value of the shares is higher than the market price which indicates there is less demand for these shares **OR** their shares might be under-priced/overvalued.  **COLA LTD**  **Financial indicator:** JSE price 1 200c and is higher than the NAV 1 100c  **Explanation**:  Market price is higher than the NAV which indicates there is good demand for these shares **OR** their shares might be over-priced/undervalued. | |  | | --- | |  | | **6** | |
|  |
|  |  |  |
| **3.5** | **Compare and comment on the dividend pay-out policies of the two companies.** |  |
|  | Calculation 🗸✓ 🗸✓ Comment 🗸 🗸  **CANDY LTD:**  x 100 = 25%    **Comment:**  Distributes 25% of earnings/Keep money back (75%) for future expansions / No need to obtain a loan.  **COLA LTD:**  x 100 = 100%  **Comment:**  Distributes 100% of earnings / Keep short term investors (shareholders happy) / Directors to be re-elected / Create favour in the market to increase demand on JSE and push up share prices. | |  | | --- | |  | | **6** | |

|  |  |  |
| --- | --- | --- |
| **3.6** | **Apart from the points mentioned above, explain why Shadow will also look at the points below if he wants to invest in a company. Provide a reason for each explanation.**  **Type of Audit report:** |  |
|  | Type 🗸 Comment 🗸🗸 part marks can be awarded  Unqualified audit report.  To provide a reasonable assurance that the financial statements are reliable/good/error free, and that the auditors have not come across any fraud or error. | |  | | --- | |  | | **3** | |
|  | **Reputation of the directors:** 🗸🗸🗸 part marks can be awarded  They must have a good reputation / appropriate experience and hard-working/good work ethic.  **OR**  To ensure that the shareholders’ investment is in good hands as they are running the company with shareholders’ money. | |  | | --- | |  | | **3** | |