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| **QUESTION 1** | | |  |
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| **1.1** | |  |  |  |  | | --- | --- | --- | --- | | **1.1.1** | D 🗸 Return on equity | *Investment, Int on FD* |  | | **1.1.2** | A 🗸 Liquidity | *Cash flow, short-term liabilities* | | **1.1.3** | B 🗸 Gearing | *Financing (loans/shares)* | | **1.1.4** | C 🗸 Solvency | *Tot Assets vs Total Liabilities* | | | |  | | --- | |  | | **4** | |
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| **1.2** | **FLEXI LTD AND BROOM LTD** | |  |
|  |  | |  |
| **1.2.1** | **Profitability:** | |  |
|  | **Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently, and is thereby more profitable. Quote figures and trends.** part marks for incomplete / partial / unclear responses | |  |
| 17% - 13,6% =3,4% | Any TWO financial indicators (explaining trend) from Broom Ltd with figures 🗸🗸 🗸🗸  If figures are shown for Flexi Ltd, award marks to names of indicators (max 2 marks)  17% - 13,6%  17% =20%  **Quote figures and trends for any two indicators below**  % OExp on sales improved / decreased (from 17%) to 13,6% / by 20% / by 3,4% points (accept 3,4%)  % OP on sales increased (from 20,5%) to 24,2% / by 18% / by 3,7% points (accept 3,7%)  % NP on sales increased (from 16%) to 19,6% / by 22,5% / by 3,6% points (accept 3,6%)  All indicators show an improvement in profits / expenses well managed. | | |  | | --- | |  | | **4** |   Diff over org. |
|  |  |  |  |
| **1.2.2** | **Dividends, earnings & returns:** | |  |
|  | **Comment on the dividend pay-out policy of Flexi Ltd. Explain why this is an irresponsible change in policy. Provide TWO points. Quote figures and trends.** | |  |
|  | **Trend (with figures)** 🗸🗸  part marks for incomplete / partial / unclear responses (e.g. mentioning only DPS or only EPS)  Responses for 2 marks for figures & trends:   * The pay-out rate increased (from 59%) to 115% / by 94,9% / 56% points (accept 56%) * In 2021 they paid DPS of 92c compared EPS of 80c (i.e. 12c from retained income). * Although the EPS dropped from 138 cents to 80 cents (by 58 cents) / DPS was 10 cents more than last year (82c to 92c) and DPS now exceeds EPS (by 12c / 92c to 80c).   **Explanation / comment on decision** 🗸🗸  part marks for incomplete / partial / unclear responses; figures may be included in the explanation  Expected comments – any one valid comment for two marks e.g.   * Company is depleting Retained Income reserve (which can be more effectively used to rebuild profitability) * The company is trying to keep shareholders happy / trying to influence market price of shares by increasing dividends / equalizing dividends over several years. | | |  | | --- | |  | | **4** | |

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|  | **Comment on the % return on shareholders' equity of EACH company. Quote figures and trends.** | | |  |
|  | Financial indicator with figures & trend 🗸 🗸  **Flexi Ltd:**  ROSHE dropped from 12,2% to 7,6% / by 37,7% / 4,6 % points (accept 4,6%)  **Broom Ltd**:  ROSHE improved from 10,7% to 14,1% / by 31,8% / 3,4% points (accept 3,4%)  **Additional comment in each case** 🗸 🗸  Figures may be included in the explanation; candidates are NOT required to mention a specific figure for the alternative rate; do not penalise for incorrect rates on investments (as these could vary from 4% to 14%)   * **Flexi Ltd**: Refer to / compare alternative investments e.g. fixed deposit * **Broom Ltd**: Refer to / compare alternative investments e.g. fixed deposit | | | |  | | --- | |  | | **4** | |
|  | **A shareholder feels that the earnings per share (EPS) in Broom Ltd are better than that in Flexi Ltd. Explain why you agree with him. Quote figures or calculations.** | | |  |
| **Earnings yield** | To get full marks, must compare EPS to Value of share (MP / NAV) for Flexi Ltd with figures  🗸 part marks for incomplete / partial / unclear responses  To get full marks, must compare EPS to Value of share (MP / NAV) for Broom Ltd with figures  🗸🗸 part marks for incomplete / partial / unclear responses   |  | | --- | | Expected responses for four marks (two marks per company):   * EPS to NAV is 7,4% in Flexi Ltd and 11,4% in Broom Ltd * EPS to MP for 2021 is 8,1% in Flexi Ltd (80/990) and 10,9% (72/660) in Broom Ltd * EPS on MP for 2020 is 7,1% in Flexi Ltd (80/1130) and 11,7% (72/615) in Broom Ltd * Flexi Ltd earned 80c on a share valued at 990c/1 081c while Broom Ltd earned 72c on a share valued at 660c/632c. |   **OR**: Other comparisons for each company for only one mark in each company:   * Flexi Ltd EPS decreased from 138c to 80c whilst Broom increased from 65c to 72c * Flexi EPS is calculated on a smaller number of share (700 000) so it looks good; Broom’s EPS is calculated on a larger number of shares (1 500 000) | | | |  | | --- | |  | | **4** | |
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| 1**.2.3** | **Shareholding of Bob Yates in both companies:** | | |  |
|  | **Comment on the price paid for the shares repurchased by  Flexi Ltd. Provide TWO points. Quote figures.** | | |  |
|  | Figures may be included in the explanation  Any TWO valid points (2 marks each), at least one of which must be related to a financial indicator with figures:   * Compare with figures R13,20 to MP of R9,90 or R11,30 * Compare with figures R13,20 to NAV of R 10,81 or R11,28 * Compare with figures R13,20 to any other value (e.g. average issue price) * Any other general comment without figures e.g. compromised the funds (liquidity) / Bob abused his status to enrich himself / MP also shows a decreasing trend / no demand for shares / could drop the price further (apply part marks for simple or incomplete or partial answers). | | | |  | | --- | |  | | **4** | |
|  | **Calculate the number of shares that Bob purchased in Broom Ltd with the money he received from the share buyback at Flexi Ltd.** | | |  |
|  | **WORKINGS** | | **ANSWER** | |  | | --- | |  | | **2** | |
| 150 000 x 13,20  1 980 000  R6,60 | | 300 000 shares 🗸☑  one part correct |
|  |  | | |  |
|  | **Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. Quote figures and trends.** | | |  |
|  | Explanation on % shareholding  Comparison in Flexi Ltd with figures 🗸  Explanation on % shareholding  Comparison in Broom Ltd with figures 🗸  Be aware of combined explanation with figures  **Flexi Ltd:**  Bob was the majority shareholder (51%)  He now has only 40,5% of the shares (283 500 / 700 000) so he has lost majority status.    **Broom Ltd**:  Bob had 41,8% of the shares 460 000 + 300 000  He now has 50,7% of the shares (760 000 / 1 500 000) see 3.2.3  He is now the majority shareholder (or based on calculation in 3.2.3)  **OR**: There was no share repurchase in Broom Ltd, so that would not affect his % shareholding which was 41,8% (two marks)  **OR**: As he bought 300 000 shares in Broom Ltd, he is now the majority shareholder (50,7%). | | | |  | | --- | |  | | **4** | |
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| **1.2.4** | **Financing strategies and gearing:** | | |  |
|  | **Explanation of decisions taken by the directors of Broom Ltd (two marks):** | | |  |
|  | Any ONE decision 🗸 Figure 🗸    Increased the share capital by R2 640 000 or (400 000 shares) **OR**  Decreased the loan by R400 000 **OR**  Don’t comment on Fixed assets, because it’s Risk & Gearing  Net increase of R2 240 000 to total capital employed  **Explain ONE benefit (two marks):**  Explanation of benefit 🗸🗸 Award part marks for partial / unclear / incomplete responses   * All the money generated is spent on lasting items (fixed assets) which could generate further profits in future * Improved debt/equity ratio / reduced debt/equity (low risk) / improved creditworthiness in future * Improved % return on average capital employed. | | | |  | | --- | |  | | **4** | |

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|  | **Explain how the decisions taken by Flexi Ltd on its capital employed has affected the risk and gearing of the business. Quote TWO financial indicators (with figures and trends).** | |  |
|  | Ratio’s must be compared as **something : 1**  TWO financial indicators (with figures)   * **Debt/equity**  is now / increased (from 0,4 : 1) to 1,1 : 1 / by 0,7 : 1 🗸 * **ROTCE**  is now / decreased (from 16,1%) to 10,2% / by 36,6% / by 5.9% points (accept 5,9%) 🗸   Explanation could be combined with figures or separate; both risk & gearing must be mentioned. Ignore reference to % ROSHE (i.e. do not penalise)  Award part marks for partial / unclear / incomplete responses   * High risk due to increase in loan🗸 * The business in experiencing negative gearing🗸 (ROTCE is lower than interest rate of 13%) | | |  | | --- | |  | | **6** | |
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| **QUESTION 2** | | | |  |  |
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| **2.1** | |  |  | | --- | --- | | **2.1.1** | C 🗸 Cash Flow Statement / CFS | | **2.1.2** | D 🗸 Director’s Report / DR | | **2.1.3** | A 🗸 Statement of Comprehensive Income / SOCI | | | | | |  | | --- | |  | | **3** | |
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| **2.2** | **JESSIE LTD**  **NOTE:** Trends may be implied by the figures for 2 years or by the indication of increased / improved / decreased financial indicatorsin all responses below | | | |  |
|  | | |  | |  |
| **2.2.1** | | **Mike has informed the board of directors that he has identified and rectified a number of incidents of fruitless and wasteful expenditure in the company's records. Provide TWO financial indicators that justify the success of Mike's strategies. Quote figures and trends.** | | |  |
|  | |  |
|  | | Financial indicator 🗸 Figures and trends 🗸 🗸   * % operating expenses on sales has decreased (from 27,8%) to 14,8% / by 46,8% / by 13% (points) * % net profit on sales has increased (from 10,3%) to 24,7% / by 139,8% / by 14,4% (points) | | | |  | | --- | |  | | **4** | |
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| **2.2.2** | | **Explain whether the change in the dividend pay-out rate in 2022 will benefit the company or not.** **Quote figures and trends.** | | |  |
|  | | Dividend pay-out rate decreased (from 97,6%) to 46,6% / by 52,3% / by 51% (points). 🗸  **OR**: Retained 53,4% of earnings this year (compared to 2,4% last year)  **OR**: Retained 51% more than last year.  Explanation 🗸 part marks for incomplete / partial / unclear response  **Response to benefit company**: They retained funds for future expansion /  Intentions to increase productivity and maintain growth achieved this year.  **Response for no benefit to the company:** Consider reasons and award marks accordingly e.g. if investors are discouraged from investing it could affect the market price of the shares. | | | |  | | --- | |  | | **3** | |
|  | | **Sue Lee, a shareholder who owns 5 000 shares, is satisfied with the dividends she has received despite the change in the dividend policy. Explain why she feels this way. Quote figures and trends.** | | |  |
|  | | Explanation 🗸 figures and trends 🗸  **NOTE**: Candidates might mention other financial indicators to compensate for the decline in dividend pay-out rate. Do not penalise for superfluous indicators in this sub-question.   * The DPS of 190c in 2022 is higher than the 120c received in 2021 / 70 cents per share more this year / 58,3% more. * She earned R3 500 more this (R9 500-R6 000 or 5 000 x 70c). * **Dividend yield was 9.9% or 10,3%** (190/1920 or 190/1841) / in comparison to the value of the share she is earning a good return of 9,9% / 10,3% | | | |  | | --- | |  | | **3** | |
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| **2.2.3** | | **Some shareholders feel that Mike was reckless when he increased the loan by R3,35 million soon after his appointment as CFO. Explain why you do not agree with them. Provide TWO points, with financial indicators, figures and trends.** | | |  |
|  | | * ***Indicator***: Debt/equity ratio    ***Figures & trends***: increased (from 0,2 : 1) to 0,3 : 1 / by 0,1 : 1    * ***Indicator***: % return on average capital employed (ROTCE)    ***Figures & trends***: increased / improved (from 7,5%) to 16,9% / by 9,4% (points) / by 125,3%   ***Explanation***:   * Still lowly geared / low financial risk / does not rely too much on borrowed capital.  * The company enjoys positive gearing / ROTCE is greater than interest rate of 7,2% / making effective use of loan to generate profits.  | | | |  | | --- | |  | | **6** | |
| **2.2.4** | | **Refer to Information C and D.** | | |  |

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|  | **Calculate Brent's % shareholding on 28 February 2022.** | |  |
|  | **WORKINGS** | **ANSWER** | |  | | --- | |  | | **5** | |
| (300 000/4)  300 000 🗸+ 75 000 🗸🗸 x 100  1 325 000 🗸 | 28,3% ☑  one part correct |
|  | **Brent and Kerina decided that they would combine their votes at the upcoming annual general meeting (AGM).** | |  |
|  | **Explain ONE possible reason for this decision, with figures.** | |  |
|  | Accept figures calculated above Part marks for partial / unclear responses  Figures 🗹 Explanation 🗸🗸 (mention whether their combined shares are >50% or not)  Combining their shares gives them a clear majority of 54,7% (28,3% + 26,4%) / the other shareholders own 45,3% of the shares / they would enjoy more than 50% of the voting rights / they will be in a position to have more control over major decisions / influence decisions.  ***If combined shares are calculated as less than 50% mark explanation accordingly*** e.g. they still do not own more than 50% / they are not majority shareholders / their influence on the company might increase / this is not going to help them in controlling decisions at the AGM. | | |  | | --- | |  | | **3** | |
|  | **As an existing shareholder, explain why you would be concerned about the strategy of Brent and Kerina. Provide TWO points.** | |  |
|  | ***Very open-ended: accept any valid points*** Responses will differ if combined votes are <50%  TWO different possible concerns 🗸🗸 🗸🗸 Part marks for partial / unclear responses   * Whether they will use their powers to benefit the company / have other unethical motives (e.g. corruption) * Whether they want to gain financially through high directors fees in future * Their past experience in directing a company: their skills and knowledge * Their understanding of the responsibility / powers of majority shareholders * Their willingness to serve on the Board / sacrifice their time * Their attitude: Whether they will support the CEO, CFO and other directors / whether this is an amicable decision or an aggressive effort to gain control / whether they will work as a team with a friendly approach or not * Quality of their contributions / issues they might have raised at previous AGMs * Effect on the company if one of them discontinues the coalition / sells shares and is no longer a shareholder / possibility of instability in decision-making   **Examples of responses for less than 50% shareholding**: minority shareholders have rights and are able to express opinions; although not a majority greater combined % is still significant | | |  | | --- | |  | | **4** | |

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| **2.2.5** | **Refer to Information A, B and C.**  **NOTE TO MARKERS:** |  |
|  | **Explain THREE points**, **relating to the financial results of the company, besides those mentioned above that the Remunerations Committee can use to justify offering Mike an improved package to remain at Jessie Ltd. Quote relevant financial indicators, figures and trends.** |  |
|  | part marks for incomplete / partial / unclear response  **NOTE**: ***Explanations could be common to different financial indicators***   |  |  | | --- | --- | | **Financial or other indicator**  **1. 2.3.** | **Explanation of evidence: 1.  2. 3. **  e.g. trend and figures / improvement / additional comment / insight to justify improved package / benefit to company (could be implied) | | Mark-up % | Increased (from 60%) to 70% and they were still able to increase gross profit / customers are confident about product quality | | Earnings per share (EPS) | Increased to 408c / (from 123c) to 408c / by 231,7%, is a clear indication of improved productivity or profitability. | | ROSHE | Increased to 20,7% / (from 7,3%) to 20,7% / by 13,4% points / 183,6%. Shareholders would be pleased with the improved returns as well as it being better than interest on alternative investments (4,5%) | | Solvency ratio | Although this declined (from 5,3:1) to 3,6:1 this was due to the fact that large loans had been received and the funds were positively used in the company | | Net asset value per share (NAV)  Treat as a separate point | Improved to 1 841c / (from 1 685c) to 1 841c / by 156c / 9,3%. An improvement in growth (assets > liabilities) | | The market value (market price) Treat as a separate point | Increased to 1 920c / (from 1 540c) to 1 920 / by 380c / by 24,7%. A clear indication of increased demand for shares / investor confidence. | | **Other indicators (which might not include traditional financial indicators):** | | | Issue price of  new shares | Shares issued at R21,00 which is higher than the market value. This indicates that shareholders were happy to invest more, taking into account the trends. | | Offer of additional shares / ‘rights issue’ | Additional 265 000 shares issued at R21 generated additional capital of R5,6m / shareholders were confident of higher returns in future / shares could be issued to Mike to motivate him to stay in the company. | | |  | | --- | |  | | **9** | |

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| **TOTAL MARKS** | **40** |

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| **QUESTION 3** | | | | | | | | |
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| **3.1** | **3.1.1** | | C 🗸 | *Director manager, responsible for financial statements* | |  | | |  | | --- | |  | | **3** | |
|  | **3.1.2** | | D 🗸 | *Fairly = no problems identified = good* | |
|  | **3.1.3** | | B 🗸 | *Investor / owner* | |
|  |  |  | | |  | |  |  |
| **3.2** | **Liquidity:** *Cash flow, settle short-term liabilities?* | | | | | | |  |
|  | **Identify the company that is managing its working capital well. Quote TWO financial indicators with figures and trends.** | | | | | | |  |
|  | Guardian Ltd 🗸  If incorrect company is identified, award marks for the correct financial indicators (max 2)  Further explanations (beyond figures and trends) are not required.  Trends may be implied in an explanation.  Candidates might motivate by showing the negatives of Navarra Ltd.  Financial indicators ✓ ✓ figures (showing trend) 🗸 ✓   * Current ratio: Increased (from 1,5:1) to 1,7:1 / by 0,2 : 1. * Acid test ratio: Increased (from 1,0:1) to 1,2:1 / by 0,2 : 1 * Debtors collection period: Decreased (from 22 days) to 19 days / by 3 days * Creditors payment period: Increased (from 48 days) to 50 days / by 2 days | | | | | | | |  | | --- | |  | | **5** | |
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| **3.3** | **Financing strategies and gearing: Guardian Ltd** |  |
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|  | **What were the causes of the change in the debt-equity ratio? Provide TWO causes with figures.** |  |
|  | Increase in loan from  R3 600 000 to R5 000 000 / by R1 400 000 / by  38,8%  Increase in OSC from  R12 000 000 to R20 960 000 / by R8 960 000 / by 74,6% / by issuing an additional 800 000 shares | |  | | --- | |  | | **4** | |
|  | **Explain why it was wise for the company to make more use of loans. Quote and explain ONE other financial indicator (with figures and trends) to support this opinion.** Do not accept Debt/Equity ratio here |  |
|  | **Financial indicator** 🗸 **figures** (accept final % figures) 🗸  % Return on average capital employed (ROTCE): Increased (from 13,5%) to 16,6% / by 23% / by 3,1% points.  **Comment on gearing must cover positive gearing with interest rate which can be implied** ✓✓ part marks for unclear / partial answer   * Company is positively geared as return (16,6%) is greater than rate of borrowing (14%). * The loan (which increased) was productively used (at a rate of 14%) to generate more profits (at 16,6% ROTCE). * The company was positively geared (at 13,5% when interest rate was 13%); positive gearing improved in spite of the increase in interest rate (to 14%). | |  | | --- | |  | | **4** | |
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| **3.4** | **Dividends, earnings and returns: Navarra Ltd** | | | |  |
|  | **Explain ONE financial indicator which indicates that a concerned shareholder should not be satisfied with the change in the dividend policy of the company. Quote figures and trends.** | | | |  |
|  | **Financial indicator** ✓ **Figures and trend** 🗸   * Dividend pay-out rate increased (from 34,8%) to 103,8% / by 198% / by 69% points. * [DPS at 83c is 43c more than last year and EPS dropped from 115c to 80c / by 35c] (must cover both EPS & DPS together)   **Comment** Do not accept ‘shareholders are / are not satisfied’ as a comment for one mark; must mention that they are not retaining funds (for future growth).  *Expected responses:* Funds of retained income were used for current year’s dividends / directors are depleting reserves which could be used for future expansion / directors not concerned about future growth or sustainability of the company / directors simply concerned about being re-elected or keeping shareholders happy. | | | | |  | | --- | |  | | **3** | |
|  | **Explain whether the shareholders should be satisfied with the earnings and returns of the company. Quote TWO financial indicators with figures and trends.**  **NB:** Do not accept DPS as a response.  **Please contact the DBE IM if candidates use Earnings Yield or Dividend Yield (i.e. EPS/MP or DPS/MP) in this question.** | | | |  |
|  | **Financial indicators** 🗸 🗸 **Figures & trend** 🗸 🗸   * Earnings per share (EPS): Decreased (from 115 cents) to 80 cents / by 35 cents / by 30,4%. * Return on average shareholders’ equity (ROSHE): Decreased (from 11%) to 6,4% / by 41,8% / by 4,6% points.   **Comment** ✓✓ part marks for unclear / partial answer  Shareholders should be concerned as the return is now lower than the return on outside investments (9%) / the decrease in profitability has contributed to the lower returns. . | | | | |  | | --- | |  | | **6** | |
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| **3.5** | **Shareholding of Nathan Crewe in Navarra Ltd:** | | | |  |
|  | **Identify the effect that the repurchase of Nathan's shares had on his % shareholding. Quote figures and trends.** Figures with trend 🗸✓ | | | |  |
|  | Figures with trend 🗸✓  % shareholding dropped (from 55,2%) to 40,2% / by 15% points / by 27,2%.  **ONE MARK**: He is no longer the majority shareholder / his shareholding is 40,2%. | | | | |  | | --- | |  | | **2** | |
|  | **Explain how the company was able to raise approximately R4,4 million to finance the repurchase of shares and dividends earned by shareholders. Provide TWO points. Quote figures.** Trend can be implied in answer. | | | |  |
|  | * Loan increased 🗸 by R3 500 000 🗸 (from R3m to R6,5m) * Bank balance ✓ moved to an overdraft of R3 200 000 / from a debit balance of R380 000 to a credit balance of R3 200 000 / by R 3 580 000 ✓ | | | | |  | | --- | |  | | **4** | |
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|  | **Give TWO reasons why the decision to repurchase Nathan's shares should be considered as irresponsible.** Figures not necessary. Do not accept loss of majority shareholding here. |  |
|  | Any TWO ***different*** reasons e.g. ethics / affordability 🗸🗸 🗸🗸 part marks for unclear / partial answer   * Repurchase price (1150c) is high while market price dropped over the year (to 400c). * Does not comply with law on funding of repurchased shares / contravention of Co.Act. * Company did not comply with solvency and liquidity testing / compromises liquidity / creates large overdraft or cash flow problem / places company in risky financial position. * Company performance (profitability) has declined / buy-back unaffordable. * **Misused his majority status** to gain from share repurchase / promoted his own (selfish) interest at the expense of co. / element of corruption – may have used privileged info. * Contributed to decline in some key financial indicators (candidate could specify). | |  | | --- | |  | | **4** | |
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See Principle 7: -1 for foreign entries (per Q), if full marks earned and more than the required number of financial indicators quoted.

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| **3.6** | **Directorship:** | | | |  |
|  |  |  |  |  |  |
|  | **'The CFO (chief financial officer) has a significant influence on the success of a company.' Explain why you would agree with this statement.** | | | |  |
|  | ONE point 🗸🗸 part marks for unclear / partial answer  *Expected responses:*   * He must be an expert in Accounting and financial management tasked to safeguard the investment by stakeholders. * As head of finance, he is responsible for good financial management / expected to advise the Board / lead by example / display good corporate governance (ethics & professionalism). * Should be aware of the performance / financial position / available financial resources and create structure for sound checks and balances (controls) * He should not place the business at risk / focus on the growth and sustainability of the company / he must report regularly / transparent. | | | | |  | | --- | |  | | **2** | |

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|  | **Explain whether the directors should be satisfied or not with the share prices of the companies at the end of the financial year. Quote TWO financial indicators in EACH case with figures and trends.** | |  |
|  | **GUARDIAN LTD** | Financial indicators (with figures) Trends not compulsory.   NAV is 1 230c  MP is 1 350c  **OR** MP increased to 1 350c and NAV to 1 230c  **Comment:** ✓*Must cover demand for shares or investor confidence or success of the company. Do not accept ‘satisfied’ as an explanation****.***  *Expected responses*: Shares are in demand or potential investors willing to purchase shares or good image or investor confidence / company has performed well (or shows adequate internal growth or upward trend) which has had a beneficial effect on MP. | |  | | --- | |  | | **6** | |
| **NAVARRA LTD** | Financial indicators (with figures) Trends not compulsory.   NAV is 992c  MP is 400c  **OR** MP dropped to 400c whilst NAV dropped to 992c  **Comment: ✓** *Must cover lack of demand for shares or investor pessimism or lack of success of the company. Do not accept ‘not satisfied’ as an explanation*.  *Expected responses*: Shares not in demand as they have a poor image or lack of potential investors / drastic drop in MP indicates serious issues in management which negatively affects MP. |
|  | **The CEO (chief executive officer) of Guardian Ltd intends to offer the vacant position of CFO to Nathan Crewe in March 2023. Explain ONE point of advice to the CEO.** | |  |
|  | ONE valid point 🗸🗸 part mark for unclear / partial answer Do not accept ‘qualifications’ as a response.   * Nathan takes selfish decisions at the expense of the company. * No good track record / he placed the company at financial risk / high debt/equity * The company borrowed excessively; negatively geared / money not used to increase productivity / profitability. * There is limited demand for shares in the company he managed. * Guardian is a profitable company which must be maintained. * He does not appear to be a loyal person and may destroy that progress / conflict of interest as he is still involved in the other company. * Nepotism should not be allowed as it leads to corruption. * Retain the services of Sheryl as she is a reliable and capable employee whereas Nathan has destroyed Navarro Ltd. | | |  | | --- | |  | | **2** | |

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| **TOTAL MARKS** | **45** |

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| **QUESTION 4** |

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| **4.1** | **Explain how the customers reacted to the change in the mark-up percentage and whether this benefited the company or not.** | |  | | --- | |  | | **4** | |
|  | TWO valid points (with figure) ✓✓ 🗸🗸 part marks for incomplete or unclear response   * Average spending of clients increased (from R120 000) to R160 000 / by R40 000. * Sales revenue increased (from R33,6m) to R39,2m. * Increase in % mark-up from 40% to 60% did not deter customers * Drop in customer numbers (from 280) to 245 / by 35 / by 12,5%. |

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| **4.2** | **Comment on the operating efficiency of the company over the past two years. Quote TWO financial indicators.** | |  | | --- | |  | | **4** | |
|  | TWO financial indicators ✓ ✓ figures and trends  ✓   * % operating expenses on sales improved/decreased (from 28%) to 22% / by 6% points / by 21,4%. * % operating profit on sales improved/increased (from 10,2%) to 15,6% / by 5,4% points / by 52,9%. * % net profit on sales improved/increased from 8,8% to 13,5% / by 4,7% points / by 53,4%.   Do not accept mark-up % |

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| **4.3.1** | **One of the shareholders cannot understand why the debt-equity ratio increased in 2024 despite the increase in the loan. Provide an explanation for him.** | |  | | --- | |  | | **2** | |
|  | Reason🗸🗸  The company increased the share capital / The company increased the loan. |

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| **4.3.2** | **The chief financial officer (CFO) is of the opinion that the increase in loan was a good decision. Apart from the debt-equity ratio, provide TWO points to support his opinion including ONE relevant financial indicator.** | | |  | | --- | |  | | **4** | |
|  | Financial indicator ✓ figures and trend 🗸  Explanation (comparing interest) 🗸🗸 | |
| **POINT 1** | * % ROTCE improved / increased from 11% to 19,7% / by 8,7% points / by 79%. |
| **POINT 2** | * The degree of gearing has moved (from negative) to positive. Now exceeds the interest rate on loans (13% p.a.). |

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| **4.4.1** | **Comment on whether the shareholders should be satisfied with the return on their investment. Provide TWO points, including ONE relevant financial indicator.** | | |  | | --- | |  | | **4** | |
|  | Financial indicator ✓ figures and trend ✓  Explanation (compare alternative investment) 🗸✓ | |
| **POINT 1** | % ROSHE improved significantly from 8% to 15,6% / by 7,6% points / by 95%. |
| **POINT 2** | This greatly exceeds the returns on most other investments (7% p.a.). |

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| **4.4.2** | **Comment on the earnings per share (EPS) and explain its impact on the dividend pay-out policy adopted by directors.** | | |  | | --- | |  | | **4** | |
| EPS: figures and trend ✓ Explanation on EPS ✓  DPR: figures and trend ✓ Explanation on DPR ✓  part marks for incomplete or unclear response | |
|  | **EARNINGS PER SHARE** | * EPS increased (from 113 cents) to 224 cents / by 111 cents / by 98%. * This shows improved profits in the company. |
| **DIVIDEND PAY-OUT POLICY** | * The dividend pay-out rate decreased from 80% to 40% / by 40% points / 100%. * The business retained more earnings that would be used to benefit the business in the future. |

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| **4.5** | **Comment on the performance of the share price on the stock exchange (JSE). Provide TWO points, with figures and trends.** | | |  | | --- | |  | | **4** | |
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|  | **POINT 1** | * The market price of the share improved from 1 342c to 1  610c / by 268c.🗸 * due to the good returns earned / positive image of the company.🗸 |
| **POINT 2** | * In 2024 the market price (1 610c) exceeded the NAV of (1 543c) by 67c 🗸 indicates good demand for shares.🗸   **OR**   * In 2023 NAV (1 413c) was higher than the market price (1 342c) by 71c; This indicates poor demand for shares. |

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| **4.6.1** | **Allan Ashwin owns shares in Britesun Ltd. He is pleased with his investment in the shares of this company. Provide TWO points, with figures or calculations, to support his opinion.**  TWO valid points 🗸 🗸 figures ✓ ✓ | | |  | | --- | |  | | **4** | |
|  | **POINT 1** | * His return (dividends) is 11,5% of the price he paid for the shares; (90 / 780) / He earned R324 000 (360 000 x 90/100). * He paid 780c per share that is now worth 1 610c. This is 830c more than he paid for the shares, or 106,4%. His return increased from 8% to 15,6% / by 7,6% points / by 95%. |
| **POINT 2** |

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| **4.6.2** | **The company plans to issue additional new shares equal to 20% of the issued share capital, in the next financial year to existing shareholders. Allan has indicated that he will not take up this offer. Explain how this decision will affect his % shareholding and provide a calculation or figures to support your explanation.**  Be aware of combined explanation with figures/calculations  Part marks for incomplete or unclear response | | |  | | --- | |  | | **6** | |
|  | **CALCULATION** figures or calculation | * He is currently a majority shareholder as he owns 51,4% ✓✓ (360 000/700 000) of the shares. * His % shareholding will drop to 42,9% ✓✓   (360 000/840 000). |
| **EXPLANATION**  Any ONE point  ✓✓  Be alert to valid explanations in calculations column | * He will no longer be the majority shareholder in the company. * He possible lost interest in the company and is looking to venture elsewhere. * He feels that his influence has not made a difference to improving the company |

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| **4.7** | **Apart from the points provided above, state TWO different factors that will influence shareholders to vote in favour of approving such bonuses.**  Any TWO valid points 🗸🗸 🗸🗸 part marks for incomplete or unclear response  figures not required | | |  | | --- | |  | | **4** | |
|  | **POINT 1** | * Liquidity / working capital is more efficiently controlled (CR 1,8:1 & ATR 0,9:1). * Unproductive fixed assets were sold (R1 100 000) and this will improve the cash flow in the company. * Cash generated from operations has improved (by R2 921 500 / by 75,6%). * Performance of the company improved with lesser employees and directors as compared to 2023. |
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|  | **POINT 2** |
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| **TOTAL MARKS** | **40** |