



**Western Cape  
Government**

Education

**Directorate: Curriculum FET**

---

# **TELEMATICS 2015**

## **ACCOUNTING**

### **Grade 12 (Terms 2 & 3)**

Dear Grade 12 Accounting learner

During the first term the presenters of this programme dealt with Companies and in particular the preparation of financial statements.

During the next three sessions the presenters will focus on the preparation of the Cash Flow Statement and the analysis and interpretation of financial statements. You are encouraged to work through the questions provided in this resource pack and to ensure that you understand the concepts dealt with. This programme will support your revision and study programme in preparation for your final Grade 12 Accounting examination.

This is an opportunity for you to consolidate what you have been taught in class. Please make use of this opportunity by attending each session.

### **Tips for success in Accounting**

**In order to succeed in Accounting you need to take heed of the following:**

- Pay careful attention in class to ensure that you understand
- Complete Accounting homework/exercises daily  
PRACTICE...PRACTICE...PRACTICE
- Work neatly and accurately
- Show calculations in brackets
- Read instructions to questions/activities carefully to ensure you know what is being asked
- Complete tasks and assessment activities including tests diligently as if preparing for your final examination
- Use past examination papers and tests for revision
- Refine your examination technique: when you revise, choose questions that will extend you in your weaker areas. Use the time allocations provided in the question to judge whether you are completing the question in the time available.

All the best with your revision and preparation for the final examination.

Glynis Schreuder  
Senior Curriculum Planner: Accounting

TELEMATICS TEACHING - 2015

ACCOUNTING TIME TABLE – GRADE 12 (Terms 2 and 3)

<b>Date</b>	<b>Topic</b>	<b>By the end of this lesson you should know:</b>
Monday 11 May 16:00 – 17:00	<b>Companies</b> Preparation of the Cash Flow Statement	<ul style="list-style-type: none"> <li>▪ The purpose of preparing a Cash Flow Statement</li> <li>▪ Where to find the information in order to prepare a Cash Flow Statement</li> <li>▪ The three types of activities reflected in a Cash Flow Statement</li> <li>▪ How to prepare sections of a Cash Flow Statement</li> </ul>
Thursday 27 August 16:00 – 17:00	<b>Companies</b> Analysis and interpretation of financial statements	<ul style="list-style-type: none"> <li>▪ Why we analyse financial statements</li> <li>▪ The five questions asked by users of financial indicators</li> <li>▪ How to calculate financial indicators</li> <li>▪ How to interpret financial indicators</li> </ul>
Monday 21 September 16:00 – 17:00		

Questions asked by users of financial statements		Category	Financial indicators	How to calculate
1	Is the company efficient in its normal operating activities?	Profitability	Mark-up % / % Gross profit on cost of sales	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
			% Gross profit on sales	
			% Operating expenses on sales	
			% Operating profit on sales	
			% Net profit after tax on sales	
2	Can the company pay off all its debts comfortably?	Solvency	Solvency ratio	
3	Can the company pay of its immediate debts comfortably?	Liquidity	Current ratio	
			Acid test ratio	
			Stock turnover rate	
			Stock holding period	
			Debtors' average collection period	
			Creditors' average payment period	

4	Are the shareholders earning a fair amount in relation to their investment?	Return	% Return on shareholders' equity	
			Earnings per share	
			Dividends per share	
			Net asset value per share	
5	To what extent is the company financed by loans in comparison to capital?	Financial risk / gearing	Debt-equity ratio	
			% Return on total capital employed	

## Activity 1

You are provided with information of Bennie Books Ltd for the year ending 30 April 2014.

### Required:

- 1.1 Complete the note for the reconciliation between net profit before tax and cash generated from operations
- 1.2 Complete the Cash Flow Statement. Indicate workings in brackets.

### Information:

#### **BENNIE BOOKS LIMITED EXTRACTS FROM INCOME STATEMENT FOR THE YEAR ENDED 30 APRIL 2014**

Depreciation	71 000
Interest on loans	53 000
Net profit before tax	420 000
Income tax	126 000
Net profit after tax	294 000

	<b>2014</b>	<b>2013</b>
Non-current assets	1 799 800	1 632 300
Fixed assets	1 240 800	1 302 300
Investments	559 000	330 000
Current assets	371 700	329 800
Inventories	237 000	185 000
Trade & other receivables	72 000	98 000
Cash and cash equivalents	62 700	46 800
<b>TOTAL ASSETS</b>	<b>2 171 500</b>	<b>1 962 100</b>
Shareholders' equity	1 518 000	1 240 000
Ordinary share capital	986 000	600 000
Retained income	532 000	610 000
Non-current liabilities	325 000	430 000
Mortgage loan: Excel Bank	325 000	430 000
Current liabilities	328 500	292 100
Trade & other payables	328 500	292 100
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>2 171 500</b>	<b>1 962 100</b>

## EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENTS

### Extract from the Fixed Assets note:

Old equipment was sold at book value for R60 000.

New equipment was also purchased.

### Extract from the Cash & cash equivalents note:

Petty cash was unchanged at R4 000, while cash float was unchanged at R3 000.

### Ordinary share capital

#### Authorised

Number of authorised ordinary shares: 500 000 shares

#### Issued

126 000 shares in issue at beginning of year	630 000
84 000 shares issued during the year at R7 per share	588 000
40 000 shares repurchased during the year (average price R5,80)	<u>(232 000)</u>
170 000 shares in issue at end of year	<u><u>986 000</u></u>

#### Retained Income

Retained income at beginning of the year	610 000
Net profit after tax for the year	294 000
Retained income on 40 000 shares repurchased	(60 000)
Dividends for the year	<u>(312 000)</u>
Retained income at end of the year	<u><u>532 000</u></u>

#### Trade & other payables comprise:

	<b>2014</b>	<b>2013</b>
Trade creditors	66 000	114 000
Deferred income (received in advance)	3 500	7 000
Expenses payable (Interest on loan)	6 000	8 500
SARS (Income tax)	13 000	9 000
Shareholders for dividends	<u>240 000</u>	<u>153 600</u>
	<u><u>328 500</u></u>	<u><u>292 100</u></u>

## Activity 2

You are provided with information for the financial year ended 28 February 2014 for Bright Cellphones Ltd, a public company listed on the JSE.

### REQUIRED:

- 2.1 Provide the missing figures indicated by **A** to **G** in the Cash Flow Statement. Show workings to earn part-marks.
- 2.2 Apart from the dividends and the loan, what other major decisions by the directors are reflected in the Cash Flow Statement? State TWO major decisions and quote the relevant figures. Also explain how EACH of these decisions would benefit the company in future.

### INFORMATION:

1. The company has an authorised share capital of 2 000 000 ordinary shares. On 28 February 2013 there were 600 000 shares in issue.
2. Information extracted from the 2014 Income Statement:

Sales	6 200 000
Depreciation	120 000
Interest on loan	168 000
Net profit before tax	1 200 000
Net profit after tax	840 000

3. Information extracted from the Balance Sheet:

	2014	2013
<b>Fixed Assets</b> (carrying value)	7 125 000	6 931 000
<b>Current Assets</b>	575 000	419 000
Inventories	135 000	80 000
Accounts receivable	362 000	328 000
SARS (Income tax)	-	9 000
Cash and cash equivalents	78 000	2 000
<b>TOTAL ASSETS</b>	<b>7 700 000</b>	<b>7 350 000</b>
<b>Shareholders' Equity</b>	5 091 250	4 000 000
Ordinary share capital	4 590 000	3 600 000
Retained income	501 250	400 000
<b>Non-current Liabilities:</b> Venus Bank (8% p.a.)	2 100 000	2 800 000
<b>Current Liabilities</b>	508 750	550 000
Accounts payable	244 500	158 000
SARS (Income tax)	28 000	-
Shareholders for dividends	236 250	210 000
Bank overdraft	-	182 000
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>7 700 000</b>	<b>7 350 000</b>



4. On 1 March 2013 150 000 new shares were issued at R10 per share.
5. An interim dividend of 30 cents per share was paid on 30 June 2013.
6. On 31 December 2013, the directors decided to repurchase 75 000 shares at 1 050 cents per share from a disgruntled shareholder. This shareholder had originally purchased his shares on the JSE at various times and at different prices over the past years.

7. **CASH FLOW STATEMENT FOR YEAR ENDED 28 FEBRUARY 2014**

<b>CASH EFFECTS OF OPERATING ACTIVITIES</b>	
Cash generated from operations	
Interest paid	(168 000)
Income tax paid	<b>A</b>
Dividends paid	<b>B</b>
<b>CASH EFFECTS OF INVESTING ACTIVITIES</b>	(314 000)
Fixed assets purchased	(400 000)
Proceeds from sale of fixed assets	86 000
<b>CASH EFFECTS OF FINANCING ACTIVITIES</b>	
Proceeds of shares issued	<b>C</b>
Repurchase of shares	<b>D</b>
Increase/Decrease in loans	<b>E</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>F</b>
Cash and cash equivalents at beginning of year	<b>G</b>
Cash and cash equivalents at end of year	78 000

### **Activity 3**

You are provided with information relating to Metreal Supermarkets Limited, a public company. The financial year-end is 28 February 2014.

#### **REQUIRED:**

- 3.1 Calculate the following financial indicators for the financial year ended 28 February 2014:
- 3.1.1 Net asset value per share
  - 3.1.2 Debt-equity ratio
  - 3.1.3 % Return on average capital employed
- 3.2 Comment on the liquidity position of the company. Quote THREE relevant financial indicators (actual figures/ratios/percentages) and their trends.
- 3.3 The directors decided to increase the loan during the current financial year. Quote TWO financial indicators (actual figures/ratios/percentages) that are relevant to their decision. Explain whether this was a good decision, or not.
- 3.4 The Muller family owns 740 000 shares in this company. Explain the effect that the repurchase of shares on 31 December 2013 had on their control of the company. Give a calculation(s) to support your answer.

#### **INFORMATION:**

**A. Extract from the Income Statement for the year ended 28 February 2014:**

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

**B. Extract from the Balance Sheet as at:**

	<b>28 Feb. 2014</b>	<b>28 Feb. 2013</b>
<b>Current assets</b>	<b>3 337 300</b>	<b>4 641 000</b>
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
<b>Shareholders' equity</b>	<b>8 839 000</b>	<b>7 400 000</b>
Ordinary share capital	8 700 000	6 600 000
Retained income	139 000	800 000
<b>Mortgage loan: Exclusive Bank</b> (interest rate: 12,5% p.a.)	<b>908 000</b>	<b>508 000</b>
<b>Current liabilities</b>	<b>2 063 700</b>	<b>1 302 000</b>
Trade creditors	678 700	700 000
Shareholders for dividends	870 000	480 000
Bank overdraft	515 000	-
SARS: Income tax	-	122 000

**C. Shareholders' register:**

<b>DATE</b>	<b>DETAILS</b>
1 March 2013	1 200 000 shares in issue
31 March 2013	300 000 shares issued at R8 each
31 December 2013	The company bought back 50 000 shares from a dissatisfied shareholder, P Pillay, at R9,50 each. The average price of all shares issued to date was R6 per share.
28 February 2014	1 450 000 shares in issue

**D. Financial indicators:**

	<b>28 Feb. 2014</b>	<b>28 Feb. 2013</b>
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 p.a.	5,1 times p.a.
Debtors' collection period	40 days	35 days
% return on average capital employed	?	16,4%

## **Activity 4**

You are provided with information relating to Ambrosio Limited for the year ended 31 December 2014.

### **REQUIRED:**

- 4.1 Calculate the following financial indicators on 31 December 2014:
  - 4.1.1 % operating expenses on sales
  - 4.1.2 Solvency ratio
  - 4.1.3 Debt-equity ratio
- 4.2 Comment on the operating efficiency of the company for the year ended 31 December 2014. Quote TWO financial indicators (actual ratios or percentages) relating to the Income Statement to support your comments.
- 4.3 Would the shareholders be happy with the returns, earnings and dividends for the year ended 31 December 2014? Explain. Quote THREE financial indicators (actual ratios or percentages) or figures to support your comments.
- 4.4 The Chief Executive Officer (CEO) feels that it would be a good idea to increase the loans next year. Quote TWO financial indicators (actual ratios or percentages) to support his opinion.

### **INFORMATION:**

#### **1. Extract from Income Statement for the year ended 31 December 2014**

Sales	9 900 000
Operating expenses for the year	2 475 000
Operating income for the year	3 597 000
Depreciation on equipment	99 000
Depreciation on vehicles	115 500
Interest expense	148 500
Net profit before tax	?
Income tax	916 550

## 2. Balance Sheet on 31 December 2014

	2014	2013
<b>ASSETS</b>		
Tangible/Fixed assets	5 953 000	5 692 500
financial assets	?	?
Inventories	660 000	?
Trade and other receivables	?	681 000
Cash and cash equivalents	?	-
<b>TOTAL ASSETS</b>	<b>8 031 000</b>	<b>7 301 250</b>
<b>EQUITY AND LIABILITIES</b>		
Ordinary shareholders' equity	6 673 000	5 148 000
Ordinary share capital	5 478 000	4 620 000
Retained income	1 195 000	528 000
Non-current liabilities (Mortgage loan: Viva Bank (14 % p.a.)	600 000	1 039 500
Trade and other payables	758 000	915 750
Bank overdraft	-	198 000
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>8 031 000</b>	<b>7 301 250</b>

## 3. Shares issued:

2 310 000 ordinary shares on 1 January 2014	R4 620 000
390 000 ordinary shares issued on 1 January 2014	858 000
2 700 000 ordinary shares on 31 December 2014	R5 478 000

## 4. FINANCIAL INDICATORS:

The following financial indicators were calculated for the past two years:

	2014	2013
Operating expenses on sales	?	18%
Operating profit on sales	11,3%	14%
Net profit after tax on sales	21,3%	26,8%
Debt equity ratio	?	0,2:1
Return on average shareholders' equity	35,5%	37%
Earnings per share	78 cents	85 cents
Dividends per share	53 cents	60 cents
Return on capital employed	47,0%	44,2%
Solvency ratio	?	3,4 : 1
Current ratio	1,7 : 1	1,3 : 1
Acid test ratio	1,1 : 1	1,1 : 1

## **Activity 5**

You are provided with information for the financial year ended 28 February 2014 for Jumbo Cellphones Ltd, a public company listed on the JSE.

### **REQUIRED:**

- 5.1 Calculate the financial indicators below for the financial year ending 28 February 2014. Show all workings to earn part-marks.
- 5.1.1 Percentage net profit after tax on sales
  - 5.1.2 Debt-equity ratio
  - 5.1.3 Return on average shareholders' equity (ROSHE)
- 5.2 The directors are of the opinion that the operating efficiency of the company has improved. Quote and explain TWO financial indicators (with figures) to support their opinion.
- 5.3 The shareholders are happy with their return, earnings and dividends. Quote and explain THREE financial indicators (with figures) to support their opinion.
- 5.4 New shares were issued at the beginning of the financial year at R10,00 each. As an existing shareholder, would you be satisfied with this issue price? Quote TWO financial indicators (with figures) to explain your opinion.
- 5.5 A large loan repayment was made. Comment on whether this was a good idea or not. Quote TWO financial indicators (with figures) to support your comment.

### **INFORMATION:**

1. The company has an authorised share capital of 2 000 000 ordinary shares. On 28 February 2013 there were 600 000 shares in issue.
2. Information extracted from the 2014 Income Statement:

Sales	6 200 000
Depreciation	120 000
Interest on loan	168 000
Net profit before tax	1 200 000
Net profit after tax	840 000

3. Information extracted from the Balance Sheet:

	2014	2013
<b>Fixed Assets</b> (carrying value)	7 125 000	6 931 000
<b>Current Assets</b>	575 000	419 000
Inventories	135 000	80 000
Accounts receivable	362 000	328 000
SARS (Income tax)	-	9 000
Cash and cash equivalents	78 000	2 000
<b>TOTAL ASSETS</b>	<b>7 700 000</b>	<b>7 350 000</b>
<b>Shareholders' Equity</b>	5 091 250	4 000 000
Ordinary share capital	4 590 000	3 600 000
Retained income	501 250	400 000
<b>Non-current Liabilities: Venus Bank (8% p.a.)</b>	2 100 000	2 800 000
<b>Current Liabilities</b>	508 750	550 000
Accounts payable	244 500	158 000
SARS (Income tax)	28 000	-
Shareholders for dividends	236 250	210 000
Bank overdraft	-	182 000
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>7 700 000</b>	<b>7 350 000</b>

4. On 1 March 2013 150 000 new shares were issued at R10 per share.
5. An interim dividend of 30 cents per share was paid on 30 June 2013.
6. On 31 December 2013, the directors decided to repurchase 75 000 shares at 1 050 cents per share from a disgruntled shareholder. This shareholder had originally purchased his shares on the JSE at various times and at different prices over the past years.
7. The following financial indicators were calculated for the past two years:

	2014	2013
Net profit after tax on sales	?	11,3%
Operating expenses on sales	25%	32%
Operating profit on sales	22%	15,8%
Return on average shareholders' equity (ROSHE)	?	15,2%
Earnings per share (EPS)	114 cents	90 cents
Dividends per share (DPS)	63 cents	82 cents
Return on average capital employed (ROTCE)	19,6%	15,2%
Debt-equity ratio	?	0,7 : 1
Interest rate on borrowed funds	8%	8%
Net asset value per share (NAV)	754 cents	667 cents
Market value per share	840 cents	820 cents