COMPANIES

Question 1 (Financial statements and Interpretation; 65 marks, 40 minutes)

You are presented with information taken from the financial records of Dunne Limited. The financial year-end is 28 February 2018.

REQUIRED:

1.1 Prepare the following notes to the Balance sheet:
- 1.1.1 Share capital (9)
- 1.1.2 Retained income (11)

1.2 Prepare the Balance sheet on 28 February 2018. Where notes are not required calculations must be shown in brackets. (26)

1.3 Calculate the return on shareholders' equity for 2018. (5)

1.4 The directors made some deliberate decisions on the distribution of profits in the form of dividends from 2017 to 2018. Comment on these changes. Quote financial indicators and figures to support your answer. (4)

1.5 Should shareholders be satisfied with the percentage return and the market price of the shares? Quote two financial indicators and give comment in each case to support your answer. (6)

1.6 The external auditor, Jordan, owns 10 000 shares in Dunne Limited. Explain why this is a problem and give a solution to the problem. (4)

INFORMATION:

1. The authorized share capital consists of 750 000 ordinary shares. On 1 March 2017 only 60% of the shares were in issue.
2. The following figures were taken from the financial records:

	28 Feb. 2018	**28 Feb. 2017**
Ordinary share capital	?	3 215 000
Retained income	?	322 500
Fixed assets at carrying value	?	
Fixed deposit: ABSA	650 000	
Loan: Nedbank	482 600	
Inventories	275 400	
Debtors control	243 500	
Creditors control	62 460	
Cash: Bank and Petty cash	336 600	
Income received in advance: Rent income	12 120	
Accrued expenses: Insurance	7 600	
Provisional Income tax payments	299 980	
Interim dividends paid on 31 Aug. 2017	270 000	

3. On 1 November 2017 the company issued a further 80 000 shares at R9,50 per share.
4. On 28 February 2018, 75 000 shares were repurchased at a price of R10,40 per share.
5. On 27 February 2018 a final dividend of 40 cents per share was declared.

6. The loan statement received from Nedbank on 28 February 2018 showed interest capitalized at R81 400. This was not recorded in the books. The business will settle 20% of the outstanding balance during the next financial year.
7. After all the above mentioned adjustments were taken into account the net profit before tax was calculated as R1 161 000. Income tax is calculated at 30% of the net income before taxation.

8. The following financial indicators are provided:

	28 Feb. 2018	**28 Feb. 2017**
Earnings per share (EPS)	170 cents	82 cents
Dividends per share (DPS)	100 cents	82 cents
Net asset value per share (NAV)	846 cents	786 cents
Return on shareholders' equity (ROSHE)	?	18,3%
Market price of Dunne-shares on the JSE	1 032 cents	1 060 cents
Interest rate on alternative investments	9%	9%

1.1.1 SHARE CAPITAL

Authorized share capital

Issued share capital

1.1.2 RETAINED INCOME

Balance on 1 March 2017	322 500
Ordinary share dividends	
Balance on 28 February 2018	

1.2 DUNNE LIMITED

BALANCE SHEET ON 28 FEBRUARY 2018

ASSETS	
Non-current assets	
Fixed deposit: ABSA	
Current assets	
Inventories	
Trade and other receivables	
Cash and cash equivalents	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
Shareholders' equity	
Non-current liabilities	
Current liabilities	
TOTAL EQUITY AND LIABILITIES	

1.3 Calculate the return on shareholders' equity for 2018.

1.4 The directors made some deliberate decisions on the distribution of profits in the form of dividends from 2017 to 2018. Comment on these changes. Quote financial indicators and figures to support your answer.

1.5 Should shareholders be satisfied with the percentage return and the market price of the shares? Quote two financial indicators and give comment in each case to support your answer.

1.6 The external auditor, Jordan, owns 10 000 shares in Dunne Limited. Explain why this is a problem and give a solution to the problem.
Explain why this is a problem: Solution:

COMPANIES

<u>Question 2</u> (Cash Flow Statement, Fixed assets and Corporate Governance; 75 marks, 45 minutes)

You are provided with information relating to Leish Limited for the year ended 28 February 2018.

REQUIRED:

2.1 Refer to **Information E** and calculate the missing amounts (indicated by **a, b** and **c**) in the Fixed assets Note for the year ended 28 February 2018. (12)

2.2 Complete the Cash Flow Statement for the year ended 28 February 2018. (31)

2.3 One of the shareholders, on the Annual General Meeting (AGM), stated that the Cash Flow Statement showed some poor decisions by the directors. Explain two points, with relevant figures, to support his opinion. (4)

2.4 Calculate the following financial indicators for the financial year ended 28 February 2018:

2.4.1 Net asset value per share (3)

2.4.2 Debt/Equity ratio (3)

2.5 Comment on the liquidity position of the company. (9)

2.6 The directors decided to increase the loan during the current financial year. Quote two financial indicators to explain if this was a good decision or not. (8)

2.7 Jordan Spieth owns 740 000 shares in the company. Explain the effect that the repurchase of shares on 31 December 2017 had on his control of the company. Show calculations to support your answer. (5)

INFORMATION:

A. Information taken from the Income Statement for the year ended on 28 February 2018:

Interest on loan (capitalized)	88 500
Net profit before tax	1 575 000
Income tax	441 000

B. Extract from the Balance sheets on:

	28 Feb. 2018	**28 Feb. 2017**
Current assets	**3 337 300**	**4 641 000**
Inventories	818 200	641 000
Trade debtors	2 377 600	1 512 000
SARS (Income tax)	128 000	-
Cash and cash equivalents	13 500	2 488 000
Share holders' equity	**8 839 000**	**7 400 000**
Ordinary share capital	8 700 000	6 600 000
Retained income	139 000	800 000
Loan: ABSA (interest rate 12,5% p.a.)	**908 000**	**508 000**
Current liabilities	**2 063 700**	**1 302 000**
Trade creditors	678 700	700 000
Shareholders for dividends	870 000	480 000
Bank overdraft	515 000	-
SARS (Income tax)	-	122 000

C. Information taken from the Shareholders' register:

Date	Details
1 March 2017	1 200 000 shares in issue
31 March 2017	300 000 shares issued at R8,00 per share
31 December 2017	50 000 shares repurchased at R9,50 per share
28 February 2018	1 450 000 shares in issue

D. Dividends for the financial year ended 28 February 2018:

Interim dividends paid on 31 August 2017	R750 000
Final dividends declared on 28 February 2018	R870 000

E. Fixed/Tangible assets:

	Land and buildings	Vehicles
Carrying value – beginning of the year	**2 689 000**	**1 880 000**
Cost	2 689 000	3 250 000
Accumulated depreciation	-	(1 370 000)
Movements during the year		
Additions at cost	**a**	330 000
Disposals at carrying value	-	**b**
Depreciation	-	**c**
Carrying value – end of the year	**6 740 000**	
Cost	6 740 000	3 440 000
Accumulated depreciation	-	

Additional information regarding Fixed/Tangible assets:

(i) A vehicle was sold at carrying value on 31 May 2017. The following information in respect of the vehicle sold was taken from the Fixed Asset Register:

Cost: R140 000 **Date purchased:** 1 March 2016

Rate of depreciation: 20% p.a. on Diminishing-balance method

Date	Depreciation	Accumulated depreciation
28 Feb. 2017	28 000	28 000
31 May 2017	5 600	33 600

(ii) A new vehicle was purchased on 1 January 2018 at a cost of R330 000 and paid for by cheque. Vehicles are depreciated at 20% p.a. on the Diminishing-balance method.

F. Financial indicators:

	28 Feb. 2018	28 Feb. 2017
Debt/Equity ratio	?	0,1 : 1
Net asset value per share (NAV)	?	617 cents
Current ratio	1,6 : 1	3,6 : 1
Acid-test ratio	1,2 : 1	3,1 :1
Stock turnover rate	6,8 times	5,1 times
Debtors' collection period	40 days	35 days
% Return on average capital employed	18,8%	16,4%

2.1 Refer to **Information E** and calculate the missing amounts (indicated by **a,b** and **c**) in the Fixed assets Note for the year ended 28 February 2018.

Number	Calculation	Amount
a		
b		
c		

4.2 Cash Flow Statement for the year ended 28 February 2018	
Cash flow from operating activities	
Cash generated from operations	969 600
Interest paid	(88 500)
Cash flow from investing activities	
Cash flow from financing activities	
Net change in cash and cash equivalents	
Cash and cash equivalents at the beginning of the year	
Cash and cash equivalents at the end of the year	

2.3 One of the shareholders, on the Annual General Meeting (AGM), stated that the Cash Flow Statement showed some poor decisions by the directors. Explain two points, with relevant figures, to support his opinion.
Point 1:   Point 2:

2.4 Calculate the following financial indicators for the financial year ended 28 February 2018:
2.4.1 Net asset value per share:
2.4.2 Debt/Equity ratio:

2.5 Comment on the liquidity position of the company.

2.6 The directors decided to increase the loan during the current financial year. Quote two financial indicators to explain if this was a good decision or not.
Financial indicator 1: Financial indicator 2: Explanation:

2.7 Jordan Spieth owns 740 000 shares in the company. Explain the effect that the repurchase of shares on 31 December 2017 had on his control of the company. Show calculations to support your answer.

COMPANIES

Question 3 (Financial statements; 60 marks, 35 minutes)

The financial year of Charl Limited ends on 30 June every year.

The accountant of Charl Limited took the year-end adjustments into account and calculated the net profit before tax for the year as R830 000. However some adjustments were not taken into account when this profit before tax was calculated.

REQUIRED:

3.1 Calculate the correct net income before tax for the year ended 30 June 2018. (20)

3.2 Complete only the Liabilities-section in the Balance sheet on 30 June 2018. (16)

3.3 Prepare the following notes to the Balance sheet on 30 June 2018:

3.3.1 Ordinary share capital (11)

3.3.2 Retained income (13)

INFORMATION:

1. The following extract was taken from the list of balances and totals from the General ledger of Charl Limited on 30 June 2018 before the additional adjustments were taken into account:

Ordinary share capital	?
Retained income (1 July 2017)	310 000
Equipment	350 000
Accumulated depreciation on equipment	145 000
Trading stock	132 000
Debtors control	36 000
Provision for bad debts	1 650
Bank	550 000
SARS (Income tax) – debit	242 800
Creditors control	205 000
Loan: ABSA @ 15% interest p.a. (1 June 2018)	280 000

2. The following adjustments and additional information has not yet been taken into account:

2.1 According to the Profit-and-loss account, insurance amounted to R27 000. This amount includes an annual insurance premium of R7 200 that was paid on 1 November 2017.

2.2 Trading stock to the value of R28 000 was destroyed in a fire. The insurance company accepted the claim and will cover 80% of the claim. This amount will be received during Augustus 2018. The rest must be written off.

2.3 The provision for bad debts must be adjusted to 4% of outstanding debtors.

2.4 The amount for Rent income in the Profit-and-loss account is shown as R91 300. The accountant did not consider the fact that the tenant already paid the rent for July 2018. The rent increased with R700 per month on 1 February 2018.

2.5 Interest on loan for the last month is still outstanding. Interest is capitalized. The company will settle R40 000 of the capital portion of the loan on 1 May 2019.

2.6 A profit on the disposal of an asset during the year, R14 500, is shown as a loss on disposal of asset in the Profit-and-loss account.

2.7 The correct Income tax for the year is R247 800.

2.8 The bank reconciliation statement on 30 June 2018 shows an outstanding cheque of R1 500. The cheque was issued to a creditor and was dated for 12 September 2018.

2.9 Share capital:

- On 1 July 2017, the Ordinary share capital amounted to R2 400 000. Only 60% of the authorized share capital of 500 000 shares were in issue.
- On 31 July 2017 an additional 100 000 shares were issued at R8,20 per share.
- On 12 January 2018, 70 000 shares were repurchased at a price of R8,60 per share. The transaction was concluded but had not been recorded in the financial records of the company.

2.10 Dividends:

- On 1 December 2017 an interim dividend of 50 cents per share was declared and paid.
- A final dividend of 70 cents per share was declared on 30 June 2018.

3.1 Calculate the correct net income before tax for the year ended 30 June 2018.

Faulty net profit before tax	830 000
Correct net profit before tax	
Income tax	
Net profit after tax	

Calculations:

3.2 Complete only the Liabilities-section in the Balance sheet on 30 June 2018.

Non-current liabilities	
Loan: ABSA	
Current liabilities	
Trade and other payables	
Total liabilities	

3.3 Prepare the following notes to the Balance sheet on 30 June 2018:

3.3.1 Ordinary share capital

Authorized:	
Issued:	

3.3.2 Retained income

Retained income at the beginning of the year	310 000
Dividends for the year	
Retained income at the end of the year	

COMPANIES

Question 4 (Cash flow and Interpretation of Financial statements; 70 marks, 45 minutes)

The following information was taken from the books of Tiger Limited.

REQUIRED:

4.1 Complete the note for the reconciliation of the net profit before tax and cash generated from operations. (15)

4.2 Complete the 'Cash flow from Operating activities-section' in the Cash Flow Statement. (7)

4.3 Complete the 'Cash flow from Investing activities-section' in the Cash Flow Statement. (7)

4.4 Complete the 'Cash flow from Financing activities-section' in the Cash Flow Statement. (9)

4.5 State three ways in which the payment on the loan can be financed. (3)

4.6 Calculate the following for the year ended 30 June 2018:

- 4.6.1 Net asset value per share (NAV) (4)
- 4.6.2 Debt/Equity ratio (3)
- 4.6.3 Return on share holders' equity (5)

4.7 Refer to the loan and payment thereof:

- Do you think it was a good idea to pay back such a large portion of the loan?
- Explain your answer by referring to two relevant financial indicators. (9)

4.8 Comment on the Net asset value per share. Refer to financial indicators and figures to support your answer. The shareholders at the AJM were unhappy with the drop in the share price on the JSE of the past two years. Give a possible reason for the drop in share price and provide the directors with a solution to the problem. (8)

INFORMATION:

1. Extract from the Balance sheets on 30 Junie:

	30 Jun. 2018	**30 Jun. 2017**
ASSETS		
Non-current assets		
Fixed assets	979 440	814 800
Financial assets	130 000	190 000
Current assets		
Inventories	1 125 000	1 145 000
Trade and other receivables	1 115 000	1 143 000
OWNERS' EQUITY AND LIABILITIES		
Ordinary shareholders' equity	**2 499 900**	**1 085 100**
Ordinary share capital	2 375 000	1 000 000
Retained income	124 900	85 100
Current liabilities		
Trade and other payables	1 150 940	1 070 800

2. Notes to the Balance sheet:

2.1 Fixed assets	**30 Jun. 2018**	**30 Jun. 2017**
Land and buildings	900 000	750 000
Equipment at carrying value	79 440	64 800

2.2 Trade and other receivables	**30 Jun. 2018**	**30 Jun. 2017**
Debtors control	1 102 000	1 130 000
Accrued income	9 000	6 000
Prepaid expenses	4 000	3 000
SARS (Income tax)	-	4 000

2.3 Trade and other payables	**30 Jun. 2018**	**30 Jun. 2017**
Creditors control	1 043 565	1 047 300
Accrued expenses	7 000	9 500
SARS (Income tax)	10 375	-
Shareholders for dividends	260 000	14 000

3. Additional information:

3.1 Ordinary share capital:

- 1 July 2017: 100 000 shares issued @ R10,00 per share.
- 1 January 2018: 100 000 additional shares issued @ R15,00 per share.
- 30 June 2018: 10 000 shares repurchased @ R15,00 per share.

3.2 The total depreciation for the year amounted to R16 645.

3.3 Details of equipment sold during the year:

Cost	R40 000
Accumulated depreciation on date of sale	R20 570
Date sold	1 April 2018
Selling price	?

3.4 Income tax at 28% of the net profit for the year was calculated as R165 200.

3.5 Dividends:

- An interim dividend of 100 cents per share was declared and paid on 15 December 2017.
- The final dividend was declared on 30 June 2018.

3.6 The loan statement received from ABSA showed the following on 30 June 2018:

Balance at the beginning of the financial year	1 070 000
Payments made during the year (including interest on loan)	840 000
Interest capitalized at an interest rate of 15% p.a.	?
Balance at the end of the financial year	350 000

3.7 Financial indicators:

	2018	**2017**
% Return on owners' equity	?	59%
% Return on capital employed	28,4%	18%
Net assets value per share (NAV)	?	1 195 cents
Market price on the JSE	1 117 cents	1 600 cents
Debt/Equity ratio	?	1 : 1

4.1 Note for reconciliation of net income before tax and cash generated from operations	
Adjustments concerning:	
Operating profit before change in working capital	
Net change in working capital	
Cash generated from operations	

4.2 Cash flow from Operating activities	

4.3 Cash flow from Investment activities	

4.4 Cash flow from Financing activities	

4.5 State three ways in which the payment on the loan can be financed.

4.6.1 Net asset value per share (NAV)

4.6.2 Debt/Equity ratio

4.6.3 Return on shareholders' equity

4.7 Refer to the loan and payment thereof: · Do you think it was a good idea to pay back such a large portion of the loan? · Explain your answer by referring to two relevant financial indicators.

4.8 Comment on the Net asset value per share. Refer to financial indicators and figures to support your answer. The shareholders at the AJM were unhappy with the drop in the share price on the JSE of the past two years. Give a possible reason for the drop in share price and provide the directors with a solution to the problem.

Comment on NAV:

Possible reasons for drop in share price:

Reason	**Solution**
·	
·	
·	

COMPANIES

Question 5 (Theoretical concepts; 20 marks, 8 minutes)

REQUIRED:
Match the words from COLUMN A with the best description or answer from COLUMN B. Write only the letter from COLUMN B next to the words from COLUMN A on the answer sheet. (20)

COLUMN A		COLUMN B	
5.1	Return on owners' equity	A.	Auditors' report stating: "Except for a few minor aspects all figures are reliable and trustworthy"
5.2	Long term credit providers	B.	The difference between current assets and current liabilities is known as……….
5.3	SARS	C.	A fixed deposit maturing within the next financial year is seen as part of ………..
5.4	Current assets : Current liabilities	D.	Interest charged on a bank overdraft can be classified as ……….
5.5	IFRS	E.	This must be compared to interest rates offered by financial institutions
5.6	Working capital	F.	They will be interested in the solvency of a business before approving loans
5.7	Qualified audit report	G.	Liquidity ratio
5.8	Financing cost	H.	They will take interest in the profitability of a company
5.9	Cash and cash equivalents	I.	Auditors' report stating: "in our opinion figures are a true reflection and are fully reliable"
5.10	Unqualified audit report	J.	Give credibility to financial statements in order to make international comparisons.

COLUMN A		COLUMN B	
5.1	Return on owners' equity	A.	
5.2	Long term credit providers	B.	
5.3	SARS	C.	
5.4	Current assets : Current liabilities	D.	
5.5	IFRS	E.	
5.6	Working capital	F.	
5.7	Qualified audit report	G.	
5.8	Financing cost	H.	
5.9	Cash and cash equivalents	I.	
5.10	Unqualified audit report	J.	

COMPANIES

<u>Question 6</u> (Financial statements; 50 marks, 30 minutes)

You are provided with information relating to Gareth Limited. The company sells furniture and also repairs furniture for clients.

REQUIRED:

6.1 Complete the Income Statement for the year ended 30 June 2018 after taking all the adjustments and additional information into account. (50)

INFORMATION:

1. The following extract was taken from the Pre-adjustment Trial Balance on 30 June 2018:

Ordinary share capital (325 000 shares in issue)	2 275 000
Fixed deposit: Nedbank (4,5% interest p.a.)	250 000
Equipment	720 000
Accumulated depreciation on equipment	230 000
Trading stock	134 000
Debtors control	197 000
Provision for bad debts	8 400
Loan: ABSA	?
Sales	2 450 000
Debtors' allowances	36 000
Cost of sales	1 508 750
Current income	89 300
Rent income	135 150
Interest on fixed deposit	8 725
Salaries	288 000
Pension fund contribution	34 560
Unemployment Benefit Fund contributions	1 920
Auditors' fees	51 000
Directors' fees	?
Stationery	18 960
Bank charges	8 160
Interest on loan	?

2. Adjustments and additional information:

2.1 The fixed deposit at Nedbank is raised annually with R50 000 on 1 January.

2.2 Equipment must be depreciated at 20% p.a. on the carrying value. Note the fact that new equipment was bought on 30 April 2018 for R180 000.

2.3 A credit note issued to a debtor was not recorded. The credit note was for:

- Stock returned, R8 000.
- Discount on unsatisfactory repairs to a chair, R1 300.

2.4 A debit note issued to a creditor for the return of stationery, R560, was not recorded.

2.5 A physical stock take on 30 June 2018 showed the following to be on hand:

- Trading stock, R143 800.
- Stationery, R1 300.

2.6 The account of a debtor owing R2 700 must be written off.

2.7 Provision for bad debts must be adjusted to 5% of outstanding debtors.

2.8 The following details relating to a new employee were omitted from the Salaries journal for Junie 2018:

Gross salary	12 000
PAYE - deduction	2 160
Pension fund deduction	900
UIF - deduction	80
Net salary	?

- The company contributes 12% of the gross salary to the pension fund and also contributes on a ran-for-rand basis to UIF.

2.9 The tenant already paid the rent up to 1 October 2018. The rent increased by R850 per month on 1 January 2018.

2.10 Interest on loan is capitalized. The loan statement on 30 June 2018 showed the following. The interest on loan was not recorded in the books.

Balance of loan on 1 July 2017	332 800
Interest charged	?
Payments made during the year (including interest)	51 625
Balance of loan on 30 June 2018	326 000

2.11 Cash handling fees, R1 075 appearing on the bank statement of Junie 2018 was not recorded.

2.12 An amount of R34 000 is still outstanding regarding auditors' fees for the year.

2.13 The operating profit on sales for the year is 20%.

2.14 Income tax is calculated at a rate of 30% of the net profit.

Calculations:

Income Statement of Gareth Limited for the year ended 30 June 2018	
Sales	
Cost of sales	
Gross profit	
Other operating income	
Current income	
Rent income	
Gross operating income	
Operating expenses	
Salaries	
Pension fund contribution	
Unemployment Benefit Fund contributions	
Auditors’ fees	
Directors’ fees	
Stationery	
Bank charges	
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	
Net profit before tax	
Income tax	
Net profit after tax	