|  |  |  |  |
| --- | --- | --- | --- |
| **QUESTION 2: FIXED ASSETS, CASH FLOW STATEMENT AND FINANCIAL**  **INDICATORS (40 marks; 30 minutes)** | | | |
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| --- | --- | --- | --- |
| 2.1 | Choose the correct word from those given in brackets. Write only the word next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK. | |  |
|  |  | |  |
|  | 2.1.1 | The use of loans to finance a company is known as (profitability/returns/gearing). |  |
|  |  |  |  |
|  | 2.1.2 | (Solvency/Liquidity/ Risk) is the ability of the business to pay off all debts using existing assets. |  |
|  |  |  |  |
|  | 2.1.3 | Effective control of income and expenses is a reflection of the (risk/profitability/Liquidity). |  |
|  |  | | (3) |

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| 2.2 | **LONGDIVE LIMITED** | | |  |
|  |  |  | |  |
|  | The information relates to the financial year ended 28 February 2023. | | |  |
|  |  |  |  |  |
|  | **REQUIRED:** | | |  |
|  |  |  |  |  |
|  | 2.2.1 | **Refer to** **Information A.**  Calculate the missing figures indicated by **(i)** to **(iii)** on the Fixed Asset Note. | | (11) |
|  |  |  |  |  |
|  | 2.2.2 | Calculate the following amounts for the 2023 Cash Flow Statement: | |  |
|  |  |  |  |  |
|  |  | * Income tax paid | | (4) |
|  |  |  |  |  |
|  |  | * Dividends paid | | (4) |
|  |  |  |  |  |
|  | 2.2.3 | Complete the NET CHANGE IN CASH AND CASH EQUIVALENTS section of the Cash Flow Statement. | | (4) |
|  |  |  |  |  |
|  | 2.2.4 | Calculate the following financial indicators on 28 February 2023: | |  |
|  |  |  |  |  |
|  |  | * % mark-up achieved | | (3) |
|  |  |  |  |  |
|  |  | * Acid-test ratio | | (4) |
|  |  |  |  |  |
|  |  | * Net asset value per share (NAV) | | (3) |
|  |  |  |  |  |
|  |  | * % return on average shareholders' equity (ROSHE) | | (4) |

|  |  |  |  |  |  |  |  |  |  |  |  |
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|  | **INFORMATION:** | | | | | | | | | |  |
|  |  |  | | | | | | | | |  |
|  | **A.** | **Fixed Asset Note to the Statement of Financial Position (Balance Sheet):** | | | | | | | | |  |
|  |  | **FIXED ASSETS** | | | | **VEHICLES**  **R** | | **EQUIPMENT**  **R** | | |  |
|  |  | **Carrying value (1 March 2022)** | | | | **(i)** | | 30 000 | | |  |
|  |  | Cost | | | | 2 640 000 | | 660 000 | | |  |
|  |  | Accumulated depreciation | | | | (990 000) | | (630 000) | | |  |
|  |  | **Movements** | | | |  | |  | | |  |
|  |  | Additions | | | | 0 | | 156 000 | | |  |
|  |  | Disposals at carrying value | | | | **(ii)** | | 0 | | |  |
|  |  | Depreciation | | | | (298 000) | | **(iii)** | | |  |
|  |  | **Carrying value (28 February 2023)** | | | |  | |  | | |  |
|  |  | Cost | | | |  | |  | | |  |
|  |  | Accumulated depreciation | | | |  | |  | | |  |
|  |  |  | |  | | |  | | |  |  |
|  |  | * Additional equipment was purchased on 1 September 2022. | | | | | | | | |  |
|  |  | * Equipment is depreciated at 10% on cost. | | | | | | | | |  |
|  |  | * An old vehicle was sold at carrying value on 30 November 2022.  The cost price of this vehicle was R286 000 and its accumulated depreciation on 1 March 2022 was R192 000. | | | | | | | | |  |
|  |  | * Vehicles are depreciated at 20% p.a. on carrying value. | | | | | | | | |  |
|  |  |  |  | | | | | | | |  |
|  | **B.** | **Extract from the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2023:** | | | | | | | | |  |
|  |  | Sales | | | | | | | R12 900 000 | |  |
|  |  | Gross profit | | | | | | | 4 300 000 | |  |
|  |  | Income tax | | | | | | | 288 000 | |  |
|  |  | Net profit after tax | | | | | | | 612 000 | |  |
|  |  |  | | | | | | | | |  |
|  | **C.** | **Extract from the Statement of Financial Position (Balance Sheet):** | | | | | | | | |  |
|  |  |  | | | **28 Feb. 2023**  **R** | | | | **28 Feb. 2022**  **R** | |  |
|  |  | Fixed assets (carrying value) | | | **?** | | | | **?** | |  |
|  |  | Shareholders' equity | | | 9 960 000 | | | | 8 640 000 | |  |
|  |  | Inventory | | | 555 500 | | | | 456 000 | |  |
|  |  | Debtors’ control | | | 970 500 | | | |  | |  |
|  |  | Petty cash | | | 9 000 | | | | 6 000 | |  |
|  |  | Bank | | | 111 800 **(Cr)** | | | | 69 000 **(Dr)** | |  |
|  |  | SARS: Income tax | | | 29 550 **(Cr)** | | | | 18 800 **(Dr)** | |  |
|  |  | Shareholders for dividends | | | 332 500 | | | | 190 000 | |  |
|  |  | Total current assets | | | 1 535 000 | | | |  | |  |
|  |  | Total current liabilities | | | 653 000 | | | |  | |  |

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|  | **D.** | **Share capital:** | |  |
|  |  | * There were 1 000 000 shares in issue on 28 February 2023. | |  |
|  |  |  |  |  |
|  | **E.** | **Dividends:** | |  |
|  |  | * An interim dividend of R? was paid on 31 August 2022. | |  |
|  |  | * A final dividend was declared on 28 February 2023. | |  |
|  |  | * Total dividends for the financial year amounted to R585 300. | |  |
|  |  |  |  | **40** |

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| **QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION**  **(35 marks; 25 minutes)** | | |
|  | |  |
| **CANDY LTD AND COLA LTD.** | |  |
|  | |  |
| Shadow wants to invest money in ONE company. When answering the questions below, compare the information given and quote the relevant financial indicators (with percentages, ratios and/or amounts) for both companies | |  |
|  | | |
| **REQUIRED:** | | |
|  | | |
| 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. | (6) |
|  |  |  |
| 3.2 | Comment on the degree of risk and gearing of each company. Explain how this should influence Shadow’s choice of company. | (8) |
|  |  |  |
| 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. | (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’s choice of company. | (6) |
|  |  |  |
| 3.5 | Compare and comment on the dividend pay-out policies of the two companies. | (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. |  |
|  |  |  |
|  | * the type of audit report and comment | (3) |
|  | * the reputation of the directors | (3) |

**INFORMATION:**

|  |  |  |
| --- | --- | --- |
|  | **CANDY LTD** | **COLA LTD** |
| Current ratio | 1,9 : 1 | 0,8 : 1 |
| Acid-test ratio | 0,8 : 1 | 0.3 : 1 |
| Stock turnover rate | 6 times | 4 times |
| Average debtors’ collection period | 30 days | 39 days |
| Average creditors payment period | 60 days | 60 days |
| Debt-equity ratio | 1,2 : 1 | 0,5 : 1 |
| Earnings per share (EPS) | 520 cents | 690 cents |
| Dividend per share (DPS) | 130 cents | 690 cents |
| Return on total capital employed (ROTCE) | 18,1% | 10,3% |
| Return on shareholders’ equity (ROSHE) | 19,3% | 7,5% |
| Net asset value per share (NAV) | 780 cents | 1 100 cents |
| Market price of shares on JSE | 650 cents | 1 200 cents |
| Interest rate on loans | 13% | 13% |

|  |  |
| --- | --- |
|  | **35** |

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| **QUESTION 2** | | | | | | | | | |
|  |  | | |  | | | | |  |
| **2.1** | **2.1.1** | | |  | |  | |  | |  | | --- | |  | | **3** | |
|  | **2.1.2** | | |  | |  | |  |
|  | **2.1.3** | | |  | |  | |  |
|  |  | | | | | | | |  |
| **2.2** | | **LONGDIVE LIMITED** | | | | | | |  |
|  | |  | | | | | | |  |
| **2.2.1** | | **WORKINGS** | | | | | **ANSWER** | |  |
|  | | **(i)** | **Carrying value of vehicles on 1 March 2022** | | | |  | | |  | | --- | |  | | **11** | |
|  | | **(ii)** | **Carrying value of the vehicle sold** | | | |  | |
|  | | **(iii)** | **Total depreciation on equipment** | | | |  | |
|  | |  | | |  | | | |  |
| **2.2.2** | | **Calculate the following amounts for the 2023 Cash Flow Statement:** | | | | | | |  |
|  | | **WORKINGS** | | | | | **ANSWER** | |  |
|  | | **Income tax paid** | | | | |  | |  |
|  | | **Dividends paid** | | | | |  | |  |
|  | |  | | | | |  | |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **2.2.3** | **NET CHANGE IN CASH AND CASH EQUIVALENTS** |  |  |  |
|  |  |  |  | |  | | --- | |  | | **4** | |
|  |  |  |  |
|  |  |  |  | |
| **2.2.4** | **Calculate the following financial indicators on 28 February 2023:** | | |  |
|  | **WORKINGS** | **ANSWER** | |  |
|  | **% mark-up achieved** |  | | |  | | --- | |  | | **3** | |
|  | **Acid-test ratio** |  | |  |
|  |  |  | | |  | | --- | |  | | **4** | |
|  | **Net asset value per share (NAV)** |  | |  |
|  |  |  | | |  | | --- | |  | | **3** | |
|  | **% Return on average shareholders' equity (ROSHE)** |  | |  |
|  |  |  | | |  | | --- | |  | | **4** | |

|  |  |  |
| --- | --- | --- |
| **QUESTION 3** | |  |
| **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.** |  |
|  |  | |  | | --- | |  | | **6** | |
|  |  |  |
| **3.2** | **Comment on the degree of risk and gearing of each company. Explain how this should influence Shadow’s choice of company.** |  |
|  | **CANDY LTD**  **Financial indicator:**    **Explanation:**  **COLA LTD**  **Financial indicator:**    **Explanation:** | |  | | --- | |  | | **8** | |

|  |  |  |
| --- | --- | --- |
| **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.** |  |

|  |  |  |
| --- | --- | --- |
| **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’s choice of company.** |  |
|  | **CANDY LTD**  **Financial indicator:**  **Explanation**:  **COLA LTD**  **Financial indicator:**  **Explanation**: | |  | | --- | |  | | **6** | |
|  |
| **3.5** | **Compare and comment on the dividend pay-out policies of the two companies.** |  |
|  | **CANDY LTD:**  **Comment:**  **COLA LTD:**  **Comment:** | |  | | --- | |  | | **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:** |  |
|  |  | |  | | --- | |  | | **3** | |
|  | **Reputation of the directors:** | |  | | --- | |  | | **3** | |