



JENN

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Province of the
EASTERN CAPE
EDUCATION

SUBJECT: ACCOUNTING

GRADE 12

AUTUMN CLASSES

TEACHER AND LEARNER CONTENT MANUAL

Topics

1. The statement of comprehensive income
2. Cash flow statement

ACCOUNTING PROGRAMME FOR 2024 AUTUMN CLASSES

PAPER	TOPICS	DURATION
PAPER 1	The Statement of Comprehensive Income & Notes to the Balance Sheet	First Day Pre-Test & Remedial 2hrs Second Day 2hrs
	The Cash Flow Statement	Third ay 2hrs Fourth Day 2hrs
	The Statement of Comprehensive Income & Notes to the Balance Sheet	Fifth Day Post -Test & Remedial 2hrs

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<u>TOPIC 2: Cash flow statement & notes to the Balance sheet</u> <ul style="list-style-type: none">○ Worked examples.○ Activities	21 - 46

EXAMINATION GUIDELINES

Grade 12 Paper 1 Financial Reporting & Evaluation

<p>Concepts relating to companies. Concepts relating to GAAP & IFRS Unique Ledger Accounts of companies & interpretation thereof Accounting equation of companies Adjustments, final accounts & trial balances of companies Income Statement (Statement of Comprehensive Income) of companies Balance Sheet (Statement of Financial Position) & Notes of companies Cash Flow Statement of companies. Analysis & interpretation of financial statements of companies Analysis & interpretation of published financial statements & audit report of companies. Valuation of fixed assets for reporting in financial statements Inventory valuation for reporting in financial statements. Professional bodies & Code of conduct Role of independent auditors Ethical behaviour & corporate governance in financial environments Legislation governing companies (overview only) Companies Act (general overview only) Close corporations (not examinable)</p>	<p>Includes: issuing of shares at issue price (no par value, no share premium); buying back of shares</p> <p>Includes: fixed asset valuation and inventory valuation.</p> <p>Includes all financial statements.</p> <p>Includes: additions, depreciation & disposal Integrates valuation methods: FIFO; weighted average & specific identification. Role of independent auditors Companies Act (general overview only) Close corporations (not examinable) Concepts; Differences in financial statements of companies and cc's (not examinable)</p>
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THE STATEMENT OF COMPREHENSIVE INCOME

Worked example.

The information relates to Popo Ltd. for the financial year ended 28 February 2023

REQUIRED:

1.1 Calculate the correct net profit after tax for the financial year ended on 28 February 2023. You must indicate + or – for each adjustment.

INFORMATION:

A The following figures were extracted from the Trial Balance on 28 February 2023

	R
Ordinary share capital	?
Retained income (1 March 2022)	950 000
Loan: Trouble Bank	800 000
SARS (Income tax) Dr	1 100 000
SARS (PAYE) Cr	33 000
Creditors' Control	250 000
Creditors for salaries	150 000
Debtors Control	400 000
Provision for bad debts	90 000
Consumable stores on hand on March 2022 (Packing material)	4 000
Trading stock	55 000
Bank overdraft	90 000
Petty cash	15 000
Packing Material	46 000
Salaries and wages (including employer' contribution)	1 130 000
Rent income	125 000
Dividends on ordinary shares (paid on 31 August 2022)	600 000

A. The net profit before tax was incorrectly calculated as R3 686 800.

B. The following adjustments were not taken into account by the bookkeeper:

- (i) Stock to the value of R7 000 was destroyed by fire. The insurance company agreed to pay R6 200 on 15 March 2023.
- (ii) An employee's gross salary must be reduced as he took unpaid leave. His net salary was R7 800. His personal tax rate is 22%. He has no other deductions.
- (iii) Debtors with credit balances of R20 000 on 28 February 2023 must be transferred to the Creditors' ledger. The provision for bad debts must be adjusted to 4% of debtors.

(iv) The bookkeeper has used the purchases figure of R46 000 in calculating the net profit. He has neglected to make entries for financial year 85% of the packing material was used.

(v) Rent has been received for 14 months. The rent increased by 10% on 1 September 2022.

(vi) The following table shows the transactions related to the loan from Trouble Bank for the financial year ending 28 February 2023:

	R
Balance at beginning of financial year	1 100 000
Interest capitalised during the year	?
Repayments, including interest, during the year	480 000
Closing balance at 28 February 2023	

Interest capitalised has not been recorded. The capital portion of the loan repayments will decrease by R7 000 per month in the next financial year.

(vii) Provide for income tax at 30% of the net profit.

Solution

Calculate the correct NET PROFIT AFTER TAX for the year ended on 28 February 2023.

Incorrect profit before tax	R3 686 800
Loss due to fire (i)	(800) ✓ <input checked="" type="checkbox"/> * *If figure correct with no bracket
Salaries (ii) 7 800 one mark	+10 000 ✓ ✓ <input checked="" type="checkbox"/> * *If figure correct with bracket
Provision for bad debts (iii) (4% x 420 000) – 12 000 = 4 800	(4 800) ✓ <input checked="" type="checkbox"/> *
Packing material (iv) 7 500 ONE mark (4 000 + 46 000) x 15/100 = 7 500 final stock New value = 4 000 + 46 000 – 7 500 = 42 500 Amount already recorded = 46 000 Diff = 3 500 OR (4 000 + 46 000) x 85/100 = 42 500 46 000 – 42 500 = 3 500	+3 500 ✓ ✓ <input checked="" type="checkbox"/> * *If figure correct with bracket
Rent income (v)	(18 700) ✓ ✓ <input checked="" type="checkbox"/> * *If figure correct with no bracket
Interest on loan (vi) (800 000 + 480 000 – 1 100 000)	(180 000) ✓ <input checked="" type="checkbox"/> * *If figure correct with no bracket
Correct profit before tax	3 496 000 <input checked="" type="checkbox"/> (check operation)
Income tax (30% x 3 496 000) (vii) Check calculations 30% of net profit	(1 048 800) <input checked="" type="checkbox"/> * *One part correct
Net profit after tax	2 447 200 <input checked="" type="checkbox"/> * *Operation, one part correct

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Activity 1

12 Marks

The information relates to ENG Limited for the financial year ended 30 June 2023.

REQUIRED:

- 1.1 Calculate the correct **NET PROFIT AFTER TAX** for the financial year ended 30 June 2023. (12)

INFORMATION:

- A The following items appeared in the Pre-adjustment Trial Balance on 30 June 2023:

	R
Ordinary share capital	?
Retained income (4 January 2023)	126 100
Loan: TG Bank	72 400
Fixed Assets at carrying value	?
SARS (Income tax) Dr	108 000
SARS (PAYE) Cr	5 800
Creditors for salaries	13 000
Debtors' Control	34 000
Provision for bad debts	1 900
Consumable Stores on hand (packing material)	12 000
Trading stock	98 000
Creditors' control	23 700
Bank overdraft	3 400
Petty cash	300

- B The net profit before tax was incorrectly calculated as R324 000.
- C The following information were not taken into account by the bookkeeper:
- (i) The directors' fees of R21 000 and audit fees of R5 000 for June 2023 were not paid yet.
 - (ii) Stock to the value of R5 600 was destroyed in a fire. The insurance company agreed to pay R4 800.
 - (iii) 80% of the packing material were used during the financial year.
 - (iv) According to the loan agreement an instalment of R20 000 and interest, will be paid annually to TG Bank. The bookkeeper correctly recorded the amount paid to TG Bank on 30 June 2023 as follows:

Debit: Loan: TG Bank R37 600
Credit: Bank R37 600

- (v) Outstanding EFT on the Bank Reconciliation Statement on 30 June 2023 include:

Date	Name of payee	Reason for EFT	Amount
24 June 2023	Eskom	Electricity	R2 400
25 July 2023	Waytons	On account	R1 500

- (vi) An interim dividend of R30 000 was paid on 1 December 2022, but was debited incorrectly to the salaries account.
- (vii) Debtors with credit balances totalling R700 on 30 June 2023 must be transferred to the Creditors' Ledger.
- (viii) Provide for income tax at 28% of the net profit.

1.1 Calculate the correct NET PROFIT AFTER TAX for the year ended 30 June 2023.

Incorrect profit before tax	R324 000

12

Activity 2**UHURU LIMITED**

You are provided with the information relating to Uhuru Ltd, for the year ended 28 February 2015.

REQUIRED:

- 2.1 Refer to **INFORMATION E** and calculate the correct net profit (14) after tax.

INFORMATION:

- A. The following figures were extracted from the accounting records at the end of the financial year on 28 February 2015, before additional information was taken into account.

Ordinary share capital (1 March 2014)	2 400 000
Retained income (1 March 2014)	410 000
Tangible assets/Fixed assets (28 February 2015)	2 878 140
Loan : Zinzi Bank (28 February 2015)	346 000
Fixed deposit : Msanzi Bank (1 March 2014)	280 000
Bank (Dr)	530 000
Creditors control	48 000
Debtors control	36 000
Inventory	421 000
Provision for bad debts	1 900
SARS: Income tax (Provisional tax)	291 400

- B. The net profit was R1 005 780 before the following adjustments were taken into consideration.
- Interest on fixed deposit is earned at 10% per annum and is not capitalised. No interest has been received. 40% of the fixed deposit will mature on 30 June 2015
 - Interest on loan was also not taken into consideration. Interest on the loan is capitalised.
 - Provision for bad debts must be adjusted to 5% of the outstanding debtors.
 - Rent income received amounted to R52 560. It included the rent for March and April 2015. The rent was increased by 15% on 1 January 2015.
 - Trading stock, R14 000 was damaged by storm during the year. The insurance company accepted the claim and will cover 70% of the claim. The insurance claim will be processed during May 2015.
 - Insurance included an annual policy of R8 400 paid on 1 August 2015.
 - Directors fees of R6 200 was still outstanding on 28 February 2015.
 - Income tax for the year amounted to R268 400.

42.1 Calculate the correct net profit

Net profit as per profit and loss	1 005 780

Activity 3**12 Marks****JAMA LIMITED**

The information relates to the financial year ended 30 June 2021.

REQUIRED:

3.1 use the table provided to calculate the correct net profit after tax for the year ended 30 June 2021. Indicate “+” for increase and “–” for decrease.

INFORMATION**A. List of balances, before taking into account all adjustments below:**

	30 June 2021 (R)	30 June 2020 (R)
Ordinary share capital	?	?
Retained Income	3 240 000	
Mortgage loan: Best Bank	3 755 000	4 175 000
Trading stock	4 198 500	
SARS : Income tax (provisional tax)	1 200 000	
Net trade debtors	3 668 810	
Bank overdraft	?	
Petty Cash and cash float	?	
Creditors' control	1 253 000	
Accrued income/Income receivable	8 000	
Shareholders for dividends	1 170 000	821 700

The net profit before tax, R4 918 950, was calculated before taking into account correcting the following:

- (i) Audit fees include R123 600 which was paid in advance for the next financial year.
- (ii) The repayments on the loan are fixed at R35 000 per month (including capitalised interest).

The balance as per loan statement were:

- 1 July 2020, R4 175 000
- 30 June 2021, R4 028 000

Provide for interest on loan.

- (iii) Rent income.

Rent of R74 000 was received from a tenant for the period 1 July 2020 to 31 August 2021. This has been recorded. This amount takes into account a reduction of R750 per month from 1 May 2021. The year-end adjustment has not yet been made.

- (iv) After taking into account the corrections above, it was determined that an additional R85 250 is still owed to SARS in respect of income tax for the year.

Activity 3

NO	WORKINGS	AMOUNTS
	Incorrect net profit before tax	4 918 950
(i)	Audit fees	
(ii)	Interest on loan	
(iii)	Rent income.	
(iv)	Income tax	
	Net Profit after tax	

Activity 4**45 Marks**

The information relates to Ixopo Ltd for the financial year ended on 28 February 2023.

REQUIRED:

- 4.1 Calculate the total depreciation for the year. (10)
- 4.2 Complete the Statement of Comprehensive Income for the year ended 28 February 2023 (35)

Note: Some information and figures are provided in the ANSWER BOOK.

INFORMATION:

A. **EXTRACT: PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY**

Balance sheet accounts	2023 R	2022 R
Ordinary share capital	8 700 000	6 900 000
Retained Income	?	850 000
Loan: Triumph Bank	2 850 000	3 100 000
Vehicles	?	800 000
Accumulated depreciation on vehicles	?	415 000
Equipment	910 000	?
Accumulated depreciation on equipment	?	782 000
Provision for bad debts	?	8 135
Fixed deposit	?	
Creditors control	112 755	
Debtors control	135 300	
SARS (Income tax) (Dr)	500 000	
Nominal accounts		
Sales	?	
Cost of sales	4 809 000	
Service fee income	550 000	
Rent income	62 800	
Directors' fees	625 000	
Audit fees	188 410	
Salaries and wages	526 855	
Insurance	14 700	
Advertising	87 000	
Sundry expenses	?	
Interest on fixed deposit	?	
Ordinary share dividends	210 000	

- B. Trade discounts** of R360 000 was allowed on invoices to certain customers.
The business prices its goods at a mark-up of 70% on cost.
- C. The provision for bad debts** must be adjusted to R7 515.
- D. Rent** has been received until 31 May 2023. The monthly rent increased by 10% on 1 November 2022.
- E. Directors' fees** were paid to two directors. One director requested that his fees for March 2023 be paid in February 2023, due to his financial problems.
The committee agreed. The two directors receive the same monthly pay.
- F. Advertising** of R57 700 consists of a monthly contract with a local radio station. Advertising was paid for 13 months. The contract rate was decreased by R200 per month from 1 December 2022.
- G. Vehicles:**
- An old delivery vehicle, with a carrying value of R170 000 on 1 March 2022, was sold for R150 000 cash on 1 December 2022.
 - Depreciation for vehicles at 20% on a diminishing balance.
- H. Equipment:**
- New equipment costing R50 000 was purchased on 1 November 2022 for cash. Transaction was properly recorded.
 - Equipment is depreciated at 15% p.a. on cost.
- I. Two debtors** with credit balances totaling R15 000 must be transferred to the Creditors Ledger.
- J. Loan:**
The repayments on the loan are fixed at R40 000 per month (including capitalised interest).
Interest for the next financial year will decline by 5% from the 2023 interest on loan.
- K. After taking all the adjustments above into account, the following were correctly calculated:**
- | | |
|--------------------------------|------------|
| • Operating profit | R2 030 000 |
| • Total dividends for the year | R380 000 |
- L. Income tax** for the financial year was calculated as R600 000. This is 30% of the net profit before tax.

Activity 4

4.1 Calculate the total depreciation for the year.

Calculate the total depreciation for the year.	
WORKINGS	ANSWER

10

4.2

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED ON
28 FEBRUARY 2023**

Sales	
Cost of sales	(4 809 000)
Service fee income	550 000
Audit fees	188 410
Salaries and wages	526 855
Insurance	14 700
Depreciation	
Operating profit	2 030 000
Interest income	
Operating profit before interest expenses	
Interest expenses	
Net profit before taxation	
Taxation	
Net profit after tax	

35

Activity 5**41 Marks**

The information relates to Thuthukani Limited; the financial year ended on 28 February 2023.

REQUIRED:

- 5.1. Prepare the Statement of Comprehensive Income for the financial year ending 28 February 2023. (41)

INFORMATION:

Extract from the Pre-adjustment trial balance on 28 February:

BALANCE SHEET ACCOUNTS SECTION		
	2023 (R)	2022 (R)
Ordinary Share Capital	?	4 800 000
Retained income	?	1 682 458
Mortgage loan: Westside Bank	760 000	
Fixed deposit: Westside Bank	180 000	140 000
Debtors' control	458 650	
Provision for bad debts	?	9 820
SARS: Income tax (provisional payments)	186 000	
Creditor's control	166 800	
NOMINAL ACCOUNTS SECTION		
Sales	?	
Cost of sales	1 845 000	
Salaries and wages	360 500	
Stationery	24 684	
Insurance	46 500	
Rent income	92 736	
Interest on fixed deposit	12 400	
Directors' fees	276 000	
Audit fees	24 600	
Bad debts	16 680	
Bad debts recovered	3 850	
Depreciation	46 000	
Interest on loan (Balancing figure)	?	
Ordinary share dividends	21 600	

B. Adjustments not considered yet:

- (i) Goods are sold at a markup of 80% on the cost price. Discount for damaged goods sold during the year amounted to R14 600.
- (ii) Stationery to the value of R22 600 was used during the year.
- (iii) Included in the amount for insurance was a yearly premium of R5 520 paid on 1 December 2022 for the year ending 30 November 2023.
- (iv) One worker was not paid his salary for February 2023. His details are as follows:

Deductions	Net salary	Employer's contributions
R5 600	R14 500	R3 800

NOTE:

Contributions are recorded in the salaries and wages account.

- (v) Rent was received until 30 April 2023. The monthly rent was increased by 12% on 1 November 2022.
- (vi) The fixed deposit at Westside Bank was increased by R40 000 on 1 June 2022 at the existing rate of 8% p.a. The transaction was recorded. Make provision for the outstanding interest. Interest is not capitalised.
- (vii) The company has four directors. Each one of them receives the same monthly fee. Two directors received their fees for the whole year, one only received his for nine months, and one has already received his for March 2023.
- (viii) 25% of the audit fees are still outstanding.
- (ix) R1 670 was received from a debtor whose account was written off the previous year. The amount was recorded in the Debtors' control column in the CRJ. Correct the error.
- (x) Provision for bad debts must be adjusted to R9 360.
- (xi) The loan from Westside Bank was taken out on 1 July 2019. The loan will be repaid over ten years in equal monthly instalments. Repayments were made from the end of July 2019, and all payments were paid and recorded.

(xii) **Shares and dividends**

• Share capital consists of 2 000 000 issued shares.
• 1 200 000 of the shares were issued in 2019 for R4,00 each, and the rest of the shares were issued at R6,00 each at the beginning of the year.
• On 31 December 2022, 12 000 shares were repurchased at a price of R7,30 from the estate of a shareholder.

- A final dividend of 2 cents per share was declared on 28 February 2023. The shares repurchased do not qualify for dividends declared.

(xiii) Income tax is calculated at 30% of the net profit before income tax. The net profit after tax was correctly calculated as R422 450.

41

Activity 5

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2023

Sales		
Cost of sales		(1 845 000)
Gross profit		
Other income		
Rent income (92 736		
Bad debts recovered (3 850		
Gross operating income		
Operating expenses		
Salaries and wages (360 500		
Stationery (24 684		
Insurance (46 500		
Directors' fees (276 000		
Audit fees (24 600		
Bad debts		16 680
Depreciation		46 000
Operating profit		
Interest income (12 400		
Profit before interest expense		
Interest expense		
Profit before income tax		
Income tax		
Net profit for the year		422 450

41

CASH FLOW STATEMENT Worked Example

FT SUPPLIERS LIMITED

27 Marks

- 1.1 Complete the following note to the Cash Flow Statement:
Reconciliation between profit before taxation and cash generated from operations. (13)
- 1.2 Refer to information D (ii).
Calculate the amount for the purchase of the fixed assets. (5)
- 1.3 Prepare the following section of the Cash Flow Statement:
Cash flows from financing activities (5)
- 1.4 Complete the net change in Cash and Cash equivalents as it would appear in the Cash Flow Statement. (4)

INFORMATION:

- A. Extract from Statement of Comprehensive Income for the year ended 28 February 2023:

	R
Depreciation	185 700
Interest on loan	175 000
Net profit before income tax	2 400 000
Income tax	672 000

B. Extract from Statement of Financial Position on 28 February:

	2023	2022
Fixed assets (carrying value)	4 178 300	3 532 000
Inventory	1 350 000	1 281 500
Trade and other receivables	1 580 000	1 530 000
Cash and cash equivalents	168 000	28 000
Shareholders' equity	4 478 300	3 409 000
Ordinary share capital	3 600 000	2 500 000
Retained income	878 300	909 000
Mortgage loan: Puma Bank	1 420 000	1 300 000
Trade and other payables	1 598 000	1 786 000
Bank Overdraft	0	56 000

C. Notes to the financial statements on 28 February:

	2023	2022
Trade and other receivables:		
Net trade debtors	1 554 000	1 420 000
Accrued income	26 000	35 000
SARS: Income tax	-	75 000
	1 580 000	1 530 000
Trade and other payables:		
Trade creditors	1 347 000	1 586 000
Shareholders for dividends	225 000	200 000
SARS: Income tax	26 000	-
	1 598 000	1 786 000

D. Additional information:**(i) Inventory:**

The company uses the weighted-average method to value the stock. The following information was taken from the accounting records for the year ended 28 February 2023:

Date	Details	Number of units	Total (R)
01/03/2022	Opening stock	1 500	1 281 500
28/02/2023	Purchases for the year	31 500	3 668 500
		33 000	4 950 000
28/02/2023	Units sold	24 000	?

(ii) Fixed assets:

- Fixed assets were sold at a carrying value of R368 000.
- Fixed assets were purchased during the year.

(iii) Share capital:

Shares were issued during the year. No shares were repurchased during the year.

(iv) Dividends:

Interim dividends paid during the year amounted to R180 000.

1.1 Reconciliation between profit before taxation and cash generated from operations

Profit before tax	2 400 000 ✓
Adjustments in respect of:	
Depreciation	185 700 ✓
Interest expense	175 000 ✓
Operating profit before changes in working capital	2 760 700 ✓*
Changes in working capital operation and one part correct	(432 500) ✓*
Increase in Inventory (1 281 500 – 1 350 000)	✓✓ #(68 500)
Increase in Debtors (1 420 000 + 35 000) ✓ – (1 554 000 + 26 000) ✓ OR 1 455 000 – 1 580 000	✓* #(125 000)
Decrease in Creditors (1 586 000 – 1 347 000)	✓✓ #(239 000)
Cash generated from operations	2 328 200 ✓

Final answer must be in brackets to get full marks

* ✓ one part correct

13

1.2 Calculate the amount for the purchase of fixed assets.

$4\,178\,300 + 185\,700 + 368\,000 - 3\,532\,000 = 1\,200\,000$ ✓* one part correct

Choose a line

$-4\,178\,300 - 185\,700 - 368\,000 + 3\,532\,000 = 1\,200\,000$

3 532 000	185 700
1 200 000	368 000
	4 178 300

5

1.3 Cash flows from financing activities

one part correct
1 220 000 ✓*

Proceeds from shares issued
(3 600 000 – 2 500 000) ✓✓
1 100 000

Increase in loan (1 420 000 – 1 300 000) ✓✓
120 000

5

1.4 Complete the net change in Cash and Cash equivalents as it would appear in the Cash Flow Statement.

Net change	one part correct 196 000 ✓*
Cash beginning (28 000 – 56 000)	✓* (28 000)
Cash end	✓ 168 000

4

CASH FLOW STATEMENT

Activity 1

34 Marks

KHANYA NALEDI LIMITED

The information below was extracted from the records of Khanya Naledi Limited. The financial year ends on 29 February 2024.

REQUIRED:

- 1.1 Draw up the following notes to the Balance Sheet:
- 1.1.1 Ordinary Shareholders' Equity (7)
 - 1.1.2 Retained Income (9)
- 1.2 Fill in the missing amounts on the Cash Flow Statement provided. Show workings and indicate outflows in brackets. (18)

INFORMATION:

A Extract from the Statement of Comprehensive Income (Income Statement) on 29 February 2024:

Sales	R10 650 000
Operating expenses	1 250 000
Depreciation	320 000
Operating profit	3 460 000
Interest expenses	219 700
Income tax (28%)	2 072 000

B Trade and other receivables and payables

	29 February 2024 (R)	28 February 2023 (R)
Trade Debtors	1 279 400	342 000
Trade Creditors	770 000	338 000
Accrued Income	48 000	81 000
Accrued Expense (Advertising)	9 000	8 700
Income received in advance	5 400	6 200
SARS (Income Tax)	(DR) 30 000	(CR) 160 000
Shareholders for dividends	?	212 000
Bank overdraft	0	147 500

C Extract from the Statement of Financial Position (Balance Sheet)

	29 February 2024	28 February 2023
	(R)	(R)
Fixed assets (carrying value)	20 158 970	13 590 000
Financial assets	0	1 000 000
Current assets	2 021 280	721 850
Inventories	561 880	110 250
Cash and cash equivalents	102 000	72 000
Shareholders' equity	?	
Ordinary share capital	26 250 000	
Retained income	?	7 000 000
Loan: EYE Bank	1 960 000	2 080 000
Current liabilities	?	

D FIXED ASSETS

- Fixed assets were purchased during the financial year.
- Old equipment was sold at carrying value, R67 590 on the 1 July 2023.

E SHARE CAPITAL AND DIVIDENDS

- On 1 May 2023, the directors issued a further 2 000 000 ordinary shares at R2,75 each.
- An interim dividend of 22 cents was paid on 15 October 2023.
- On 30 November 2023, 500 000 ordinary shares were repurchased from a disgruntled shareholder at 25 cents above the average price.
- A final dividend of 12 cents per share was declared by the directors at the end of the financial year. Only registered shareholders are entitled to the final dividend.

ACTIVITY 1

BALANCE SHEET NOTES AND CASH FLOW STATEMENT

1.1.1 ORDINARY SHAREHOLDERS' EQUITY NOTE

7 500 000	Ordinary shares in issue at the end of the year	26 250 000

7

1.1.2 RETAINED INCOME NOTE

Balance at the beginning of the year	7 000 000

9

1.2

CASH FLOW STATEMENT

KHANYA NALEDI LTD

CASH FLOW STATEMENT FOR YEAR ENDED 29 FEBRUARY 2024	
CASH EFFECTS OF OPERATING ACTIVITIES	
Cash generated from operations	7 015 170
Interest paid	(219 700)
CASH EFFECTS OF INVESTING ACTIVITIES	
Fixed assets purchased	(6 956 560)
CASH EFFECTS OF FINANCING ACTIVITIES	
Proceeds of shares issued	
Repurchase of shares	
NET CHANGE IN CASH AND CASH EQUIVALENTS	
Cash and cash equivalents (opening balance)	
Cash and cash equivalents (closing balance)	

18

ACTIVITY 2: CASH FLOW STATEMENT

32 Marks

2.1 The information below was extracted from the books of EHP Ltd. Study the information and answer the questions that follow. The financial year ends on 28 February each year.

REQUIRED:

2.1.1 Complete the note to the Cash Flow Statement for reconciliation between profit before taxation and cash generated from operations. (10)

2.2 Calculate the following

2.2.1 Taxation paid (4)

2.2.2 Purchase of fixed assets (5)

2.3 **Complete the following sections of the cash flow statement**

2.3.1 Cash flow from financing activities

2.3.2 Net change in cash and cash equivalents

2.4 Do you think that it was a good idea to pay off the loan? Briefly explain with reference to ONE relevant financial indicator. (4)

2.5 The directors feel that the shareholders should be satisfied with the performance of the company. Explain and quote TWO financial indicators with actual figures/ ratios/percentages to support their opinion. (6)

2.6 The company issued additional 100 000 shares at R7. In your opinion do you think the **existing shareholders** would be happy with the issue price? Quote ONE financial indicator with actual figure/percentage/ratio to support your statement. (3)

INFORMATION:

A. Extract from the Income Statement:

	29 February 2024
Sales	3 512 000
Depreciation	350 880
Interest expense	136 000
Net profit before tax	1 250 000
Income tax	30%

B. Information extracted from the Balance Sheet:

	29 February 2024	28 February 2023
Tangible/ Fixed Assets (carrying value)	4 399 040	3 290 000
Financial Assets (15%)	400 000	550 000
Inventories	170 460	570 000
Trade and other receivables (Note 1)	226 000	340 000
Cash and cash equivalent	4 500	4 260
Shareholders' equity	3 509 660	2 608 160
Ordinary Share Capital	2 710 000	2 100 000
Retained income	799 660	508 160
Non-current liabilities	1 000 000	1 500 000
Trade and other payables (Note 2)	690 340	364 000
Bank overdraft		282 100

Trade and other receivables:

	29 February 2024	28 February 2023
Trade debtors	203 000	340 000
SARS : Income tax	23 000	-
	226 000	340 000

Trade and other payables:

	29 February 2024	28 February 2023
Trade creditors	420 840	170 000
SARS: Income tax	-	60 000
Shareholders for dividends	269 500	134 000
	690 340	364 000

C. Share Capital

- | | |
|--|-----------|
| • 700 000 share were in ssue on the 28 February 2023 | 2 100 000 |
| • 30 000 shares repurchased on 1 March 2023 at R9 each | (270 000) |
| • 100 000 shares were issued on 1 August 2023 at a price of R7 | 700 000 |
| • 770 000 shares at the end of the year | 2 710 000 |

D. Fixed Assets

- Unused vehicle was sold at book value at the end of the year for R55 080.
- New property was bought during the year.

Activity 2

2.1.1 RECONCILIATION BETWEEN PROFIT BEFORE TAX AND CASH GENERATE BY OPERATION

Net profit before tax	1 250 000

10

2.2.1 Taxation Paid

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2.2.2 Purchase of fixed assets.

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2.3 Complete the following sections of the cash flow statement

2.3.1 Cash flow from financing activities

2.3.2

Net change in cash and cash equivalents	
Cash and cash equivalents at beginning of year	
Cash and cash equivalents at end of year	4 500

2.4 Do you think that it was a good idea to pay off the loan? Briefly explain with reference to ONE relevant financial indicator. (4)

2.5 The directors feel that the shareholders should be satisfied with the performance of the company. Explain and quote TWO financial indicators with actual figures/ ratios/percentages to support their opinion. (6)

2.6 The company issued additional 100 000 shares at R7. In your opinion do you think the **existing shareholders** would be happy with the issue price? Quote ONE financial indicator with actual figure/percentage/ratio to support your statement. (3)



Activity 3**Marks 32**

You are provided with information relating to Gugu Limited for the year ended 30 June 2023. Gugu Limited is a public company listed on the JSE Securities Exchange. They are based in Pretoria and they sell office stationery.

The directors of Gugu Limited decided to open new branches in Brakpan and Emalahleni halfway through the year.

REQUIRED:

3.1 Complete the note for Ordinary share capital to the Balance Sheet on 30 June 2023. (8)

3.2 Calculate the missing figures indicated by (a) to (g) in the Cash Flow Statement.

NOTE: The answer must indicate the correct sign. (13)

3.3 The Cash Flow Statement highlights some significant (important) decisions taken by the directors over the past year. Explain TWO of these significant decisions. Quote figures to support your answer. Also explain how these decisions would benefit the company and the shareholders. (6)

3.4 At the AGM, the directors announce that the company will:

- Conduct training of all employees in terms of morals and ethics
- Donate funds towards cleaning up the environment.

Explain why this is necessary although this will cost the company a lot of money each year. State THREE points. (6)

INFORMATION:**A. EXTRACT FROM INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2023**

Income tax	426 000
Net profit after tax	904 000

B. EXTRACT FROM BALANCE SHEET AT 30 JUNE 2023

	2023	2022
ASSETS		
Non-current assets	5 492 000	3 493 000
Fixed assets	5 192 000	2 773 000
Financial assets	300 000	720 000
Current assets	2 557 000	2 508 000
Inventories	1 640 000	1 510 000
Trade and other receivables	810 000	960 000
SARS (Income tax)	0	18 000
Cash and cash equivalents	107 000	20 000
TOTAL ASSETS	8 049 000	6 001 000
EQUITY AND LIABILITIES		
Ordinary shareholders' equity	4 989 000	3 924 000
Ordinary share capital	3 776 000	3 084 000
Retained income	1 213 000	840 000
Non-current liabilities	1 980 000	700 000
Mortgage loan: Jozi Bank	1 980 000	700 000
Current liabilities	1 080 000	1 377 000
Trade and other payables	705 000	819 000
SARS (Income tax)	32 000	0
Shareholders for dividends	275 000	240 000
Bank overdraft	0	250 000
Current portion of loan	68 000	68 000
TOTAL EQUITY AND LIABILITIES	8 049 000	6 001 000

C. CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2023

CASH FLOW FROM OPERATING ACTIVITIES	?
Cash generated from operations	?
Interest paid	(134 000)
Dividends paid	(496 000)
Income tax paid	(a)
CASH FLOW FROM INVESTING ACTIVITIES	?
Purchase of fixed assets	(3 357 000)
Proceeds from sale of fixed assets	140 000
Proceeds from financial assets matured	420 000
CASH FLOW FROM FINANCING ACTIVITIES	?
Repurchase of shares	(b)
Proceeds with issue of shares	(c)
Change in loan	(d)
Net change in cash and cash equivalents	(e)
Cash and cash equivalents beginning of year	(f)
Cash and cash equivalents at the end of year	(g)

D. Shareholding for the 2023 financial year

- Authorised share capital: 1 200 000 ordinary shares
- On 1 July 2022 there were 1 020 000 shares in issue.
- On 1 January 2023 all the unissued shares were issued.
- On 31 May 2023, 20 000 shares were repurchased at R4,20 per share, which is R1 above the average issue price.

C. CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2023

CASH FLOW FROM OPERATING ACTIVITIES	?
Cash generated from operations	?
Interest paid	(134 000)
Dividends paid	(496 000)
Income tax paid	(a)
CASH FLOW FROM INVESTING ACTIVITIES	?
Purchase of fixed assets	(3 357 000)
Proceeds from sale of fixed assets	140 000
Proceeds from financial assets matured	420 000
CASH FLOW FROM FINANCING ACTIVITIES	?
Repurchase of shares	(b)
Proceeds with issue of shares	(c)
Change in loan	(d)
Net change in cash and cash equivalents	(e)
Cash and cash equivalents beginning of year	(f)
Cash and cash equivalents at the end of year	(g)

D. Shareholding for the 2023 financial year

- Authorised share capital: 1 200 000 ordinary shares
- On 1 July 2022 there were 1 020 000 shares in issue.
- On 1 January 2023 all the unissued shares were issued.
- On 31 May 2023, 20 000 shares were repurchased at R4,20 per share, which is R1 above the average issue price.

Activity 3

3.1

Calculate the missing figures indicated by (a) to (g) in the Cash Flow Statement.

NOTE: The answer must indicate the correct sign.

	Calculation	Answer
(a)		
(b)		
(c)		
(d)		
(e)		
(f)		
(g)		

13

3.2

The Cash Flow Statement highlights some significant (important) decisions taken by the directors over the past year. Explain TWO of these significant decisions. Quote figures to support your answer.

Explain how these decisions would benefit the company and the shareholders.

6

3.3

At the AGM, the directors announce that the company will:

- Conduct training of all employees in terms of morals and ethics
- Donate funds towards cleaning up the environment

Explain why this is necessary although this will cost the company a lot of money each year. State THREE points.

6

Activity 4**21 Marks****4.1 Cedarville LTD.**

You are provided with information related to Cedarville Ltd. for the financial year ended 30 June 2023. The company is listed on the stock exchange with an authorised share capital of 1 200 000 ordinary shares.

REQUIRED:

4.1.1 Complete the Cash Flow Statement. Show all workings. (21)

INFORMATION:

A. Information extracted from the Income Statement for the year ended 30 June 2023:

Cash Sales	7 392 000
Credit Sales	7 392 000
Cost of sales	9 240 000
Depreciation	1 256 340
Operating profit	2 810 000
Interest expenses	675 000
Net profit before income tax	2 187 000
Income tax	656 100

B. Figures from the Balance Sheet and Notes:

	30 JUNE 2023	30 JUNE 2022
Fixed assets (carrying value)	11 935 460	12 363 550
Fixed deposits	620 000	950 000
Non-current liabilities	4 110 000	5 300 000
Current assets	2 051 300	1 432 400
Current liabilities	1 157 750	1 310 690
Shareholders' equity	9 339 010	8 135 260
Ordinary share capital	8 130 750	7 134 000
Retained income	?	1 001 260
Current assets includes:		
Debtors control	892 800	575 500
SARS: Income tax	0	15 500
Cash and cash equivalents	394 300	8 000
Current liabilities includes:		
Bank overdraft	0	56 370
SARS: Income tax	34 600	0
Shareholders for dividends	490 250	369 000

C. Share Capital:

- 820 000 shares in issue on 1 July 2022.
- 180 000 shares issued on 1 April 2023 at 920 cents per share.
- 75 000 shares repurchased on 1 May 2023 at 930 cents per share.

D. Dividends:

- An interim dividend of 97 cents per share was paid on 31 December 2022 □ A final dividend was declared on 30 June 2023.
- Only shareholders registered at the time of declaration qualify for dividends.

E. Movements of fixed assets during the current financial year:

- Fixed assets to the value of R856 450 were purchased.
- Old equipment were disposed at carrying value.

Activity 4

CEDARVALE LTD

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2023

CASH EFFECTS OF OPERATING ACTIVITIES	
Cash generated from operations	
Interest paid	(676 000)
Income tax paid	
Dividends paid	
CASH EFFECTS OF INVESTING ACTIVITIES	
Fixed assets purchased	(856 450)
Proceeds from disposal of fixed assets	
Increase in fixed deposit	330 000
CASH EFFECTS OF FINANCING ACTIVITIES	
Proceeds from shares issued	1 656 000
NET CHANGE IN CASH AND CASH EQUIVALENTS	
Cash and cash equivalents	
Cash and cash equivalents	394 300

21

Activity 5**22 Marks**

You are presented with information from the records of N2 Stores Ltd for the financial year ended 30 June 2023.

REQUIRED:

5.1 Calculate the following amounts that would appear on the Cash Flow Statement.

- 5.1.1 Dividend paid (5)
- 5.1.2 Income Tax (4)
- 5.1.3 Fixed assets purchased (5)
- 5.1.4 Cash Flow from financing activities (4)
- 5.1.5 Net change in cash and cash equivalents (4)

INFORMATION:

A. **Extract from the Income Statement:**

	30 June 2023
Sales	R10 925 000
Cost of sales	6 250 000
Depreciation	380 000
Interest expense	480 000
Net profit before tax	2 300 000
Income tax	593 000
Net profit after tax	1 707 000

B. Information extracted from the Balance Sheet:

	30 June 2023	30 June 2022
Tangible/ Fixed assets (carrying value)	R4 900 000	R3 983 200
Financial assets (15%)	100 000	100 000
Inventories	790 000	845 000
Trade debtors	245 000	310 000
Cash and cash equivalents	6 000	13 000
SARS (income tax)	44 000	
Shareholders' equity:	4 257 000	2 677 000
Ordinary share capital	2 900 000	1 577 000
Retained income	1 357 000	1 100 000
Non-current liabilities	1 000 000	1 800 000
Creditors control	110 000	280 000
SARS (income tax)	-	34 200
Shareholders for dividend	620 000	460 000
Bank overdraft	98 000	-

D. Share Capital and Dividends

167 700 shares were in issue on the 30 June 2023.	R1 577 000
82 300 shares were issued on 1 July 2022 at R10 each.	823 000
40 000 shares were issued on 1 March 2023 at R12,50 each.	500 000
290 000 shares were in issue at the end of the year.	2 900 000
Interim dividend on 31 December 2022 332c per share.	

E. Fixed Assets

Unused furniture was sold at book value at the end of the year for R11 400.
New property was bought during the year.

Activity 5

5.1 Calculate the following amounts that would appear on the Cash Flow Statement.

5.1.1 **Dividend paid**

--

5

5.1.2 **Income Tax**

--

4

5.1.3 **Fixed assets purchased.**

--

5

5.1.4

Cash Flow from financing activities	

4

5.1.5

Net change in cash and cash equivalent	
Opening balance	
Closing balance	

4

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