**ACCN**

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| **M E M O R A N D U M** |

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EASTERN CAPE EDUCATION DEPARTMENT

OOS-KAAP ONDERWYSDEPARTEMENT

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NATIONAL SENIOR CERTIFICATE EXAMINATION

NASIONALE SENIOR SERTIFIKAAT-EKSAMEN

### SEPTEMBER 2009

|  |
| --- |
| **ACCOUNTING** |

|  |
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| This memorandum consists of 16 pages. |

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| **QUESTION 1** | | |
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| **1.1** | **1.1.1** | **Mention any TWO possible mistakes that may occur when you prepare a debtors control and debtors list and how to correct it.** |

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| **Mistakes** |  |  |
| -The entry was omitted 🗸 |  |  |
| -An amount is incorrectly entered 🗸 |  |  |
| -The journal was cast incorrectly |  |  |
| **Corrections (must be linked)** |  |  |
| -Enter the amount in both the control accounts and debtors ledger 🗸 |  |  |
| -Enter the difference in both the control accounts and debtors ledger 🗸 |  |  |
| -If under cast add, and if over cast subtract in control accounts. |  |  |
| ***Accept other reasonable answer*** |  | **4** |

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|  | **1.1.2** | **What can we determine by looking at the age analysis above?  Give TWO points.** |

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| - How long debtors accounts are overdue🗸🗸 |  |  |
| - On which debtors accounts interest must be charged and for   how long🗸🗸 |  |  |
| - Which debtors must be allowed discounts for early payments. |  |  |
| ***Accept other reasonable answer*** |  | **4** |

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|  | **1.1.3** | **What was the total amount owed by debtors on 31 March 2009?** |

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| R8 350 + R6 224 + R13 632 + R3 140 + R6 450 = R37 796🗸🗸🗸 |  | **3** |

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|  | **1.1.4** | **Which debtor was not in arrears?** |

|  |  |  |
| --- | --- | --- |
| Carl 🗸 |  | **1** |

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| --- | --- | --- |
|  | **1.1.5** | **Since which month was Rahul overdue?** |

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| --- | --- | --- |
| Since December 2009🗸 |  | **1** |

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|  | **1.1.6** | **Does this business keep tight control of its debtors? Explain.** |

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| No🗸, they are allowing too many debtors to be in arrears.  Of five debtors, only one is up to date. 🗸🗸 🗸 |  |  |
| ***Accept other reasonable answer*** |  | **4** |

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|  | **1.1.7** | **What percentage of the debtors is due?** |

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| R8130 +R 6644 + R3140 = R17 914🗸 |  |  |
| R17 914/R37 796 x 100/1 = 47,40%🗸🗸 |  |  |
| 47 % of debtors are overdue |  | **3** |

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|  | **1.1.8** | **What would you do to encourage debtors to pay their accounts  on time?** |

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| * charge a higher percentage interest on overdue accounts🗸🗸 |  |  |
| * Send out regular reminders to debtors whose accounts are |  |  |
| overdue. |  | **2** |

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|  | **1.1.9** | **Paul wishes to change his supplier, he wants to settle his account by**  **1 April 2009.** |
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| 1. **Will he qualify for 5% discount?** No. 🗸 |  |  |
|  |  |  |
| 1. **Calculate the final amount he has to pay to settle his account.** R6 030 x 103/100 = R6 210,90🗸   R420 x 105/100 = R441🗸 |  |  |
| Therefore, the settlement amount will be: R6 651,90 🗸 |  | **4** |

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| **1.2** | **1.2.1** | **Complete the depreciation, accumulated depreciation and carrying  value columns in the register in your answer booklet.** |

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| --- | --- | --- | --- | --- | --- |
| Tangible Asset Register of Sureshcraft Traders Fol 6 | | | |  |  |
| Description: Saira bench saw  Date of purchase: 1 March 2006 Date sold: 28 Feb2009  Purchased from: Tools for Mzantsi Sold to: Mary Woods  Cost: **R7 000** Sold for: **R3 000**  Depreciation: **10%** p.a. on the diminishing balance | | | |
| Date | Depreciation | Accumulated  depreciation | Carrying  Value |  |  |
| 28 February 2007 | 700 | 700 | 6300 🗸 |  |  |
| 28 February 2008 | 630 | 1330 | 5670 🗸 |  |  |
| 28 February 2009 | 567 | 1897 | 5103 🗸 |  | **3** |

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|  | **1.2.2** | **Calculate the profit/loss earned/suffered on the sale of the asset.** |

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| Selling price – carrying value = loss |  |  |
| 3000 🗸 – 5103 🗸= 2103 🗸 loss on sale of the asset |  | **3** |

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|  | **1.2.3** | **The asset was replaced because the owner wanted a more  technologically advanced one. What benefits would a new bench  saw offer the business?** |

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| The owner will be more productive and manufacture more  stock items. |  |  |
| The business will earn more profit. 🗸🗸 |  | **2** |

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|  | **1.2.4** | **Think about the use and value of assets to answer the questions below.**  **(a) Would the rate of depreciation be higher for vehicles or for   computers? Motivate your answer.** |

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| Computers will have a higher depreciation rate because they lose value faster than vehicles.🗸🗸 |  |  |
| ***Accept other reasonable answer*** |  | **2** |

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|  |  | **(b) Why would computers be replaced more often than vehicles?** |

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| Computers will be replaced more often because of rapid technological advancements and new innovations in the computer industry. 🗸🗸 |  |  |
| ***Accept other reasonable answer*** |  | **2** |

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| **QUESTION 2** |
|  |
| BALANCE SHEET |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 2.1  ASSETS | |  |  |  |
| Non-current assets | |  | ☑ 1 195 001 |  |
| Tangible assets (460 000 + 315 000 + 1) 🗸🗸 | |  | ☑ 775 001 |  |
|  | |  |  |  |
| Financial assets | |  |  |  |
| Fixed deposit | |  | 🗸 420 000 |  |
|  | |  |  |  |
| Current assets | |  | ☑ 679 249 |  |
| Inventory (700 🗸🗸 x 506,89 🗸🗸🗸) | |  | ☑ 354 823 |  |
| Trade and other receivables (277 500 🗸 – 13 875 🗸) | |  | ☑ 263 625 |  |
| Cash and cash equivalents | |  | ☑ 60 801 |  |
| TOTAL ASSETS | |  | ☑ 1 874 250 |  |
|  | |  |  |  |
| EQUITIES AND LIABILITIES | |  |  |  |
| Share capital and reserves | |  | ☑ 1 314 000 |  |
| Ordinary share capital (400 000 x 2) 🗸 | |  | 🗸 800 000 |  |
| Share premium (200 000 x 0,60) 🗸 | |  | 🗸 120 000 |  |
| Retained income/Accumulated profits (160 000🗸 + 384 000🗸 – 150 000🗸) | |  | ☑ 394 000 |  |
|  | |  |  |  |
| Non-current liabilities | |  | 🗸 226 200 |  |
| Loan – Warne Bank (320 000 🗸 + 48 600 🗸 – 74 400 🗸 – 68 000 🗸) | |  | ☑ 226 200 |  |
|  | |  |  |  |
| Current liabilities | |  | ☑ 334 050 |  |
| Trade and other payables (162 000🗸+ 9 600🗸+ 10 950🗸+ 11 500🗸🗸) | |  | ☑ 194 050 |  |
| Short-term loan | |  | 🗸 68 000 |  |
| Shareholders for dividends | |  | 🗸☑ 72 000 |  |
| TOTAL EQUITY AND LIABILITIES | |  | ☑ 1 874 250 |  |
|  |  |  |  |  |

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| **2.2** | **2.2.1** | |  |  |  | | --- | --- | --- | | Internal auditor monitors and checks whether internal control measures are in place.  External auditor expresses opinion on the disclosure of financial information. **✓✓✓** |  |  | |  | **3** | | |
|  |  |  | |
|  | **2.2.2** | |  | | --- | | * Checking source documents, journals and posting to  ledgers **✓** * Checking of asset register/inventory stock sheets **✓** * Checking for accuracy of recording of transactions **✓** * Compare physical stocktaking with trading inventory/safekeeping of assets | |  |
| **3** |

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|  | **2.2.3** | |  | | --- | | * Report on findings **✓** * Investigate source of problem **✓** * Make recommendations **✓** | |  |
| **3** |

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|  | **2.2.4** | |  | | --- | | * Revalue stock downwards **✓✓** * Conservative **✓✓** * Prudent | |  |
| **4** |

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| **QUESTION 3** | | |
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| **3.1** | **3.1.1** | **Calculate the following:** |
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|  |  | **(a) Direct material costs** |

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| --- | --- | --- | --- |
| Opening inventory | 🗸 32 000 |  |  |
| Net purchases | 🗸 295 000 |  |  |
| Carriage on purchases (4 500 + 325) | 🗸🗸 825 |  |  |
|  | 331 825 |  |  |
| Less: closing inventory (31 000 – 13 500 + 1 350) | ☑🗸 18 850 |  |  |
| Direct material used | ☑ 350 675 |  | **7** |

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|  |  | **(b) Direct labour costs** |

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| Factory wages (100 000 + 2 900) | 🗸☑ 102 900 |  |  |
| Unemployment Insurance Fund (1 000 + 29) | 🗸☑ 1 029 |  |  |
| Skills development levy (1 000 + 29) | 🗸☑ 1 029 |  |  |
|  | ☑ 104 958 |  |  |
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|  |  | **(c) Manufacturing overheads** |

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| Indirect material (500 + 8 600 – 540) | 🗸☑ 9 640 |  |  |
| Indirect labour | 🗸 70 000 |  |  |
| **Insurance** | 🗸 6 950 |  |  |
| Water and electricity (32 600 x 85%) | 🗸🗸 27 710 |  |  |
| Sundry expenses | 🗸 37 000 |  |  |
| Maintenance | 🗸 7 440 |  |  |
| Depreciation: factory (450 000 – 90 000) x 10% +  (25 000 x 10%) x 6/12 or 36 000🗸 + 1 250🗸 | ☑ 37 250 |  |  |
|  | ☑ 195 990 |  | **12** |

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|  |  | **NEETHU MANUFACTURERS** |
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|  | **3.1.2** | **Production cost statement for the year ended 28 February 2009** |

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| --- | --- | --- | --- | --- |
| Direct costs |  | 🗸 455 633 |  |  |
| Direct material costs |  | ☑ 350 675 |  |  |
| Direct labour costs |  | ☑ 104 958 |  |  |
| Manufacturing overheads |  | ☑ 195 990 |  |  |
| Total manufacturing costs |  | 651 623 |  |  |
| Work-in-progress at the beginning of the year |  | 🗸 22 000 |  |  |
|  |  | ☑ 673 623 |  |  |
| Work-in-progress at the end of the year |  | 🗸 (18 000) |  |  |
| Production costs of finished goods |  | ☑ 655 623 |  |  |
|  |  |  |  | **8** |

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|  | **3.1.3** | **Is the manufactured product labour-intensive or not? Give ONE  reason for your answer.** |

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| The product is not labour-intensive. The cost price per unit is R5,78, of which the labour costs per unit amount to R1, which is around 16% 🗸🗸🗸 |  |  |
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| **3.2** | **3.2.1** | **Calculate the following unit costs for 2009:** |

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| 1. Direct material cost per unit   310 800/4 200 🗸  = R74 🗸 |  |  |
|  | **2** |
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| 1. Factory overhead cost per unit   294 000/4 200 🗸  = R70 🗸 |  |  |
|  | **2** |

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|  | **3.2.2** | **Give a reason for the change in factory overheads per unit between the two years.** |

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| - Decrease in electricity, depreciation, etc. 🗸🗸  - Less hours work |  |  |
| ***Accept other reasonable answer*** |  | **2** |

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|  | **3.2.3** | **Give a possible reason for the difference in the direct labour cost  per unit.** |

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| - Increase in number of labourers 🗸🗸  - Increase in wage and salary cost |  |  |
|  |  | **2** |

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|  | **3.2.4** | **Calculate the total number of units the business must produce in  order to break-even (that is not to make a profit or a loss). Use the 2009 figures.** |

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| 4 355 ☑☑ |  | **2** |

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|  |  | **OR** |

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| 407,50*x* – [49*x* +74*x* + 118*x* + 7*x*] = 694 600  159,50 *x* = 694 600  *X* = 4 355 ☑☑ |  |  |
| 4 355 ☑☑ |  | **7** |

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|  | **3.2.5** | **Give TWO suggestions from the information given to improve  profitability. (Quote figures to support your suggestion).** |

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| - Decrease selling price to increase sales (Competitors’ price   R395)  - Increase advertising to generate more income through sales   (selling price per unit R49 only) |  |  |
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| **QUESTION 4** |

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| **4.1 In addition to their 10 sales employees, Emile Sport Stores will   employ an additional salesman from 1 May 2009 and will also earn an equal salary as others. Calculate the percentage increase in the   salaries.** |  |  |
| 32 670 / 11 🗸 = 2 970🗸 |  |  |
| 2 970 − 27 00 = 270🗸/2700 |  |  |
| = 10% increase🗸🗸 |  | **5** |

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| **4.2 According to the rental agreement the rent is paid one month in**  **advance and rent increases yearly on 1 May.** |  |  |
| 4.2.1 **Why is April budget reflecting the increase?**  Rent is paid one month in advance🗸  4.2.2 **Calculate the percentage increase in rent.**  750/5 000 = 15%🗸🗸  4.2.3 **Determine the budget figure for May 2009.**  R5 750🗸🗸 |  |  |
|  |  |
|  | **5** |

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| **4.3 Explain why depreciation amount of R9 200 per month does not**  **appear in the cash budget.** |  |  |
| It is a non-cash transaction (item). 🗸🗸 |  |  |
|  |  |  |
| **Give TWO other items that should not be reflected.** |  |  |
| Bad debts🗸  Loss on sale of fixed assets🗸 |  |  |
| ***Accept other reasonable answer*** |  | **2** |

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| **4.4 Comment on the pattern of sundry administration costs.** |  |  |
| Evidence of control in administration costs🗸🗸 |  |  |
| ***Accept other reasonable answer*** |  | **2** |

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| **4.5 Comment on the advertising budget.** |  |  |
| Not advisable; advertising should be regular🗸🗸 |  | **2** |

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| **4.6 What will the balance of the loan account be after this payment?** |  |  |
| Loan amount x 15/100 x 1/12 = 375🗸🗸 |  |  |
| 0,0125 x loan = 375🗸🗸 |  |  |
| Loan is 30 000🗸 |  | **5** |

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| **4.7 Provide TWO suggestions as to how they can finance this venture.** |  |  |
| The business has a sound bank balance; some of the funds could   be used. 🗸🗸 |  |  |
| Partly funded by loan🗸🗸 |  |  |
| ***Accept other reasonable answer*** |  | **4** |

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| **4.8 At the end of March 2009 they compared real figures with budgeted figures and found the following. Compare and comment on each of the following categories.** |  |  |
| **The cash sales** were R4 500 less than budgeted for and should be taken into account in future in order to prevent over budgeting. 🗸🗸  Current economic situation.  Customers are buying less because of economic situation. |  |  |
| **Debt collection** was poorly managed and handled. Debtors are experiencing financial difficulties. 🗸🗸  ***Accept other reasonable answer*** |  |  |
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| **QUESTION 5** | | |
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| **5.1** | **5.1.1** |  |

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| **What is the difference between output VAT and input VAT?** |  |  |
| **Output VAT**  Vat charged on sales🗸 |  |  |
| **Input VAT**  Vat charged on purchases🗸 |  | **2** |
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| **5.1.2 Calculate the amount owing to the SARS** |  |  |
| Output VAT = R440 400 x 14 / 114 = R54 084,21🗸🗸🗸  Input VAT = R252 750 x 14 / 114 = R31 039,47🗸🗸🗸 |  |  |
| R54 084,21 – R31 039,47  Therefore amount owed to the SARS is R23 044,74🗸🗸 |  | **8** |

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| **5.1.3 Advise him as to whether he should accept the offer. Briefly   explain.** |  |  |
| A valid source document is required to enter the transaction in the books. It is unethical business practice to offer a special price without the necessary documentation. He is advised not to |  |  |
| accept the offer.🗸🗸🗸 |  | **3** |

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| **5.2** | **5.2.1** | **Explain one main difference between FIFO and Average method of stock valuation.** |  |  |
|  |  | **FIFO:** |  |  |
|  |  | It functions on the principle that material that is purchased first is used first, and a unit and its price cannot be separated. 🗸🗸 |  |  |
|  |  |  |  |  |
|  |  | **Weighted Average Method:** |  |  |
|  |  | Stock is used at a price calculated as balance plus value of current purchases divided by total units equals to a new issue price per unit. 🗸🗸 |  |  |
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| **5.2.2 Calculate the value of unsold units at 31 October 2009 using   FIFO.** |  |  |
| (710 x R140 = R99 400) 🗸 + (1 280 x R145 = R185 600) 🗸  The value of unsold units is R285 000🗸 |  |  |
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| **5.2.3 FIFO** |  | **R** |  |  |
| **COST OF SALES** | |  |  |  |
| Opening stock (2 200 x 105) per unit | | 🗸231 000 |  |  |
| Plus purchases (1 800 – 20) units at R120 per unit | | 🗸213 600 |  |  |
| 1 390 units at R130 per unit | | 🗸180 700 |  |  |
| 1 250 units at R145 per unit | | 🗸181 250 |  |  |
| 1 270 units at R150 per unit | | 🗸190 500 |  |  |
| Less: closing stock 1980 units | | (285 000) |  |  |
| **COSTOF SALES OF 5 910** | | ☑ 712 050 |  |
|  | |  |  | **6** |
| **5.2.4 GROSS PROFIT** | |  |  |  |
| Sales (5910 x 200) | | 🗸1 182 000 |  |  |
| Cost of sales | | ☑ (712 050) |  |  |
| **Gross profit** | | 🗸469 950 |  | **3** |

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| **5.2.5 Calculate the value of closing stock using weighted average**  **method.** |  |  |
| [231 000 + 213 600 + 180 700 + 181 250 + 190 500]**/**7 890🗸🗸  = R997 050/7 890  = R126,36 or R126,37🗸🗸 |  |  |
| 1 980 x R126,37 = R250 212,60🗸🗸 |  | **6** |

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| **5.2.6 Explain your answer. Calculations are not required.** |  | |
| Yes or No 🗸  Any valid reason 🗸🗸  Can show increase in gross profit by changing stock system.  If you use weighted average method (WAM) it will influence calculation of gross profit and in subsequent years the effect will even out.  If there is a change in the stock system it has to be disclosed in the notes to the financial statements. |  | |
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| **QUESTION 6** | | | | | |
|  | |  |  | | |
| **6.1** | | **6.1.1** | **Reconciliation between net profit before tax and cash generated from operations** | | | |
|  | | | Net profit before tax | | 176 500 **🗸🗸** | **🗸🗸** |
|  | | | **🗸 🗸**  Adjustment for interest (22 950 + 2 200) | | 25 150 **🗸** | **🗸🗸** |
|  | | | Depreciation | | 24 000 **🗸** | **🗸** |
|  | | | Operating profit before changes in working capital | | 225 650 | **☑** |
|  | | | Net change in working capital | | (167100) **☑** | **☑** |
|  | | | Stock **(Increase) 🗸** | | (93 600) **🗸🗸🗸** |  |
|  | | | Debtors **(Increase) 🗸** | | (52 500) **🗸** | **🗸** |
|  | | | Creditors **(Decrease) 🗸** | | (21 000) **🗸** | **🗸** |
|  | | | Cash generated from operations | | 58 550 **☑** | (16) |

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|  | **6.1.2** | **Tax paid** |  |  |
|  |  | Amount in Income statement | (28 000) **🗸** |  |
|  | | Balance at end of previous year | 12 000**🗸** |  |
|  | | Balance at end of current year | 18 000 **🗸** |  |
|  | | Amount refunded | 2 000**☑** | (4) |

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|  | **6.1.3** | **Cash flow from financing activities** |  |  |
|  | | Proceeds from issue of share capital | 220 000 **🗸** **🗸** | **🗸🗸** |
|  | | Proceeds from long-term loan | 21 000 **🗸** **🗸** | **🗸🗸** |
|  | |  | 241 000**🗸☑** | (6) |

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| **6.2** | **6.2.1** | **How much the new shares were sold for** |  |  |
|  |  | Premium = **🗸🗸** = R0,90 **🗸** = R3,50 + 0,90 | R4,40 | **🗸**  (4) |

|  |  |  |  |  |
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|  | **6.2.2** | **How much was the interim dividend paid during  the year ended 28 February 2009.** |  |  |
|  |  | (300 000**🗸** x 0,40**🗸**) – 40 000**🗸** = | 80 000 | **🗸**  (4) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **6.2.3** | **The net asset value per share on 28 February  2009 ended 28 February 2009** |  |  |
|  |  | x = **🗸🗸**x **🗸** | 400 cents | **🗸**  (4) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **6.2.4** | **The earnings per share for the year 28 February 2009 ended 28 February 2009** |  |  |
|  |  | x = **🗸🗸**x **🗸** | 49,5 cents | **🗸**  (4) |

|  |  |  |  |  |  |  |
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|  | **6.2.5** | **Comment on the dividend policy.** | |  |  | |
|  |  | Directors withheld 9,5 c from the earnings  Shareholders satisfied  DPS increased from 26c to 40c | **(Any comment x 2)** | | | (2) |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **6.2.6** | **The return on average shareholders’ equity for the year  ended 28 February 2009.** |  |
|  |  | x **🗸** = **🗸🗸**x  (5) | 13,8% **🗸** |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **6.2.7** | **The debt:equity ratio on 28 February 2009. (2008: 0.15:1)** | |
|  |  | Borrowed capital : Own capital **🗸**= 240 000 **🗸**: 1 200 000 **🗸** | 0,2 : 1 **🗸**  (4) |

|  |  |  |  |  |
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|  | **6.2.8** | **The return on average total capital employed for the year  ended 28 February 2009.** | | |
|  |  | x **🗸**= x | 15,5%**🗸** | |
|  |  |  |  | |
|  |  |  |  | |
| **6.3** | **6.3.1** | **Advice to shareholder** | | |
|  |  | Advise not to sell shares in Royal Ltd. **🗸🗸** | |  |
|  |  | NAV 400c **🗸**more than par value of shares (350c) **🗸🗸** | |  |
|  |  | New shares offered at premium of 90c **🗸🗸🗸** showing that  buyers are prepared to pay more to own shares in this company. | |  |
|  |  | Return on average shareholder equity increased from 8% to 13,8% above the current investment rate. | | (8) |
|  |  | Valid decision **🗸🗸**  Any TWO points with figures **🗸🗸🗸** | |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **6.3.2** | **Comment on decision to increase loan.** | |
|  |  | Option of issuing of shares will result in having more  shareholders **🗸🗸** |  |
|  | | Low degree of risk **🗸**since debt-equity ratio is 0,2 : 1 **🗸🗸** |  |
|  | | Interest rate for loan is 11%**🗸** compared to return on average  capital employed 15,5%**🗸🗸** |  |
|  | | Valid decision **🗸🗸**  Any TWO points with figures **🗸🗸🗸** | (8) |
|  | |  |  |
| **6.4** | **Necessity for auditors to complete audit in accordance with**  **International Standards of auditing.** | | |
|  | Requirement because companies have investors from abroad. Must be  comparable with international standards. **🗸🗸🗸** | | (3) |

|  |  |  |  |
| --- | --- | --- | --- |
| **6.5** | **Do the auditors guarantee that their report is completely accurate and correct? Explain.** | | |
|  | No.**🗸** Cannot do a detailed audit of enterprise’s books − is time consuming and expensive. **🗸🗸** | | (3) |
|  |  | |  |
|  | **TOTAL:** | **300** | |