



Western Cape  
Government

Education

Directorate: Curriculum FET

# **TELEMATICS 2019**

## **ACCOUNTING** **Grade 12**

Dear Grade 12 Accounting learner

Welcome to the Telematics project. 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. The presenters will not necessarily address all the content – they will however focus on important aspects within the different topics in order to improve your understanding thereof.

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

- Start working from day one
- Pay careful attention in class to ensure that you understand
- Complete Accounting homework/class activities 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, assessment activities and tests diligently as if preparing for your final examination
- Use past examination papers and tests for revision
- Refine your examination preparation: when you revise, choose questions that will extend you in your weaker areas.
- Use the time allocation provided in questions to judge whether you are completing the question in the time available. This will also help to answer ALL the questions in tests and exams.

All the best with your Grade 12 school year. Focus on your final goal - to pass Accounting well!

Mrs. Elmaree Eksteen  
Senior Curriculum Planner: Accounting

**ACCOUNTING TIME TABLE – GRADE 12 2019**

<b>DATE</b>	<b>Topic</b>	<b><i>This lesson will deal with:</i></b>
<b>Monday</b> 18 Feb 2019 15:00 – 16:00	<b>Companies</b>	<ul style="list-style-type: none"> <li>▪ Transactions unique to companies (brief revision):               <ul style="list-style-type: none"> <li>○ Issue and buy-back of shares</li> <li>○ Provisional tax payments and final Income tax assessment</li> <li>○ Interim and final dividends</li> </ul> </li> <li>▪ Preparation of Income Statement</li> </ul>
<b>Monday</b> 25 Feb 2019 15:00 – 16:00	<b>Companies</b>	<ul style="list-style-type: none"> <li>▪ Purpose of a Balance Sheet</li> <li>▪ Preparation of Balance Sheet</li> <li>▪ Prepare Notes and/or calculate relevant amounts</li> </ul>
<b>Monday</b> 4 March 2019 16:00 – 17:00	<b>Companies</b>	<ul style="list-style-type: none"> <li>▪ The purpose of 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> <li>▪ How to use the information in a Cash Flow Statement (Interpretation)</li> </ul>

## TELEMATICS TEACHING 2019

## OVERVIEW OF COMPANIES

		You must be able to:	Important things to remember:
A	Transactions unique to companies <ul style="list-style-type: none"> <li>▪ Issuing of shares at issue price</li> <li>▪ Buying back of shares</li> <li>▪ Income tax</li> <li>▪ Dividends</li> <li>▪ Directors fees</li> <li>▪ Audit fees</li> </ul>	<ul style="list-style-type: none"> <li>▪ Prepare general ledger accounts</li> <li>▪ Use the information when preparing the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Know the difference between authorised and issued share capital</li> <li>▪ Know how to calculate <b>average</b> share price</li> </ul>
	Other transactions <ul style="list-style-type: none"> <li>▪ Purchase of fixed assets</li> <li>▪ Disposal of fixed assets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Calculate and record depreciation</li> <li>▪ Prepare Fixed asset note</li> <li>▪ Record appropriately in Cash Flow Statement</li> </ul>	<ul style="list-style-type: none"> <li>▪ Know format of Fixed asset note</li> <li>▪ Know Asset disposal account to support your calculations</li> </ul>
B	Preparation of financial statements <ul style="list-style-type: none"> <li>▪ Income Statement</li> <li>▪ Balance Sheet</li> <li>▪ Notes to the Balance sheet</li> <li>▪ Cash Flow Statement</li> </ul>	Preparation of the: <ul style="list-style-type: none"> <li>▪ Income Statement with adjustments</li> <li>▪ Balance Sheet</li> <li>▪ Notes to the Balance Sheet (fixed assets, trade and other receivables, ordinary share capital, retained income, trade and other payables)</li> <li>▪ Cash Flow statement</li> </ul>	<ul style="list-style-type: none"> <li>▪ Know the <b>formats</b></li> <li>▪ Show all your <b>workings</b></li> </ul>
C	Analysis and interpretation of financial statements	<ul style="list-style-type: none"> <li>▪ Calculate financial indicators</li> <li>▪ Analyse and interpret financial indicators <ul style="list-style-type: none"> <li>○ Compare financial indicators over two years</li> <li>○ Compare financial indicators of two companies.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Understand which financial indicators are used when interpreting which aspect</li> <li>▪ When interpreting financial indicators remember to mention the financial indicator, quote the actual figures / percentages/ ratios for both years / both companies (depending on the question); and to give an explanation.</li> </ul>

## UNIQUE LEDGER ACCOUNTS OF COMPANIES

The trial balance of a company is very similar to that of a sole trader or partnership. However, there are some unique features in the trial balance of a company, as indicated below.

### ABC LIMITED

#### TRIAL BALANCE ON 30 JUNE 2018

		Debit	Credit	<i>Special notes:</i>
<b>Balance Sheet accounts section</b>				
Ordinary share capital			1 000 000	Compare this to the Capital accounts of a partnership – We only focus on ordinary shares although preference shares can also exist. This amount reflects the <b>Issued</b> share capital
Retained income			110 000	The profit that has been kept ( <i>retained</i> ) by the company and not distributed to shareholders – the R110 000 is the figure at the beginning of the year because the nominal section for 2018 has not yet been closed off and the final profit not determined yet.
...				
...				
...				
SARS (Income tax)			15 000	The amount owed to/by SARS for Income tax (may be debit or credit balance). A credit balance is the amount owed to SARS (current liabilities) and a debit balance is the amount SARS owes to the company. (current assets)
SARS (PAYE)			3 000	Another SARS account as learnt in Grade 11
SARS (VAT)			7 000	Another SARS account as learnt in Grade 11
...				
Shareholders for dividends			120 000	The dividends at the year-end that have <u>not</u> yet been paid to shareholders. This amount is the <b>FINAL dividends</b> declared.
<b>Nominal accounts section</b>				
...				
Directors' fees		400 000		Amounts paid to directors to manage/run the company
Audit fees		70 000		Amounts paid to the independent auditor for auditing/checking the financial statements
Income tax		240 000		The full amount of income tax for the year which is calculated on the Net profit before tax
Dividends on ordinary shares		225 000		The amount of profits that have been distributed/paid to shareholders. This amount is the <b>INTERIM dividends</b> declared and paid during the year.
...				
		XXX	XXX	

**ACTIVITY 1: Concepts; Income statement**

- 1.1 Match the following elements of a company's annual report with the description given. Write only the element next to the question number (1.1.1. – 1.1.5) in the ANSWER BOOK.

Income Statement; Balance Sheet; Cash Flow Statement;  
Directors' Report; Independent Audit Report

- 1.1.1 Reflects the operations and net profit or loss for a financial year
- 1.1.2 Reflects the net worth of a company on a certain date
- 1.1.3 Reflects the sources of a company's funds and how these have been applied.
- 1.1.4 Reflects an explanation of the company's activities
- 1.1.5 Reflects an opinion on whether the company's financial statements are fairly presented and reliable or not.

**1.2 Income Statement**

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

**REQUIRED:**

- 1.2.1 Explain the purpose of an Income statement.
- 1.2.2 Calculate the amounts to be included in the Income Statement for the adjustments as indicated in the Answer book.
- 1.2.3. Complete the Income Statement (Statement of Comprehensive Income) for the year ended 28 February 2018.

**INFORMATION:****A. Extract from the Pre-Adjustment Trial Balance on 28 February 2018**

	Debit	Credit
Equipment	575 000	
Accumulated depreciation on equipment		115 000
Loan: WSB Bank		1 250 000
Debtors Control	525 000	
Provision for Bad debts		10 500
<b>Nominal Accounts Section</b>		
Sales		(?)
Cost of Sales	4 275 000	
Commission Income		132 000
Audit fees	73 500	
Bad Debts	14 520	
Bank charges	9 200	
Directors' fees	497 800	
Salaries and Wages	950 000	
Rent Expense	79 240	
Interest on current bank account		2 500

**B. Adjustments and additional information:**

- (a) The company maintains a mark-up of 50% on cost. Note that old goods costing R95 000 (included in cost of sales) were sold at 10% below cost price.
- (b) A supplier has not paid the commission for February 2018.
- (c) J. Mkize, a debtor owing R1 600, was previously written off as bad debts. His insolvent estate paid out 40 cents in the rand on 25 February 2018. The amount received has not yet been entered.
- (d) Adjust the provision for bad debts downward with R3 000.
- (e) 75% of the annual audit fees have been paid.
- (f) Depreciation on equipment for the financial year was entered as R46 000. It was established that the amount should be R57 500.
- (g) The company has three directors who earn the same fee. One director was paid two months in advance.
- (h) A storeroom was rented from 1 June 2017 at R11 200 per month. Rent increased by 7,5% on 1 December 2017. Provide for the outstanding rent expense.
- (i) **Loan: WSB Bank**
- Fixed monthly repayments, including interest, are R31 600.
  - Capitalised interest amounted to R242 500 for the year ended 28 February 2018.
  - Interest for the next financial year is expected to be R162 000.
- Part of the loan will be repaid within the next financial year.
- (j) Income tax is calculated at 30% of the net profit before tax.



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the formats of  
financial statements

**ACTIVITY 2: Balance Sheet; Notes and/or calculations**

The following information relates to OBC Ltd. The financial year ended on 28 February 2018.

**REQUIRED:**

- 2.1 Calculate the missing amounts denoted by (a) to (h) in the Fixed Assets note.
- 2.2 Complete the Trade and other receivables note to the Balance Sheet.
- 2.3 Complete the Total Assets section of the Balance sheet (Statement of Financial position) on 28 February 2018.  
**Note:** Show workings where notes are not required.

**INFORMATION:****A. Amounts extracted from the records on 28 February 2018:**

<b>Balance sheet accounts section</b>	<b>R</b>
Land and Buildings	?
Vehicles at cost	1 580 000
Equipment at cost	440 000
Accumulated depreciation on vehicles (1/3/2017)	720 500
Accumulated depreciation on equipment (1/3/2017)	310 000
Loan from Brix Bank	384 000
Fixed deposit: Gold Bank (6% p.a.)	250 000
Inventory	?
Debtors' control	70 500
Provision for bad debts (1 March 2017)	2 300
Bank (favourable)	58 000
SARS (income tax) (Dr)	18 000
Creditors' control	184 000
<b>Nominal accounts section (pre-adjustment figures)</b>	
Insurance	30 200
Rent income	108 450
Electricity	61 000

**B. Fixed assets:**

	LAND AND BUILDINGS	VEHICLES	EQUIPMENT	TOTAL
Carrying value (01/03/2017)	2 200 000		94 800	
Cost			404 800	
Accumulated depreciation		(720 500)	(310 000)	
<b>Movements:</b>				
Additions	(a)	180 000	35 200	
Disposals	0	0	(e)	
Depreciation	0	(c)	(f)	
Carrying value (28/02/2018)	(b)	(d)	(g)	(h)
Cost		1 580 000	440 000	
Accumulated depreciation				

**Land and Buildings:**

- PPC Construction was paid R80 000 for alterations (R50 000) and general repairs and maintenance (R30 000).

**Vehicles:**

- A new vehicle (cost, R180 000) was bought on 1 September 2017 and correctly recorded.
- Depreciation on vehicles: 20% p.a. on the diminishing balance method.

**Equipment:**

- Old equipment (cost, R21 000) was sold to an employee for R2 500 cash on 30 June 2017. The carrying value of this equipment on the first day of the financial year was R2 800. The bookkeeper made no entries as he was unsure of the procedure.
- Additional equipment, costing R35 200 was bought and recorded 1 August 2017.
- Depreciation on equipment: 15% p.a. on cost.

- C.** Provision for bad debts must be increased to R3 600.
- D.** There was an overpayment of R2 000 on the electricity account for February 2018. It will be corrected in March 2018.
- E.** An additional insurance policy was taken out on 1 November 2017. The annual premium of R10 200 was paid and recorded.
- F.** The rent for February 2018 has not been received yet. Rent increased by 15% on 1 July 2017.
- G.** R50 000 of the fixed deposit will mature on 1 April 2018.



**ACTIVITY 3: Balance Sheet with notes and calculations**

You are provided with information relating to Tiktok Ltd. Their financial year ended on 30 June 2018.

**REQUIRED:**

- 3.1 The Balance Sheet reflects the net worth of a business. Explain this statement. Support your explanation with a calculation.
- 3.2 Calculate the amount due to / by SARS for income tax on 30 June 2018
- 3.3 Complete the notes to the Balance Sheet for:
  - 3.3.1 Ordinary Share Capital
  - 3.3.2 Retained Income
  - 3.3.3 Trade and other payables
- 3.4 Complete the Equity and Liabilities section of the Balance sheet.  
Note: Show workings where notes are not required.

**INFORMATION:**

- A. Amounts extracted from the records on 30 June 2018, after all adjustments have been taken into account:**

	R
Ordinary Share capital	?
Retained Income	?
Mortgage Loan: Khaya Bank	800 000
Debtors Control	123 000
Creditors Control	75 000
Accrued income	7 400
Income received in advance	8 500
Prepaid expenses	18 600
Accrued expenses	6 100
Bank overdraft	?
SARS (income tax)	?
Total Assets	4 816 600

**B. Income tax**

- Debit balance of SARS (income tax) on 1 July 2017, R10 800
- Tax refund received from SARS on 25 July 2017, R10 800
- Total provisional tax payments during the year, R212 200
- The income tax rate is 30%.

- C.** The net profit after tax as per Income Statement for the year ended 30 June 2018 amounted to R604 800.

**D. Share capital:**

- Tiktok Ltd is registered with a share capital of 800 000 ordinary shares
- On 1 July 2017, 50% of the authorised shares were in issue, R2 400 000.
- On 31 January 2018, 100 000 shares were issued at R8 per share. This was properly recorded.
- On 15 April 2018, 30 000 shares were repurchased for R7,80 per share. The shareholder did not qualify for final dividends. All relevant entries have been made in this regards.

**E. Dividends:**

- Interim dividends on 1 December 2017: R100 000
- Final dividends on 28 June 2018: 20 cents per share declared.

**F. Mortgage Loan: Khaya Bank**

20% of the loan will be repaid during the next financial year.

**G. Outstanding cheque:**

Cheque 2181 for R7 500, dated for 31 July 2018, issued to a creditor, was still outstanding on 30 June 2018.

**ACTIVITY 4: Balance sheet****JUMBO LIMITED**

You are provided with information for the financial year ended 28 February 2019.

**REQUIRED:**

- 4.1 Calculate on 1 February 2019:
- The average price per share
  - The average value of the shares that were repurchased
- 4.2 Complete the Retained Income note on 28 February 2019:
- 4.3 Complete the Balance Sheet (Statement of Financial Position) on 28 February 2019. Show ALL workings.

**INFORMATION:**

- A. Amounts extracted from the records of Jumbo Ltd on 28 February 2019, the end of their financial year.

	R
Ordinary share capital	10 450 000
Retained income (1 March 2018)	1 850 000
Fixed assets at carrying value	11 388 400
Loan from director: C. Crosby (See Information E)	1 155 000
Fixed deposit: ORT Bank	?
Inventory	?
Creditors' control	478 000
Debtors' control	356 000
Provision for bad debts (1 March 2018)	16 000
Bank (favourable)	?
Accrued expenses (expenses payable)	12 000
Prepaid expenses	6 800
SARS (income tax) (provisional tax payments)	1 028 000

**B. Share capital:**

- Jumbo Ltd is authorised to sell 5 000 000 ordinary shares.
- 3 000 000 shares were in issue on 1 March 2018, the beginning of the financial year, R6 000 000.
- 1 000 000 new shares were issued on 1 December 2018 at a market-related value of R5 per share.
- 200 000 shares were repurchased on 1 February 2018. A payment of R770 000 was made on 5 February 2018.

**C. Dividends:**

- The directors paid an interim dividend of R840 000 on 28 August 2018.
- A final dividend of 44 cents per share was declared on 27 February 2018. All shares (including the shares repurchased on 1 February 2018) qualify for final dividends. These dividends will be paid on 31 March 2018.

**D. Net profit before tax:**

- After taking into account all relevant information, the net profit before tax was accurately calculated to be R3 600 000.
- Income tax 30% must still be brought into account.

**E. Loan from director C. Crosby:**

- The loan was originally received on 1 December 2016.
- This loan is to be repaid over 5 years in equal monthly instalments with effect from 31 December 2016. All payments have been made.
- Interest is not capitalised and has been paid in full.

**F. Provision for bad debts:**

The provision for bad debts must be maintained at 5% of the outstanding debtors.

**G. Financial indicators** that were calculated after all adjustments had been taken into account:

Current ratio	1,3 : 1
Acid-test ratio	0,8 : 1

**ACTIVITY 5: Cash Flow Statement calculations**

You are provided with information relating to IMP Ltd, whose financial year ended on 28 February 2018.

**REQUIRED:**

- 5.1 Explain the difference between a Balance Sheet and a Cash Flow Statement.
- 5.2 Calculate the missing figures denoted by (a) to (g) in the Cash Flow Statement. Indicate with the answer whether it is an **inflow** or **outflow**. Show brackets where applicable.
- 5.3 **Refer to Information H:**  
Comment on the dividend pay-out policy of the company. Make reference to both financial years and quote relevant figures.

**INFORMATION:****A. CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018**

	<b>2018</b>
<b>Cash flows from operating activities</b>	
Cash generated from operations	
Interest paid	<b>(188 000)</b>
Income tax paid	(a)
Dividends paid	(b)
<b>Cash flows from investing activities</b>	
Purchases of fixed assets	(c)
Proceeds from sale of fixed assets	<b>286 000</b>
<b>Cash flows from financing activities</b>	
Proceeds from shares issued	<b>1 200 000</b>
Repurchase of shares	(d)
Change in long-term loans	(e)
<b>Net change in Cash and Cash equivalents</b>	<b>(g)</b>
Cash and Cash equivalents beginning of year	(f)
Cash and Cash equivalents end of year	<b>199 000</b>

**B. Extract from the Income Statement on 28 February 2018:**

	<b>R</b>
Sales	6 200 000
Depreciation	425 000
Interest on loan	188 000
Net profit before tax	1 600 000
Net profit after tax	1 120 000

**C. Extract from Balance Sheets:**

	<b>28 Feb 2018</b>	<b>28 Feb 2017</b>
<b>Fixed assets</b> (carrying value)	8 350 000	7 931 000
<b>Current assets</b>	1 310 000	922 000
Inventories	535 000	390 000
Trade and other receivables	462 000	530 000
SARS (income tax)	114 000	
Cash and Cash equivalents	199 000	2 000
<b>Total Assets</b>	<b>9 660 000</b>	<b>8 853 000</b>
<b>Ordinary shareholders' equity</b>	<b>5 903 000</b>	<b>4 423 000</b>
Ordinary share capital	5 000 000	4 100 000
Retained income	903 000	323 000
<b>Non-current liabilities (Mortgage loan)</b>	<b>2 100 000</b>	<b>2 800 000</b>
<b>Current liabilities</b>	<b>1 657 000</b>	<b>1 630 000</b>
Trade and other payables	1 332 000	980 000
SARS (income tax)	0	128 000
Shareholders for dividends	325 000	300 000
Bank overdraft		222 000
<b>Total Equity and Liabilities</b>	<b>9 660 000</b>	<b>8 853 000</b>

- D.** New shares valued at R1 200 000 were issued during the year.
- E.** Shares were repurchased on 26 February 2018 from unhappy shareholders. The average share price was debited to Ordinary share capital. A further R45 000 from Retained income was used to finance the buy-back. This transaction was properly recorded.
- F.** Interim dividends of R370 000 was paid on 30 June 2017.
- G.** Fixed assets of R286 000 (carrying value) were sold during the year. Additional equipment was purchased to replace the assets sold.
- H. Financial indicators for the past two years:**

	<b>28 Feb 2018</b>	<b>28 Feb 2017</b>
Return on shareholders' equity (ROSHE)	23,5%	15,2%
Earnings per share (EPS)	210 cents	180 cents
Dividends per share (DPS)	70 cents	170 cents

**ACTIVITY 6: Cash Flow Statement and analysis**

The information below relates to Blooms Limited, a company listed on the JSE. Their financial year ends 31 August each year.

**REQUIRED:**

- 6.1 Prepare the note for Cash generated from operations.
- 6.2 Complete the Cash Flow Statement for the year ended 31 August 2018.
- 6.3 Calculate the debt-equity ratio on 31 August 2018.
- 6.4 The directors decided to pay back a large portion of the loan. Do you think that this was a wise decision? Quote TWO relevant financial indicators and figures to support your opinion.
- 6.5 Besides paying back the loan, the directors have taken other major decisions that have affected the cash balances. State TWO other major decisions (exceeding R400 000) and quote the figures. In EACH case, state how the decision will affect the future of the company.

**INFORMATION:****A. Extract from the Income Statement on 31 August 2018:**

Interest expense (all interest due has been paid)	R104 000
Depreciation	R356 000
Income tax	R187 100
Net profit after tax	R480 900

**B. Extract from the Balance Sheet on 31 August**

	2018	2017
Fixed assets (carrying value)	5 137 400	4 348 700
Financial assets (Investments)	300 000	460 000
Inventories	389 000	524 000
Trade and other receivables	428 000	390 000
SARS (income tax)	4 500	
Cash and cash equivalents	?	28 700
Shareholders' equity (Average: R4 240 450)	4 784 900	3 696 000
Non-current liabilities	800 000	1 600 000
Trade and other payables	249 000	330 000
Shareholders for dividends	192 000	176 000
SARS (income tax)		12 600
Bank overdraft	?	

**C. Shares and dividends**

- 400 000 shares were in issue on 1 September 2017.
- An additional 200 000 shares were issued at R10 each in December 2017.
- 120 000 shares were repurchased in January 2018 at R9 per share.
- Interim dividends were paid during the year.
- Final dividends were declared on 30 August 2018.

**D. Fixed Assets:**

- Extensions to the existing buildings were undertaken during February 2018.
- No assets were sold during the year.

**E. Financial indicators for the past two years:**

	2018	2017
Debt-equity ratio	?	0,4 : 1
Return on shareholders' equity (ROSHE)	11,4	10,8%
Return on total capital employed (ROTCE)	14,2%	13,2%
Interest rate on loans	9.5%	9.0%



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**ACTIVITY 7: Cash Flow and Interpretation**

You are provided with information related to Sedar Ltd for the past two financial years ended 30 June.

**REQUIRED:**

**NOTE:** *Provide figures or financial indicators and comparisons with the previous year to support your comments or explanations.*

- 7.1 Calculate the following for 2018:
- 7.1.1 % operating expenses on sales
  - 7.1.2 Acid test ratio
  - 7.1.3 % return on shareholders' equity
- 7.2 Calculate the following figures that will appear in the 2018 Cash Flow Statement:
- 7.2.1 Change in investment
  - 7.2.2 Income tax paid
  - 7.2.3 Fixed assets sold (at carrying value)
- 7.3
- Identify THREE decisions in the Cash Flow Statement that the directors made to pay for land and buildings.
  - Explain how these decisions affected:
    - capital employed
    - financial gearing (quote TWO indicators)
- 7.4 **Dividends and shareholding for the 2018 financial year:**
- On 1 July 2017 there were 800 000 shares in issue.
  - On 31 December 2017 interim dividends were paid.
  - On 1 January 2018, 200 000 shares were issued to existing shareholders.
  - On 30 June 2018 final dividends of 75 cents per share were declared on all shares, but have not yet been paid.

7.4.1 Calculate for the 2018 financial year:

- Total interim dividends paid
- Interim dividends per share

7.4.2 Calculate total dividends earned by Joy Finch for the 2018 financial year. Her shareholding is:

	SHARES PURCHASED	PURCHASE PRICE
31 August 2016	380 000 shares	R7,00
1 January 2018	110 000 shares	R20,00
TOTAL	490 000 shares	

7.4.3 On 1 January 2018 each shareholder was offered two shares for every five shares owned. Joy did not buy enough shares to become the majority shareholder.

Calculate the minimum number of additional shares that Joy should have bought.

7.5 The CEO, Ben Hlubane, wants to communicate good news to the shareholders at the AGM. Give advice on what he should say about the following:

- Earnings per share
- % return earned on shareholders' equity (ROSHE)
- Share price on the JSE

### INFORMATION FOR THE YEAR ENDED 30 JUNE:

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

	2018	2017
Sales	R13 182 000	R7 740 000
Operating expenses	1 900 000	1 500 000
Depreciation	412 000	275 000
Income tax	819 000	444 000
Net profit after tax	1 911 000	1 036 000

#### B. Extract from Balance Sheet:

	2018	2017
Fixed Assets (carrying value)	R12 154 000	R8 031 000
Investments	625 000	600 000
Current Assets	2 427 000	2 090 000
Inventories	1 652 000	1 250 000
Trade and other receivables	365 000	820 000
SARS (income tax)	0	15 000
Cash and Cash equivalents	410 000	5 000
Shareholders' equity	12 112 000	7 191 000
Non-current liabilities (Loan)	1 850 000	2 600 000
Current Liabilities	1 244 000	930 000
Trade and other payables	420 000	515 000
Shareholders for dividends	750 000	280 000
SARS (income tax)	74 000	0
Bank overdraft	0	135 000

**C. Cash Flow Statement:**

	<b>2018</b>	<b>2017</b>
<b>Cash flow from operating activities</b>	R1 850 000	R1 046 000
Cash generated from operations	3 322 000	1 989 000
Interest paid	?	(260 000)
Dividends paid	(520 000)	(254 000)
Income tax paid	?	(429 000)
<b>Cash flow from investing activities</b>	<b>(4 560 000)</b>	<b>(167 000)</b>
Purchases of land and buildings	4 840 000	0
Sale of fixed assets	?	383 000
Change in investments	?	(550 000)
<b>Cash flow from financing activities</b>	<b>3 250 000</b>	<b>(400 000)</b>
Share capital issued	4 000 000	0
Shares repurchased	0	(1 000 000)
Change in non-current liabilities		
Cash and Cash equivalents: Net change	540 000	479 000
Opening balance	(130 000)	(609 000)
Closing balance	410 000	(130 000)

**D. Financial indicators:**

	<b>2018</b>	<b>2017</b>
Mark-up % achieved	58%	72%
Operating expenses on sales	?	19,4%
Debt-equity ratio	0,2 : 1	0,4 : 1
Acid-test ratio	?	0,9: 1
Return on shareholders' equity (ROSHE)	?	14,4%
Return on capital employed (ROTCE)	20,8%	17,8%
Earnings per share	208 cents	130 cents
Dividends per share	?	70 cents
Dividend pay-out rate	50%	54%
Net asset value per share	1 211 cents	899 cents
Market price on stock exchange (JSE)	2 800 cents	2 100 cents
Interest on loans	12%	12%
Interest on investments	7%	6%

## ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

Questions asked by users of financial statements		Category	Financial indicators	How to calculate
<b>1</b>	Is the company efficient in its normal operating activities?	Profitability	Mark-up % <b>OR</b> % Gross profit on cost of sales	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
			% Gross profit on sales	$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$
			% Operating expenses on sales	$\frac{\text{Operating Expenses}}{\text{Sales}} \times \frac{100}{1}$
			% Operating profit on sales	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
			% Net profit after tax on sales	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
<b>2</b>	Can the company pay off all its debts comfortably?	Solvency	Solvency ratio	Total assets : Total liabilities
<b>3</b>	Can the company pay of its short term/ immediate debts comfortably?	Liquidity	Current ratio	Current Assets: Current liabilities
			Acid test ratio	(CA - Inventory) : CL or (Debtors + Cash) : CL
			Stock turnover rate	$\frac{\text{Cost of Sales}}{\text{Average Trading Stock}}$
			Stock holding period	$\frac{\text{Average Stock}}{\text{Cost of Sales}} \times \frac{12}{1} \frac{(365)}{(1)}$
			Average Debtors' collection period	$\frac{\text{Average Debtors}}{\text{Credit Sales}} \times 365$
			Average Creditors' payment period	$\frac{\text{Average Creditors}}{\text{Credit Purchases}} \times 365$
<b>4</b>	Are the shareholders earning a fair amount in relation to their investment?	Return	% Return on shareholders' equity (ROSHE)	$\frac{\text{Net profit after tax}}{\text{Average SHE}} \times 100 = \dots\%$
			Earnings per share (EPS)	$\frac{\text{Net profit after tax}}{\text{No. of shares issued}} \times 100 = \dots\%$
			Dividends per share (DPS)	$\frac{\text{Dividends}}{\text{No. of shares issued}} \times 100 = \dots\%$
			Net asset value per share (NAV)	$\frac{\text{Total SHE}}{\text{No. of shares issued}} \times 100 = \dots\%$
<b>5</b>	To what extent is the company financed by loans in comparison to own capital?	Financial risk/ gearing	Debt-equity ratio	Non-Current Liabilities : SHE LT Loans : SHE = ... : 1
			% Return on total capital employed (ROTSHE)	$\frac{\text{NP before tax \& interest}}{\text{No. of shares issued}} \times 100 = \dots\%$