GRADE 12
CLASS TEST
COMPANY
70 minutes; 120 marks

QUESTION 1: BALANCE SHEET, NOTES AND RATIOS **(90 marks)**

You are provided with information of Chuba Ltd, a public company, for the financial year ended 31 March 20.6.

INSTRUCTIONS:

See Answer Book.

INFORMATION:

A The following balance appeared in the books of Chuba Ltd on 31 March 20.6:

Ordinary share capital (1 April 20.5)	R4 200 000	
Retained income (1 April 20.5)	145 000	
Trading stock	?	
Debtors control	419 000	
SARS (Income tax)	225 000	(Dr)
Expenses prepaid	5 000	
Income receivable	7 200	
Mortgage loan	?	
Trade and other payables	?	
Investments	?	
Cash and cash equivalents	?	

B **FIXED ASSET NOTE:**

	Land and buildings	**Equipment**
Carrying value on 1 April 20.5	?	
Cost	?	900 000
Accumulated depreciation		(470 000)
Movements		
Additions		150 000
Disposal		?
Depreciation		
Carrying value on 31 March 20.6	?	
Cost	?	930 000
Accumulated depreciation		

Note:
- Depreciation is written off equipment at 20% p.a. on the diminishing balance method.
- The equipment which was sold for cash at a loss of R5 900 on 31 January 20.6 had a book value of R81 600 on 1 April 20.5.
- The new equipment was bought on 1 November 20.5.

C **Net profit:**

- The bookkeeper calculated the net profit before tax as R880 000 before the following adjustments had been taken into account:
- Depreciation and the details from the Asset Disposal must be taken into account.
- An annual insurance premium of R18 000 was taken out on 1 October 20.5. The bookkeeper included the full amount in the calculation of the net profit.

- A portion of the buildings was sub-let. The rent was R4 200 per month but increased by 10% on 1 February 20.6. The tenant has not paid the rent for March 20.6.
- The provision for bad debts must be adjusted from R3 100 to R2 850.
- Sundry expenses were left out.
- Income tax was calculated at R196 000 (28% of net profit before tax).

D Share capital:

- Authorised share capital consisted of 3 000 000 ordinary shares.
- 1 200 000 ordinary shares were in issue on 1 April 20.5.
- On 1 December 20.5 an extra 300 000 ordinary shares were sold for R4.50 each.
- On 28 February 20.6, 40 000 shares were repurchased at R0.60 more than the average price per share.

E Dividends:

- Interim dividends of R60 000 were paid on 1 August 20.5.
- A final dividend of 7 cents per share was declared on 31 March 20.6. The shares bought back on the 28 February 20.6 do not qualify for the dividends.

F Inventory:

- The business uses the FIFO method to value their stock.
- On 31 March 20.6, 4 150 units were in closing stock.
- Stock records for the year were as follows:

Opening stock		800 units @ R120 each	R96 000
Purchases:	1 July 20.5	32 000 units @ R132	R4 224 000
	1 December 20.5	16 000 units @ R140	R2 240 000
	1 February 20.6	3 200 units @ R155	R496 000

- There was no consumable stores on hand.

G Additional figures:

- The debt : equity ratio on 31 March was 0.2 : 1.
- The acid test ratio on 31 March was 1.4 : 1.
- The market value of the shares was 480 cents on 1 April 20.5 and 505 cents on 31 March 20.6.

QUESTION 2: RATIOS AND ANALYSIS (30 marks)

You are provided with the following information taken from the books of Sweets For Africa Ltd at the end of their financial year, 28 February 20.6.

A. FINANCIAL INDICATORS:

	20.6	**20.5**
Net profit after tax on sales	31.9%	24.5%
Current ratio	3.3 : 1	1.8 : 1
Acid test ratio	1.7 : 1	1.2 : 1
Rate of stock turnover	3 times	5 times
Debtors' collection period	36 days	28 days
Creditors payment period	45 days	80 days
Return on shareholders' equity	17.3%	17.5%
Return on total capital employed	24.2%	21.2%
Debt : equity ratio	0.3 : 1	0.09 : 1
Interest rate on loans	10.5%	10.5%
Earnings per share	61 cents	55 cents
Dividends per share	45 cents	33 cents

B. AUDIT REPORT

EXTRACT FROM THE AUDIT REPORT OF SWEETS FOR AFRICA LTD

We found that internal control procedures were not adhered to and 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 have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on the financial statements for the year ended 28 February 20.6.

ANSWER BOOK

QUESTION 1: BALANCE SHEET, NOTES AND RATIOS **(90 marks)**

1.1	Prepare the Asset disposal account in respect of equipment sold on 31 January 20.6. Show your workings for depreciation. **You are not required to complete the Fixed Asset note.**	**(7)**

GENERAL LEDGER OF CHUBA LTD

Dr **ASSET DISPOSAL** **N** **Cr**

CALCULATION OF DEPRECIATION: **(7)**

1.2	Calculate the correct net profit for the year ended 31 March 20.6. Refer to information B and C.	**(12)**

CALCULATION OF CORRECT NET PROFIT

Net profit before extra adjustments	**880 000**
Depreciation	
Sundry expenses	
Net profit before tax	
Income tax	**(196 000)**
Net profit after tax	

1.3	Complete the following notes to the Statement of Financial Position on 31 March 20.6: 1.3.1 Ordinary share capital (Refer to **Information A** and **D)** 1.3.2 Retained income (Refer to **Information C, D** and **E)** 1.3.3 Trade and other receivables (Refer to **Information A, C** and **F**)	 **(10)** **(9)** **(12)**

1.3.1 ORDINARY SHARE CAPITAL **(10)**

AUTHORISED SHARE CAPITAL	
ISSUED SHARE CAPITAL	
1 200 000 shares on 1 April 20.5	**4 200 000**

1.3.2 RETAINED INCOME **(9)**

Balance on 1 April 20.5	**145 000**
Dividends	
Balance on 31 March 20.6	

1.3.3 TRADE AND OTHER RECEIVABLES **(12)**

Net trade debtors	

1.4	Complete the Statement of Financial Position on 31 March 20.6. Note that some figures have been inserted for you. Where notes are not required (1.3 above) calculations must be shown in brackets	**(20)**

STATEMENT OF FINANCIAL POSITION OF CHUBA LTD AS AT 31 MARCH 20.6

ASSETS	
NON-CURRENT ASSETS	
Fixed assets	**4 500 000**
Financial assets: Investments	
CURRENT ASSETS	
Cash and cash equivalents	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
ORDINARY SHAREHOLDERS' EQUITY	
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
Trade and other payables	
Current portion of loan	**250 000**
TOTAL EQUITY AND LIABILITIES	**7 200 000**

1.5.1	**Calculate the interim dividend per share.**	**(3)**

1.5.2	A shareholder owned 48% of the shares before the buy-back. How many more shares must he buy in order to be the majority shareholder after the buy-back?	(6)
1.5.3	**The shareholders were pleased with the price that the directors decided to pay for the 40 000 shares that were re-purchased. Give a suitable reason why the shareholders felt this way. Quote relevant figures to support your answer. Note you are not required to do any calculations of your own.**	**(4)**

QUESTION 2: RATIOS AND ANALYSIS **(30 marks)**

Answer the following questions based on the information given in the question paper.

2.1	The directors are not happy with the liquidity position. Quote and explain THREE relevant financial indicators (with figures) to support this statement.	(6)
•		
•		
•		

2.2	**The shareholders are not happy with their return, earnings and dividends. Quote and explain why they feel this way.**	**(8)**

RETURN:

EARNINGS AND DIVIDENDS:

2.3	**The directors increased the loan during the year. Explain why this was a good decision. Quote and explain TWO financial indicators (with figures) in your answer.**	**(8)**

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2.4	**Who is the audit report addressed to? Give a reason for your answer.**	**(2)**

2.5	**The audit report is an example of what type of audit report? Why?**	**(4)**

2.6	**Explain what effect this audit report could have on the value of the shares. Why?**	**(2)**

MARKING MEMO/GUIDELINES

QUESTION 1: BALANCE SHEET, NOTES AND RATIOS (90 marks)

1.1	Prepare the Asset disposal account in respect of equipment sold on 31 January 20.6. Show your workings for depreciation. **You are not required to complete the Fixed Asset note.**	**(7)**

GENERAL LEDGER OF CHUBA LTD

Dr **ASSET DISPOSAL** **N** **Cr**

20.6 Jan	31	Equipment		✓✓120 000	20.6 Jan	31	Acc depreciation on equipment		52 000
							[38 400✓✓ + 13 600☑]		
							Bank		☑62 100
							Loss on sale of asset		✓5 900
				120 000					**120 000**

CALCULATION OF DEPRECIATION: **(7)**

SOLD:
81 600 x 20% x $^{10}/_{12}$ = R13 600✓✓
NEW:
150 000 x 20% x $^{5}/_{12}$ = R12 500✓✓
OLD:
430 000✓ - 81 600✓ = 348 000 x 20% = R69 680 ✓
OR (900 000 – 120 000) – (470 000 – 38 400) x 20% = R69 680

1.2	Calculate the correct net profit for the year ended 31 March 20.6. Refer to information B and C.	**(12)**

CALCULATION OF CORRECT NET PROFIT

Net profit before extra adjustments	**880 000**	
Depreciation (13 600 + 12 500 + 69 680)	(95 780)	☑
Loss on sale of asset	(5 900)	✓
Insurance (18 000 ÷ 12 x 6)	9 000	✓✓
Rent (4 200 + 10%)	4 620	✓✓
Provision for bad debts (3 100 – 2 850)	250	✓✓
Sundry expenses *(balancing figure)*	(92 190)	☑
Net profit before tax (196 000 x $^{100}/_{28}$) **OR** (504 000 + 196 000)	700 000	✓
Income tax	**(196 000)**	
Net profit after tax (196 000 x $^{72}/_{28}$)	**504 000**	✓☑

1.3	Complete the following notes to the Statement of Financial Position on 31 March 20.6: 1.3.1 Ordinary share capital (Refer to **Information A** and **D)** 1.3.2 Retained income (Refer to **Information C, D** and **E)** 1.3.3 Trade and other receivables (Refer to **Information A, C** and **F**)	 **(10)** **(9)** **(12)**

1.3.1 ORDINARY SHARE CAPITAL (10)

AUTHORISED 3 000 000 ordinary shares✓		
ISSUED **1 200 000 shares on 1 April 20.5**	**4 200 000**	
300 000✓ shares sold at R4.50 each✓	1 350 000	✓
(40 000) ✓ shares re-purchased at R3.70* each ✓✓	(148 000)	☑
1 460 000✓ shares on 31 March 20.5	**5 402 000**	☑

$* \frac{4\ 200\ 000 + 1\ 350\ 000}{1\ 200\ 000 + 300\ 000} = \frac{5\ 550\ 000}{1\ 500\ 000} = R3.70$

1.3.2 RETAINED INCOME (9)

Balance on 1 April 20.5	**145 000**	
Net profit after tax	504 000	☑
40 000 shares re-purchased at 60 cents each✓	(24 000)	✓✓
Dividends	(162 200)	
Interim	60 000	✓
Final [1 500 000 – 40 000 = 1 460 000☑ x 7 cents]	102 200	✓☑
Balance on 31 March 20.6	**462 800**	☑

1.3.3 TRADE AND OTHER RECEIVABLES (12)

Net trade debtors	416 150	✓
Debtors control	419 000	✓
Provision for bad debts	(2 850)	✓
Expenses prepaid [5 000✓ + 9 000✓]	14 000	☑
Income receivable [7 200✓ + 4 620✓]	11 820	☑
SARS (Income tax) [225 000 – 196 000]	29 000	✓✓
	470 970	☑

1.4	Complete the Statement of Financial Position on 31 March 20.6. Note that some figures have been inserted for you. Where notes are not required (1.3 above) calculations must be shown in brackets	**(20)**

STATEMENT OF FINANCIAL POSITION OF CHUBA LTD AS AT 31 MARCH 20.6

ASSETS **NON-CURRENT ASSETS**	5 993 864	☑
Fixed assets	**4 500 000**	
Financial assets: Investments	1 493 864	☑
CURRENT ASSETS	1 206 136	☑
Inventory [496 000✓✓ + 133 000✓✓✓]*	629 000	☑
Trade and other receivables	470 970	☑
Cash and cash equivalents [412 240 x 1.4 - 470 970]	106 166	☑
TOTAL ASSETS	7 200 000	✓
EQUITY AND LIABILITIES **ORDINARY SHAREHOLDERS' EQUITY**	5 864 800	☑
Ordinary share capital	5 402 000	☑
Retained income	462 800	☑
NON-CURRENT LIABILITIES	922 960	
Mortgage loan [5 864 800☑ x 0.2✓ - 250 000✓]	922 960	☑
CURRENT LIABILITIES (7 200 000 – 922 960 – 5 864 800)	412 240	☑
Trade and other payables (412 240 – 250 000)	162 240	
Current portion of loan	**250 000**	
TOTAL EQUITY AND LIABILITIES	**7 200 000**	

1.5.1	**Calculate the interim dividend per share.**	**(3)**

$$\frac{60\ 000✓}{1\ 200\ 000✓} \times \frac{100}{1} = \underline{5\ \text{cents}}✓$$

*[3 200 @ R155] + [4 150 - 3 200 = 950 @ R140]

1.5.2	**A shareholder owned 48% of the shares before the buy-back. How many more shares must he buy in order to be the majority shareholder after the buy-back?**	**(6)**

1 500 000 x 48% = 720 000 shares ✓✓
1460 000☑ x 51% ✓= 744 600 ☑ / 730 100 / 730 001
744 600 – 720 000 = R24 600☑

1.5.3	**The shareholders were pleased with the price that the directors decided to pay for the 40 000 shares that were re-purchased. Give a suitable reason why the shareholders felt this way. Quote relevant figures to support your answer. Note you are not required to do any calculations of your own.**	**(4)**

- Paid R4.30 per share which is lower than the market value of 480 / 505 cents.✓✓
- Paid less than what the new shares were bought for (450 cents).✓✓

QUESTION 2: RATIOS AND ANALYSIS **(30 marks)**

Answer the following questions based on the information given in the question paper.

2.1	**The directors are not happy with the liquidity position. Quote and explain THREE relevant financial indicators (with figures) to support this statement.**	**(6)**

- The debtors collection period has increased from 28 to 36 days✓✓
- The stock turnover rate has decreased from 5 to 3 times a year✓✓
- The current ratio has increased from 1.8 : 1 to 3.3 : 1✓✓
- The acid test ratio has increased from 1.2 : 1 to 1.7 : 1

NOT CREDITORS PAYMENT PERIOD

2.2	**The shareholders are not happy with their return, earnings and dividends. Quote and explain why they feel this way.**	**(8)**

RETURN:
Despite an increase in the net profit on sales from 24.5% to 31.9%✓✓ the return on shareholders' equity has decreased from 17.5% to 17.3%✓✓
EARNINGS AND DIVIDENDS:
Last year the business paid out 60% of the earnings (33 out of 55 cents) and this year they have paid out 74% (45 out of 61 cents) so the business is retaining less.✓✓
This could have a negative effect on future growth of the company.✓✓

2.3	**The directors increased the loan during the year. Explain why this was a good decision. Quote and explain TWO financial indicators (with figures) in your answer.**	**(8)**

- ROTCE✓ has increased from 21.2% to 24.2%✓which is also higher than the interest rate on the loan of 10.5%✓✓ which means they were favourably geared.
- The debt : equity✓ ratio increased from 0.09 : 1 to 0.3 : 1✓ but this is still low financial risk.✓✓

2.4	**Who is the audit report addressed to? Give a reason for your answer.**	**(2)**

Shareholders. ✓
They are the owners of the company. ✓
They are appointed by the shareholders.

2.5	**The audit report is an example of what type of audit report? Why?**	**(4)**

Disclaimer ✓✓
Auditors not prepared to offer an opinion due to a lack of evidence.✓✓

2.6	**Explain what effect this audit report could have on the value of the shares. Why?**	**(2)**

The value of the shares could decrease. ✓
As potential shareholders will not want to invest in the company as there are potential problems. ✓