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GRADE 12

Accounting

SELF STUDY GUIDE

STATEMENT OF FINANCIAL POSITION

CASH FLOW STATEMENT AND CORPORATE GOVERNANCE ISSUES

Paper 1

basic education
Department: Basic Education
REPUBLIC OF SOUTH AFRICA
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1. INTRODUCTION

The declaration of COVID-19 as a global pandemic by the World Health Organisation led to the disruption of effective teaching and learning in many schools in South Africa. The majority of learners in various grades spent less time in class due to the phased-in approach and rotational/ alternate attendance system that was implemented by various provinces. Consequently, the majority of schools were not able to complete all the relevant content designed for specific grades in accordance with the Curriculum and Assessment Policy Statements in most subjects.

As part of mitigating against the impact of COVID-19 on the current Grade 12, the Department of Basic Education (DBE) worked in collaboration with subject specialists from various Provincial Education Departments (PEDs) developed this Self-Study Guide. The Study Guide covers those topics, skills and concepts that are located in Grade 12, that are critical to lay the foundation for Grade 12. The main aim is to close the pre-existing content gaps in order to strengthen the mastery of subject knowledge in Grade 12. More importantly, the Study Guide will engender the attitudes in the learners to learning independently while mastering the core cross-cutting concepts.

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2. HOW SHOULD WE USE THIS STUDY GUIDE?

1. This study guide addresses content and offer strategies to understand the preparation of the Cash Flow Statement, in a piecemeal approach, with consolidation activities to conclude.
2. The explanations and activities are intended to supplement and re-inforce work you may have covered in previous Grades.
3. They proceed from the short, simple focused examples to more complex calculations and interpretation of information.
4. It is important to allocate sufficient time to:
   - Carefully read the explanations provided; underline or highlight the key concepts, difficult vocabulary, important dates and relevant amounts.
   - Interrogate the worked example to gain an understanding of the message being conveyed or the sequence of events being illustrated.
5. Attempt the activities on you own; make constant reference to the explanatory notes, but avoid referring to the suggested answers before completing an activity.
6. Compare your answers to the suggested answers attached, and do your corrections using a different colour pen. Note that you will learn more by discovering your weaknesses (when you get things wrong), and making an effort to understand why your thinking was not in line with what was expected.
7. The activities provided may not be sufficient to fine-tune your skills. Always refer to similar questions from past examination papers for this purpose. Repetitive practice is always valuable.
8. Become familiar with the use of Answer Books and prepared writing material as this is the trend with all Accounting examinations.

PRE-AMBLE:

- The Cash Flow Statement is covered in Term 1, under Financial Statements of Companies.
- It will feature in the Accounting P1 (Financial Reporting and Evaluation).
- Recent trends on this topic focus mainly on calculations of specific amounts to complete the Cash Flow Statement or completing the Cash Flow Statement by finding the missing amounts and making appropriate use of brackets.
- Interpretation of Cash Flow Statement is addressed with the “Interpretation of Financial Statements”, and is assessed in a separate Question.

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3. THE CASH FLOW STATEMENT

A BASIC EXPLANATION

A **Cash Flow Statement** is a financial statement that summarizes the changes in the **cash and cash equivalents** position, over a specific **financial period**. It shows the money (cash / funds) that came into the business **(inflow)** and the manner in which this money was used **(outflow of cash).**

This Statement gives an indication of how well a company is **managing its cash resources,** to settle **debt obligations** and to fund **operating activities**. It complements the **Statement of Financial Position** and the **Statement of Comprehensive Income**, as a component of the **Annual Report**.

3.1 KEY CONCEPTS

You will encounter these concepts as you proceed through the notes and activities.
Add other words / concepts to expand this list.

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Cash items	Refer to money, funds available to be used by the business. It is the most liquid component of Current Assets.
Non-cash items	Expenses that does not involve a cash receipt or payment, but listed as an income or expense on financial statements, such as depreciation, bad debts and discount received.
Inflow of cash	Money (cash) generated by the business, expressed as receipts such as capital, a loan or from sales and debtors.
Outflow of cash	Money (cash) used by the business, expressed as payments such as buying assets, paying the loan and paying expenses.
Financial period	Reporting period usually a 12-month period. Periodic reporting during the financial year is also conducted by some businesses, in an effort to assess progress.
Debts	Liabilities (amounts owing). Could be of a long-term nature (non-current liability) or a short duration (current liability)
Average share price	Shares are issued at different prices (issue price) during the existence of the business. The average share price will take into account the total share capital ÷ number of shares, at a specific point in time.
Net working capital	Management of short term or current assets and current liabilities.
Dividends	Part of the net profit that is distributed to shareholders
Provisional tax payments	Cash payments to SARS in respect of income tax that must be paid after the net profit is calculated.
Statement of Financial Position	Reflects the assets, liabilities and equity of the business at a specific date. Also referred to as the Balance Sheet.
Statement of Comprehensive Income	Reflects the financial performance of the business for a specified accounting period, in terms of whether the business made a profit or a loss.
Annual Report	The Report that Directors would present at the Annual General Meeting of shareholders. It will include the Directors Report, the Independent Audit Report and the Financial Statements.

PRIOR KNOWLEDGE (Content you would have covered in previous Grades)

- Cash Receipts and Cash Payments items as introduced in Grade 10;
- Types of accounts (Balance Sheet and Nominal accounts);
- The Accounting Equation
- An understanding of the Income Statement and Balance Sheet (Structure, format, sub-sections and purpose)

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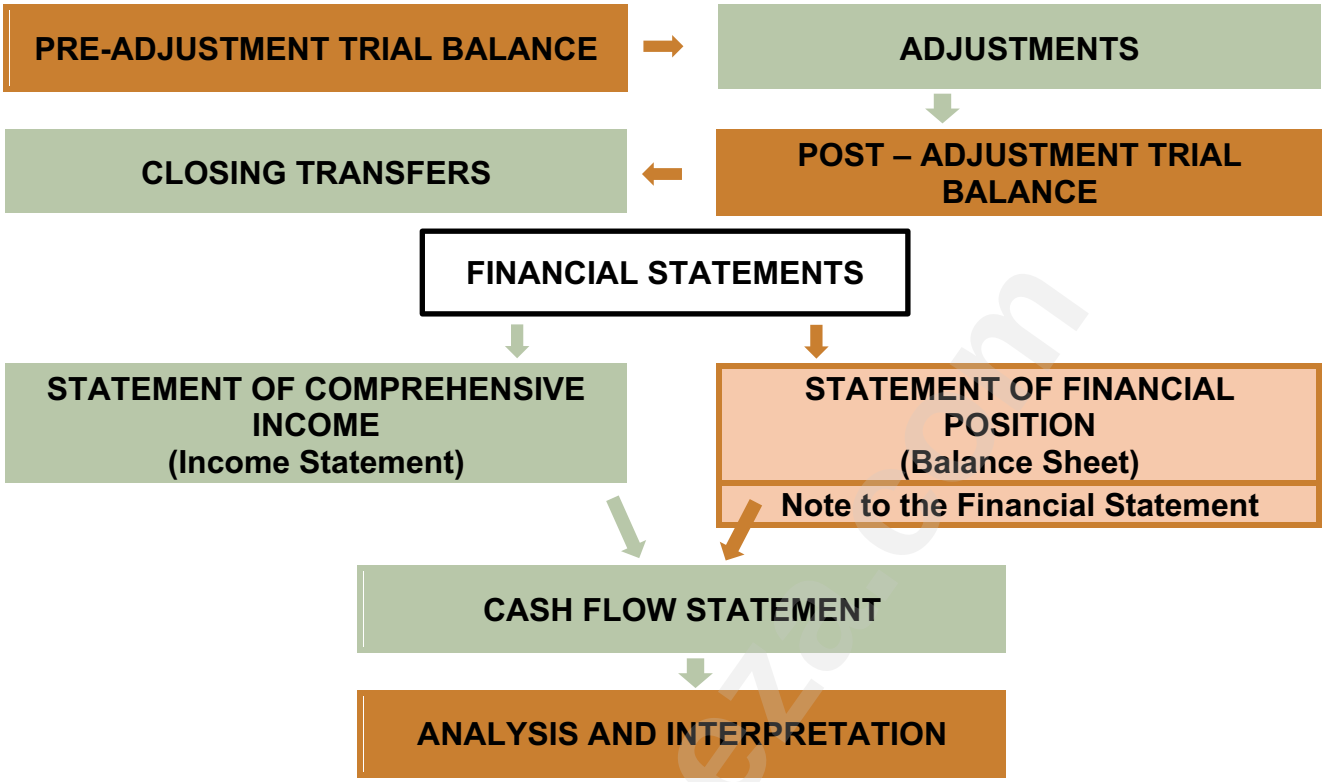
A REFLECTION OF THE YEAR-END CYCLE OF ACTIVITIES



BASELINE ACTIVITY

- Make a list of Receipts and Payments that would be recorded in the Cash Journals.
- Classify (or group) your list according to Balance Sheet accounts and Nominal Accounts.

SUGGESTED ANSWER

You may have itemized the Income and expenses; these are groups in the table below.

RECEIPTS	PAYMENTS
Sales (N) Income receipts (N) such as rent income Receipts from debtors (B) Interest income (N)	Payment of expenses (N) such as insurance Purchase of stock (B) Payments to creditors (B) Interest payments (N) Tax payments (to SARS) (B) Payment of dividends (B) to shareholders
Fixed deposit matures (B) Proceeds for sale of fixed asset (N)	Investing in a fixed deposit (B) Purchasing fixed assets (B)
Ordinary share capital (B) issue of shares Receiving a loan (B)	Repurchase of shares (B) Paying back a loan / or instalments (B)

The Receipts and Payments above can be classified into three broad categories that form the basis or structure of the sections in a Cash Flow Statement, as follows:

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OPERATING ACTIVITIES	INVESTING ACTIVITIES	FINANCING ACTIVITIES
PROFIT MOTIVE This represents the **core function** of the business which is to **make a profit**. The reason for establishing the business.	**PROFIT MOTIVE** Purchasing the necessary assets to achieve the objective of generating a profit. (CAPITAL EXPANSION).	**CAPITAL EMPLOYED** Finding the money (sources) to finance the things necessary to achieve the objectives. **Own capital** (shares) and **Borrowed capital** (loans)

The Cash Flow Statement essentially provides a detailed break-down of the three activities above, and conclude by showing the impacted on the **NET CHANGE IN CASH AND CASH EQUIVALENTS,** at the bottom of the Statement.

WHAT DO I NEED FROM THE FINANCIAL STATEMENTS TO PREPARE THE CASH FLOW STATEMENT?

(Keep this checklist in mind when going through the activities that follow)

STATEMENT OF COMPREHENSIVE INCOME	STATEMENT OF FINANCIAL POSITION	NOTES TO THE FINANCIAL STATEMENTS
Depreciation Interest expense Net profit before tax Income tax	Current Assets Current liabilities SARS: Income tax Shareholders for Dividends Fixed Assets Fixed Deposit Ordinary Share Capital Non-current liabilities	Fixed Asset note Share Capital note Retained income Dividends

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SPECIAL PROVISIONS / EXCEPTIONS (relevant to school syllabus)

- Depreciation is the only non-cash item which we must reverse in determining the Cash from operations.
- Fixed Deposits is the only investment (financial asset) of the business.
- Interest expense on the Income Statement will be equal to the Interest paid for the cash Flow Statement.
- Fixed assets will always be sold at carrying value (profit / loss on sale is a non-cash item).

3.2 STRUCTURE OR LAYOUT OF THE CASH FLOW STATEMENT

CASH FLOW STATEMENT FOR THE YEAR ENDED ……		
Cash effect of operating activities	720 000	Cash from the day-to-day operations. Based on the profit / loss and the working capital. Generally, a positive amount, or a net inflow.
Cash effects of investing activities	(940 000)	Decisions of directors, about fixed assets and fixed deposits. The brackets indicates a net outflow in this section.
Cash effects of financing activities	330 000	Decisions on share capital and loans (non-current liabilities)
Net change in cash and cash equivalents	**110 000**	A difference between the opening bank balance and the closing balance. It should balance with the total of the three sections above.
Cash and cash equivalents (opening balance)	56 000	
Cash and cash equivalents (closing balance)	166 000	

720 000 + 330 000 – 940 000 = 110 000 OR 166 000 – 56 000 = 110 000

Information relevant to prepare the Cash Flow Statement (refer checklist above)

- Specific Information from the Income Statement of the current financial year
- Comparative Balance Sheets (two financial years)
- Additional information for:
  - Fixed Assets note (changes / movements will be needed)
  - Changes to the Share capital (Ordinary Share Capital)
  - Dividends (from the Retained Income note)

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3.3 NET CHANGE IN CASH AND CASH EQUIVALENTS.

CASH AND CASH EQUIVALENTS would appear under CURRENT ASSETS on the Balance Sheet, indicating a positive (debit) bank balance, or under CURRENT LIABILITIES, If the Bank account is in overdraft, indicating a credit balance in the books of the business.

EXAMPLE 1:

Balance at the end of the previous financial year is the opening balance of the current financial year

Current assets	**2021**	**2020**
Inventories	113 800	98 000
Trade and other receivables	78 400	52 000
Cash and cash equivalents	**45 800**	**33 200**

Balance at the end of the current financial year, or the closing balance.

The difference between the **opening balance** and the **closing balance** is an increase of **R12 600** (from R33 200 to R45 800).

EXAMPLE 2: (Introducing a Bank Overdraft)

	2021	2020
Current assets	**238 000**	**153 000**
Inventories	113 800	98 000
Trade and other receivables	78 400	52 000
Cash and cash equivalents	**45 800**	**3 000**
Current Liabilities	**121 200**	**252 800**
Trade and other payables	119 000	218 000
SARS: Income tax	2 200	7 600
Bank overdraft	**0**	**27 200**

In this scenario, the business had an overdraft of R27 200 at the end of the previous financial year, and R3 000 under cash and cash equivalents, which is the petty cash and/or cash float. The current financial year reflects a positive balance of R45 800.

Calculation of the net change in cash and cash equivalents:

Opening balance: – 27 200 + 3 000 = – 24 200 (always find the net amount)

Closing balance: = + 45 800

Net change: = **+ 70 000**

This calculation may appear to be tricky when using an equation format. It is therefore useful to establish some ground rules. Study the amounts carefully before attempting Activity 1.

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Positive (+) to Positive (+)	Subtract	Difference is either an inflow or an outflow
23 600 to 68 400	44 800	Inflow (a greater closing balance)
55 700 to 36 500	(19 200)	Outflow (a smaller closing balance)
Negative (-) to Negative (-)	**Subtract**	**Difference is either an inflow or an outflow**
53 500 to 18 200	35 300	Inflow (reduced the overdraft)
45 300 to 66 500	(21 200)	Outflow (increased the overdraft)
Positive (+) to Negative (-)	**Add**	**Difference is an outflow**
31 300 to (21 200)	(52 500)	Business spent more than it had, moving into an overdraft. – net outflow
Negative (-) to Positive (-)	**Add**	**Difference is an inflow**
(11 800) to 39 400	51 200	Business moved from an overdraft to a favourable closing balance. – net inflow

ACTIVITY 1: **(15 minutes)**

Complete the table by calculating the missing amounts and indicating an inflow or outflow of cash.

No	CASH / BANK BALANCE		NET CHANGE IN CCE	Net Inflow or Net Outflow
	OPENING BALANCE	CLOSING BALANCE		
1	R112 400 (Dr)	R187 300 (Dr)		
2	R87 500 (Cr)	R23 700 (Cr)		
3	R176 800 (Dr)	R22 900 (Cr)		
4	R19 400 (Cr)	R28 600 (Dr)		
5	R98 300 (Dr)	R15 900 (Dr)		
6	R55 200 (Cr)	R77 700 (Cr)		

A summary of the INFLOW and OUTFLOW of cash, under each Section of the Cash Flow Statement. Note the clues (key words) that gives an indication of inflow or outflow, such as "paid" and "proceeds". Brackets are used to show an OUTFLOW of cash.

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		INFLOW	(OUTFLOW)
OPERATING ACTIVITIES	Cash generated from operations*	✓	?
	Interest paid		(✓)
	Income tax paid		(✓)
	Dividends paid		(✓)
INVESTING ACTIVITIES	**Fixed assets purchased**		(✓)
	Proceeds from the sale of fixed assets	✓	
	Change in financial assets	DECREASE ✓	INCREASE (✓)
FINANCING ACTIVITIES	Proceeds **from shares issued**	✓	
	Repurchase **of shares**		(✓)
	Change **in non-current liabilities**	INCREASE ✓	DECREASE (✓)

* It is always good business for the figure to be positive (generated). It can, however, be a negative amount, referred as cash UTILISED for operations.

3.4 THE OPERATING ACTIVITIES SECTION HAS FOUR MAIN ITEMS OR COMPONENTS.

(1) CASH GENERATED FROM OPERATIONS

This is the only **Note** to the **Cash Flow Statement** that must be prepared.

All other amounts require a calculation, that can be done in any format that is well understood, or a preferred format discussed by your teacher.

Note 1: Cash generated from operations		
Net profit BEFORE TAX	820	Extracted from the Income Statement
+ Depreciation	50	This is an example of a non-cash item added back, to adjust the new profit to reflect only cash items. You may be aware of many non-cash items, for we will only use this one.
+ Interest expense / paid	12	This amount is added back here, so that it can be reflected on the Cash Flow Statement
Sub-total	**882**	Net profit before changes in working capital
Net change in working capital	**(30)**	Cash effect of changes in working capital
Change in inventories	(20)	Working capital is a reflection of the management of current assets and current liabilities in line with the use of cash. Note: these three items are dealt with here due to the other current assets and liabilities being dealt with at other sections of the CFS
Change in receivables	30	
Change in payables	(40)	
Cash generated from operations*	**852**	This figure is transferred to the CFS.

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WORKED EXAMPLE: Calculating the Net change in working capital

	2021 R	2020 R
Current assets	**235 900**	**207 500**
Inventories	113 800	98 000
Trade and other receivables	78 400	106 500
Cash and cash equivalents	43 700	3 000
Current Liabilities	**121 200**	**252 800**
Trade and other payables	119 000	218 000
SARS: Income tax	2 200	7 600
Bank overdraft	0	27 200

SUGGESTED ANSWER

NET CHANGE IN WORKING CAPITAL	(86 700)
Change **(increase)** in inventories **(98 000 – 113 800)**	(15 800)
Change **(decrease)** in receivables **(106 500 – 78 400)**	28 100
Change **(decrease)** in payables (218 000 – 119 000)	(99 000)

- A net **increase in inventories** is an indication that more stock was purchased, than stock that was sold. The difference is therefore an **OUTFLOW** of cash, shown in brackets.
- A net **decrease in receivables** indicate that receipts from debtors was greater than the total credit sales. The difference is therefore an **INFLOW** of cash.
- A net **decrease in payables** is an indication that payments to creditors was greater than credit purchases. The difference is therefore an **OUTFLOW** of cash, shown in brackets.

Points to note:

- ✓ The Balance Sheet amount for Inventories includes Consumable Stores on Hand.
- ✓ For Receivables and Payables, always refer to the Notes (if available) to check for items that are dealt separately, such as SARS: Income tax and Shareholders for Dividends. These must be excluded from the calculations.
- ✓ At times a random list of balances is provided. Ensure to include the accruals, prepayments and amounts received in advance in your calculations of Receivables and Payables.
- ✓ Referring to the above example, note that the opposite effect to working capital items (increases / decreases) will obviously have the opposite effect on cash (inflow / outflow).

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ACTIVITY 2: **(15 minutes)**

2.1 REQUIRED:

- Calculate the net change in working capital.
- Calculate the net change in cash and cash equivalents

INFORMATION:

Amounts extracted from the records of Tabile Ltd on the financial year-end.

	31 March 2021	31 March 2020
Current Assets	R 205 200	R 263 100
Inventories	98 600	134 800
Trade and other receivables	104 600	99 400
Cash and cash equivalents	2 000	28 900
Current Liabilities	174 000	126 200
Trade and other payables	145 900	113 600
SARS: Income tax	9 400	12 600
Bank overdraft	18 700	0

2.2 REQUIRED: **(10 minutes)**

Calculate the net change in Working Capital. Show all workings.

INFORMATION:

Balances extracted from the records of Vuyi Ltd on 30 April

	30 April 2021	30 April 2020
Inventories	R 880 000	R 921 000
Trade debtors	329 500	327 000
Trade creditors	387 600	456 000
Accrued income	0	12 000
Accrued expenses	22 400	14 800
Income received in advance	8 000	0
Shareholders for dividends	176 000	133 000

(2) INCOME TAX PAID AND (3) DIVIDENDS PAID

The calculation for these two items follow the same principle (or format), and is therefore explained together. They represent an **OUTFLOW** of cash.

- Income tax payments are made to SARS. A reconstruction of the SARS: Income tax account is useful to determine the actual amount that was paid to SARS. The Bank amount on the debit side represents the total PAID to SARS.
- The income tax for the year will appear on the Income Statement. If not given, then you will have to calculate the amount using other relevant information that will be provided, such as the tax rate applicable.
- SARS: Income tax, opening and closing balances will appear on the comparative Balance Sheet (for each year).

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- Dividends paid to shareholders, is linked to the Shareholders for Dividends account.
- A simple approach (method) is to add the amount due to shareholders at the beginning of the financial year (Shareholders for Dividends, opening balance) and the interim dividends paid during the current financial year.
- Interim dividends amount is found on the Retained Income note, and not on the face of any financial statement. At times, additional information is provided by the question, to calculate this amount.

WORKED EXAMPLE:

Calculating INCOME TAX PAID and DIVIDENDS PAID.

Information extracted from the records of Nosipho Ltd.

REQUIRED:

Calculate the following for the Cash Flow Statement:

- Income tax paid
- Dividends paid

INFORMATION

A. Extract from the financial statements

	28 February 2021	29 February 2020
Net profit before tax	R 1 285 0000	
Net profit after tax	899 500	
SARS: Income tax	16 500 (Cr)	R 13 400 (Cr)
Shareholders for dividends	207 000	189 000
Total dividends on the Retained Income note	405 000	

SUGGESTED ANSWER

WORKINGS:

INCOME TAX PAID	
✓ Income tax for the is **R385 500** (1 285 000 – 899 500)	This is the tax expense for the year and must be paid to SARS.
✓ The SARS: Income tax (opening balance) is **R13 400**	This amount was due to SARS at the beginning of the year.
✓ The SARS: Income tax (closing balance) is **R16 500**	This amount is due to SARS at the end of the financial year

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Logically, of the **R398 900** (R385 500 + 13 400) that should have been paid to SARS, only **R16 500** is still outstanding (payable or due). Therefore, R382 400 was actually **paid (OUTFLOW).**

In equation form: 13 400 + 385 500 – 16 500 = 382 400 (signs being reversed is acceptable)

Expressed in a Ledger format, the Bank amount of R382 400 is a balancing figure.

SARS: Income tax (B12)

BANK (amount paid)	382 400	Balance b/d	13 400
Balance c/d	16 500	Income tax	385 500
	398 900		398 900
		Balance b/d	16 500

Points to note:

- ✓ SARS: Income tax can have a **debit or credit** balance, depending on the **provisional payments** made during the year.
- ✓ A **debit balance** will be reflected under **Current Assets** and a **credit balance** is reflected under **Current Liabilities**, on the Balance Sheet.
- ✓ If the **income tax is not given**, you will be required to calculate this amount by using the Net Profit amounts and/or the % tax rate, which will be given.

DIVIDENDS PAID

✓ Shareholders for Dividends (opening balance) is **R189 000** on the Balance Sheet.	This is the final dividends of the previous financial year, and will be paid during this year.
✓ Interim dividends paid is **R198 000.**	If the amount is not given, it must be calculated. (R405 000 – R207 000)
198 000 (the interim dividend) In equation form: 189 000 + (405 000 – 207 000) = R387 000 (signs can be reversed)	

Points to note:

- ✓ The Shareholders for dividends (opening balance) will always be part of your final answer (paid).
- ✓ If the interim dividends amount is given, then you simply add this to the opening balance above.
- ✓ Other ways of presenting information to calculate the interim dividends includes the example above. Total dividends = Interim + final dividends.
- ✓ Final dividends are declared at the end of the financial year, and is always the closing balance as reflected under Current Liabilities. This will only be paid in the following financial year.
- ✓ Alternatively, you could be given the number of shares and the dividends per share. You must determine the number of shares that qualify for interim dividends and multiply by the dividend per share paid.

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(4) Interest Paid:

As interest on loan is capitalised, the amount for the CFS will always be equal to the interest expense amount on the Income Statement.
Note that Interest expense is **added** when preparing the note for CASH GENERATED FROM OPERATIONS and then shown as an OUTFLOW on the Cash Flow Statement.

The Cash effects of Operating Activities will be the net amount of the FOUR items discussed above. Find the difference between the positive amount and the negative amounts.

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ACTIVITY 3: **(15 minutes)**

The information relates to Fezile Ltd for the financial year ended 28 February 2021.

REQUIRED:

3.1 Calculate the following amounts for the Cash Flow Statement:

- Income tax paid
- Dividends paid

3.2 Complete the NET CHANGE IN CASH AND CASH EQUIVALENTS section of the Cash Flow Statement.

INFORMATION:

A. The **net profit after tax** was correctly calculated as **R658 000**.

Income tax is calculated at **30%** of the net profit.

B. Extract from the Balance Sheet:

	28 February 2021	**29 February 2020**
Current Assets	R 1 104 200	R 959 300
Inventories	730 000	420 000
Trade and other receivables	340 000	522 000
SARS: Income tax	0	14 300
Cash and cash equivalents	34 200	3 000
Current Liabilities	629 600	859 200
Trade and other payables	518 000	633 000
SARS: Income tax	15 600	0
Shareholders for dividends	96 000	148 800
Bank overdraft		77 400

C. On 30 November 2020, the directors issued 180 000 shares at R8,80 each.

On 28 February 2021, the share capital comprised 800 000 ordinary shares.

D. An interim dividend of 18 cents per share was paid on 30 September 2020.

A final dividend was declared on 28 February 2021.

* As an extension activity:

Calculate the net change in working capital.

Calculate the dividend paid (cents), per share, for interim dividends and for final dividends.

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3.5 THE INVESTING ACTIVITIES SECTION HAS THREE MAIN ITEMS / COMPONENTS:

TWO of the three items in this section involve movements in FIXED ASSETS.

(1) **Funds used to purchase Fixed Assets** will be equal to **ADDITIONS (at cost)** as it appears on the Fixed Assets Note. This represents an OUTFLOW of cash.

(2) **Proceeds on sale / disposal on fixed assets** is equal to **DISPOSALS (at carrying value)** as it appears on the Fixed Assets Note, and recorded as an INFLOW of cash. This is a special provision of the school syllabus, so that we do not have to deal with a profit / loss on sale of asset (a non-cash item). This is usually presented as additional information.

(3) **Changes in Fixed Deposit** (the only investment in our syllabus) is the third item in this section. An increase is an OUTFLOW of cash and upon maturity (decrease) of the Fixed Deposit, an INFLOW of cash is recorded on the Cash Flow Statement.

WORKED EXAMPLE:

Calculating Fixed Assets purchased and sold, and changes in Fixed Deposits.

The information relates to Mbanjwa Ltd.

REQUIRED:

- Calculate the Fixed Assets purchased amount for the Cash Flow Statement.
- Complete the CASH EFFECTS OF INVESTING ACTIVITIES section of the Statement

INFORMATION:

A. Extract from the Income Statement on 30 April 2021, the financial year-end:

Depreciation	R 426 000
Interest expense	87 300
Income tax	274 960

B. Extract from the Balance Sheet on 30 April:

	2021	2020
Non-current Assets	R 7 513 000	R 7 412 000
Fixed assets (at carrying value)	7 313 000	7 162 000
Fixed Deposit	200 000	250 000

C. Additional information:

- Extensions to land and buildings were completed at a cost of R800 000.
- Old equipment was sold at carrying value.

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EXPECTED ANSWERS

- Calculate: Fixed Assets purchased.

In equation form: 7 162 000 + 800 000 – 426 000 – 7 313 000 = 223 000

It is also useful to use the format of the Fixed Asset note, to calculate the missing amount.

Carrying Value at the beginning of the year		7 162 000
Additions (at cost)	+	800 000
Disposals (at carrying value)	–	223 000
Depreciation for the year	–	426 000
Carrying value at the end of the year	=	7 313 000

The balancing figure

Insert the amounts that are given. Calculate the missing figure (be careful of the signs).

- Complete the CASH EFFECTS OF INVESTING ACTIVITIES section

CASH EFFECTS OF INVESTING ACTIVITIES	(527 000)
Fixed assets purchased Amount is given; an outflow therefore brackets	**(800 000)**
Fixed assets sold Calculated; show workings; inflow; no brackets	223 000
Change (or decrease) in fixed deposit inflow; no brackets	50 000

ACTIVITY 4: **(10 minutes)**

The information relates to Beauty Ltd for the financial year ended 31 March

REQUIRED:

Use the following information to calculate the:

- Fixed assets purchased
- Fixed assets sold at carrying value.

INFORMATION:

A. Information from the trial balance on 31 March, the financial year-end:

	2021	**2020**
Land and buildings	R 2 860 000	R 2 210 000
Vehicles (at cost)	?	715 000
Equipment (at cost)	340 000	520 000
Accumulated depreciation on vehicles	583 950	429 000
Accumulated depreciation on equipment	?	188 000

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B. Additional information:

- Vehicles are depreciated at 15% p.a. on cost
- Equipment is depreciated at 20% p.a. on diminishing balance.
- A new vehicle was purchased on 1 April 2020. No vehicles were sold.
- On 1 October 2020, old equipment was sold at carrying value. The accumulated depreciation on the equipment sold was R68 000 on 1 April 2020. No equipment was purchased.

ACTIVITY 5: **(10 minutes)**

The information relates to Sasa Ltd. The financial year ends on 28/29 February each year.

REQUIRED:

Prepare the CASH EFFECTS OF INVESTING ACTIVITIES section. Show all workings in brackets.

INFORMATION:

A. Information extracted from the financial records:

	28 February 2021 R	29 February 2020 R
Depreciation	371 000	
Operating expenses	1 121 000	
Net profit before tax	766 000	
Net profit after tax	551 520	
Non-current assets	**3 370 000**	**3 170 000**
Fixed assets (at carrying value)	?	3 050 000
Fixed deposit	250 000	120 000

B. Additional information:

- An old delivery vehicle was sold for R184 000 (the carrying value). Two additional vehicles were purchased. There were on other changes to the fixed assets.

3.6 THE FINANCING ACTIVITIES SECTION HAS THREE MAIN ITEMS / COMPONENTS:

TWO of the three items relate to the Ordinary Share Capital account (or the Note).

(1) Proceeds from the issue on additional shares;
(2) Funds used to repurchase shares (share buyback);
(3) Change (increase / decrease) in the loan (non-current liability)

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Test your knowledge:

Use the following information to prepare the Ordinary Share Capital note.

The financial year ended on 28 February 2021.

INFORMATION:

A. On 1 March 2020, the Ordinary Share Capital balance was R3 457 500, comprising 600 000 ordinary shares.

B. On 1 June 2020, directors issued a further 150 000 shares at R6,20 per share.

C. On 1 January 2021, the business repurchased 25 000 shares from the estate of a shareholder. The repurchase price was R6,50 per share.

Practice different variations of the Ordinary Share Capital note. This note is relevant, and can feature with any of the three financial statements that you study.

WORKED EXAMPLE:

Calculating the amounts for the Financing Activities section of the Cash Flow Statement.

The information relates to Uncle Ltd, for the financial year ended on 28 February 2021.

REQUIRED:

Complete the CASH EFFECTS OF FINANCING ACTIVITIES section. Show all workings.

INFORMATION:

A. Extract from the Balance Sheet:

	28 Feb. 2021	**29 Feb. 2020**
SHAREHOLDERS EQUITY	R 8 170 000	R 7 200 000
Ordinary share capital	7 837 500	6 874 000
Retained income	332 500	326 000
NON-CURRENT LIABILITIES		
Loan: Shark Bank	988 000	1 388 000

B. The authorized share capital is 1 200 000 ordinary shares.

On 1 March 2020, 70% of the shares were in issue.

C. On 1 July 2020, a further 160 000 shares were issued.

D. On 28 February 2021, 50 000 shares were bought back at R1,15 above the average share price.

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EXPECTED ANSWERS

- **Complete the CASH EFFECTS OF FINANCING ACTIVITIES section**

CASH EFFECTS OF FINANCING ACTIVITIES	R 506 000
Proceeds from the issue of shares 7 837 500 + 412 500 – 6 874 000	1 376 000
Funds used to repurchase shares from OSC 412 500 + 57 500 (50 000 x R1,15)	(470 000)
Change (or decrease) in loan (1 388 000 – 988 000) **outflow; in brackets**	(400 000)

Strategy:

- Always start with the any of the amounts given in the Question Paper and then proceed to complete the remaining totals. In this case, you may prefer to start with the change in loan.
- It is necessary to do the share capital account (or the note) as a working (somewhere)
- As the amount for shares issued is not given, calculate the average share price by using the closing balance totals. This can only be done if the shares repurchased is the last transaction.
- The amount paid to repurchase the shares must include the portion from the OSC and the portion from the Retained Income.
- Remember to insert the brackets to indicate the outflow of cash.

WORKINGS:

Reconstruct the OSC note (as a working): Do not waste time with details etc.

840 000	Balance on 1 March 2020 (70% of 1 200 000)	R 6 874 000
160 000	Shares issued balancing figure	1 376 000
(50 000)	Shares repurchased ASP: R8,25 (7 837 500/950 000)	(412 500)
950 000	Balance on 28 February 2021 (given)	7 837 500

ACTIVITY 6: **(15 minutes)**

The information relates to Percy Ltd.

REQUIRED:

Calculate the following for the Cash Flow Statement:

- Proceeds from shares issued.
- Funds used to repurchase shares
- Inflow or outflow of cash due to the change in non-current liabilities.

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INFORMATION:

A. The business is registered with an authorized share capital of 1 500 000 shares.

B. Extract from the Balance Sheet on the financial year-end:

	28 Feb. 2021	29 Feb. 2020
SHAREHOLDERS EQUITY	R 8 070 000	R 6 700 000
Ordinary share capital	?	6 480 000
Retained income	410 000	220 000
NON-CURRENT LIABILITIES	?	750 000
Loan: Bull Bank	?	750 000

C. On 1 March 2020, 60% of the shares was in issue.

D. On 1 April 2020, the directors repurchased 75 000 shares at R1,30 more than the average share price.

E. On 1 December 2020, a further 200 000 shares were issued.

F. The business pays a monthly instalment of R25 000 towards the loan. This includes interest of R92 000, which is capitalised.

INTERPRETING CASH FLOW INFORMATION

Interpretation of the Cash Flow Statement is often included in the in the Question on Interpretation of Financial Statements. Some of the factors you should discuss with your colleagues must include the following:

- Identify the DECISIONS that are revealed by the Cash Flow Statement.
- Comment on the impact of such decisions on the management of cash (liquidity) OR comment on whether these decisions were good for the business or not.
- What are the possible consequences of such decisions to the business or the decision makers (directors)?
- Looking at comparative Cash Flow Statements, identify decisions that were taken in the current financial year and not in the previous financial year. Do not comment on the negative.
- Provide possible reasons for certain decisions that were taken, such as increase / decrease in the loan, a re-purchase of shares or the sale of fixed assets.

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4. CORPORATE GOVERNANCE AND ETHICS

Pre-amble:

- Corporate governance is assessed in Paper 1.
- The ATP stipulates that aspects of **Ethics, Corporate Governance** (and Internal Control for P2) **must be integrated**, where appropriate and relevant, across in all topics.
- It is important to note that these aspects **may cover specific concepts and ideas**, but will generally **not require prescriptive responses** from prepared notes that is sometimes referred to as "theory".
- These topics (aspects of the content) **focuses on practical problem-solving situations** that will expect you to **interpret the scenarios** or case studies provided, and to offer responses that are **open-ended in nature**, using your **general knowledge**, **common sense** as well as **creativity**.
- As such, a **variety of correct and appropriate responses** would be valid, provided they are supported by good and logical reasons or evidence.
- **Newspaper articles** and **current issues** are a good sources of information that can be used to develop your skills and confidence to answer such questions, which are often **pitched at a higher cognitive level.**

KEY TERMS, CONCEPTS AND VOCABULARY THAT ARE USEFUL WHEN RESPONDING TO SPECIFIC SCENARIOS GIVEN IN AN ASSESSMENT TASK:

Always add new terms to this list

Corporate governance	• An exercise of ethical and effective leadership by the governing body towards achieving governance outcomes (King IV) • "Corporate" specifically refers to organisations incorporated to form legal entities separate from owners (e.g. shareholders).
Governing body	• Has primary accountability for the governance of an entity and performance thereof (e.g. the board of directors of a company).
Accountability	• Obligation to answer for the execution of responsibilities. This cannot be transferred (such as responsibilities).
Conflict of interest	• When a director is in a situation where he or she has a personal interest which competes against that of the company at which he or she is a director.
Independence	• Unbiased judgement or absence of interest. • Free of influence or personal interest / gain from a situaition
Integrity	• Being honest and to have strong moral principles. • Impacts on the reliability and usefulness of information presented in financial statements and reports.
Stakeholders	• Individuals or groups that can reasonably be significantly affected by organisation's activities and outputs (both internal and external)
Transparency	• Openness; a willingness by the company to provide clear information to shareholders and other stakeholders, and to engage them in aspects affecting their well-being. • To disclose financial performance figures which are truthful and accurate.

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Audit committee	• Prepare a report to be included in the annual financial statements describing how the committee carried out its functions, stating whether the auditor was independent, and commenting on the financial statements, accounting practices and internal financial control measures of the company.
Remuneration committee	• Oversee the establishment and implementation of a remuneration (earnings) policy for directors, that articulates and gives effect to its direction on fair, responsible and transparent remuneration.

What do we understand by the concept "Corporate Governance"?

Extract from 2021 May/June NSC Accounting P1

Explain what is meant by good corporate governance and explain why it is important to the shareholders.

Explanation ✓✓

- Managing the business on sound business and ethical principles;
- Looking after the interest of all role players / stakeholders (including the community) by being fair, equitable, transparent.
- Ensure that the company has proper rules, policies and practices to create long term shareholder value, and are implementing them

Importance to shareholders ✓

- Impact on the image of the business / goodwill
- Improvement in share price
- Potential investors will be attracted
- Confidence in management and control

3

Corporate governance: A structure of rules, practices and procedures or processes used to direct and manage a company

The Primary Driving Force is the BOARD OF DIRECTORS

Bad corporate governance

Can cast doubts on a company's operations and ultimately its profitability – this would have a snowballing effect on other aspects such as investor confidence, image of the business, demand for the shares, impression of customers and the general public.

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It is clear from the above Question that Corporate Governance is concerned with:

- The effective, responsible and ethical management of a business
- It will take into consideration all role players, such as managers (directors), the owners (shareholders), the community, creditors and suppliers, customers, the employees and the unions.
- The business must have sound policies, rules and procedures which are clear to all the relevant stakeholders, and these policies must be seen to be implemented as intended
- Important concepts that must be adhered to in carrying out duties and responsibilities involve, transparency, accountability, equitable, realistic, and fairness.
- In executing their responsibilities, the Board of Directors of a company will form a number of committees and assign them specific powers. Some of these committees are prescribed by the Companies Act, such as the audit committee and the remuneration committee. Other committees may be introduced by the company due to specific needs, such as a disciplinary committee, environmental affairs committee or a social committee etc.

The business as a part of the broader community:

Good corporate governance ensures that a company plays its vital role as a member of the community in which it exists (King code).

- The TRIPLE BOTTOM LINE:
    - Businesses are expected to pay attention to PROFITS, the COMMUNITY (PEOPLE) in which it operates, and the ENVIRONMENT (PLANET); sometimes expressed as PPP.
    - Corporate social responsibility (CSR): Allocating funds for community development such as donating funds to needy organisations, providing training and engaging in research to improve the environment.
- The WATCH-DOG roles:
    - Because the general public invest in companies by buying shares, the books of a company must be audited by an independent auditor. They are expected to prepare an unbiased report based on an audit of the company's books and internal controls.
    - Executive and non-executive directors: non-executive directors are appointed to serve on the Board, but they do not work at the company. They are expected to provide an objective view on strategies and not be influenced by executive directors. The chairman of the Board is a non-executive director.

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Professional Bodies:

The concept of 'Professional Bodies' is most relevant when commenting on the Independent Auditors. The fact that these auditors are appointed by shareholders to look after their interest makes it necessary for them to be members of a reputable body that has high professional standards and a code of conduct. They are expected to have no interest (vested interest / conflict of interest) in the company. This would ensure that they would not be tempted to engage in any unethical or illegal practices. Examples of professional bodies are SAICA, SAIPA and IRBA.

Ethics

Businesses are expected to be run on sound ethical principles (doing what is right and fair, and does not harm or disadvantages others). However, there are many examples of unethical practices reported in the news and other publications. Some may be considered as minor infringements whilst others will be regarded as 'white collar' crimes.

Some terms that you should be familiar with includes 'fraud', 'embezzlement' 'money laundering' 'nepotism' 'corruption', 'bribery', and 'under-handed'. You can add other words as you come across them in class discussions or in the news.

RECENT EXAMINATION QUESTIONS:

The composition of the Board of Directors

Explain why it is important for a company to include non-executive as well as executive directors on the Board of Directors.

TWO points ✓✓ ✓✓ part marks for incomplete / unclear / partial answers

- Executive directors are involved with internal functioning (operations) of the company / hands-on / decisions may be based on a narrow view.
- Non-executive directors have a wider perspective of the business environment; and act in the best interest of the company.
- They would exercise a watch-dog role; keep executive directors on check.
- More regular inputs than an internal auditor.
- Their inputs would be unbiased and independent.
- Need to protect their positions by closely monitoring internal processes.
- Executive directors would be more vigilant and professional in their duties / not tempted to engage in unethical activities.
- More directors on the board = more opinions which could benefit the company.
- The non-executive directors - paid less than the other directors

4

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The purpose / need for committees

According to the Companies Act, 2008 (Act 71 of 2008), a company must have a Remunerations Committee.

Explain the role/responsibility of this committee and give a reason why this committee is necessary.

EXPLANATION: ✓

Review all salaries, bonuses and other earnings
To prevent directors from paying themselves too much
They must approve, and give advice on the proposals re fees, bonuses etc.

REASON: ✓✓

- To ensure fairness / transparency in the payment of fees/salaries
- To prevent fraud / corruption / wastage
- Detect mismanagement or fraudulent activities
- They can compare the remuneration / earnings against financial information of other companies in the industry (comparability)

3

"The need for policy to protect stakeholders and to be transparent"

Directors engage with clients on a regular basis in an effort to negotiate contracts and to increase sales and services.

Explain why there should be a company policy for all gifts, donations or favours received by the directors from clients to be declared to the board by the directors concerned. Provide TWO points.

TWO points ✓✓ ✓✓ part marks for incomplete / unclear / partial answers

- Transparency in awarding contracts, tenders or appointing service providers;
- Could result in not appointing the best suited client for the job / not adhering to or flouting company policy.
- Policy would prevent colluding with service providers;
- Directors / service providers would know the consequences of not abiding by policy and therefore not be tempted to engage in fraudulent activities / corruption.
- This could be viewed as bribery for contracts.
- This could be viewed as nepotism (if family and friends involved)
- To protect the image of the business.
- Conflict of interest (which could be corrupt / fraudulent).

4

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A 'self-centred' director – not acting in the best interest of the company

Scenario:

At the AGM, many shareholders complained that the Remunerations Committee had been negligent in their duties and that Anton Buys (CEO) did not deserve the fees that he was paid. State TWO different points to justify their opinion. Quote figures or financial indicators. (4)

Directors' fees:

	2021	2020
Director's fees paid to CEO	R2 900 000	R2 000 000
Total fees paid to 5 other directors	R3 000 000	R3 000 000

Financial indicators:

Earnings per share	54 cents	102 cents
Dividends per share	25 cents	90 cents
Net asset value per share	732 cents	711 cents
Return on average shareholders' equity	4,9%	5,3%
Return on average capital employed	6,4%	9,1%

Expected response:

State TWO different points to justify the opinion of shareholders. Quote figures or financial indicators.	
TWO valid points ✓ ✓ figure ✓ ✓	
POINT 1	**Compulsory point: comment on directors' fees** • Buys has given himself a 45% increase (Remuneration Committee did not do their duty) - collusion is possible • R900 000 increase is 50% more than fee of other directors / • Other directors did not receive an increase (maintained at R600 000 each)
POINT 2	**Possible additional response. Any ONE of:** • EPS dropped (from 102c) to 54c (by 48c); • ROSHE dropped (from 5,3%) to 4,9% • ROTCE dropped (from 9,1%) to 6,4%;

4

An under-handed "deal" Extracted and adapted: Nov 2019

In the following scenario, the CFO engaged in an unethical transaction to buy an unpopular brand of television sets, thereby placing the company in a liquidity risk position.

During April 2019, while George (CEO) was in hospital, Bruce Swann (the chief financial officer) decided to include television sets in their product range. He was able to secure bulk discounts from Roseway on two TV set models, namely LYN and KYA.

An employee of Roseway told George that Bruce received a 10% "commission" from Roseway for buying their excess stock. George wants to discuss this at the next board meeting.

Explain THREE different concerns that George would have about this problem.

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"Reading between the lines"

George (CEO) was in hospital and he was not available to supervise or over-see decisions taken by other senior managers and some managers may take this opportunity to engage in corruption (cat is away...). The appearance/ misconception is that this is a good deal. The employee of Roseway is an example of a "whistle-blower". A 10% commission is not really a "commission"- but actually a bribe, or compensation for engaging in a fraudulent transaction. There is excess stock that they could not sell such as the television sets and is therefore transferring this problem to another business.

Possible responses

Explain THREE different concerns that George would have about this problem.
Three valid points ✓✓ ✓✓ ✓✓ part-marks for partial or incomplete answers • Senior director (the CFO) is engaging in fraud and corruption (accepting bribes) • Unethical behaviour of CFO has compromised the resources of the company placing it at risk • The image of the company will be negatively affected – will affect the share price and further investments from potential investors • High stock value. Televisions are not popular – cash is tied up in stock that is not selling. • Shareholders may want to sell their shares – causing market price to drop • Business will lose goodwill as it is unethical. – lose customers.

SUGGESTIONS TO DEVELOP SKILLS

1. Read widely (newspaper, magazines, YouTube, etc), keep abreast of current trends in the economy and topical items in the news.
2. Make time for discussion with peers – do not be afraid to ask questions
3. Always respond in the language of assessment (English and Afrikaans)
4. Build a glossary of new words or terms you come across and note their meanings
5. Analyse reports, articles and financial information for key words, hints and implied messages
6. Practice writing in full sentences – be clear and to-the-point.

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5. CONSOLIDATION ACTIVITIES

ACTIVITY 7: NSC March 2018 adapted

The given information relates to Mafoko Ltd for the financial year ended 28 February 2021.

REQUIRED:

7.1 Calculate the following amounts for the Cash Flow Statement:

7.1.1 Income tax paid (5)

7.1.2 Dividends paid (3)

7.1.3 Net change in cash and cash equivalents (4)

7.2 Complete the Cash Effects of Financing Activities section of the Cash Flow Statement. (10)

INFORMATION:

A. Information extracted from the financial statements on 28/29 February:

	2021 R	**2020 R**
Depreciation	**?**	**?**
Interest expense	123 000	126 500
Net profit before income tax	422 500	157 500
Net profit after income tax	295 750	113 400
Fixed assets (carrying value)	4 934 450	3 993 390
Shareholders' equity	**4 375 250**	**3 135 000**
Ordinary share capital	4 117 500	3 000 000
Retained income	257 750	135 000
Non-current liabilities	750 000	1 300 000
Inventories (only Trading Stock)	288 000	363 000
Debtors	318 000	254 000
Creditors	287 000	367 000
Cash and cash equivalents	2 500	245 000
Bank overdraft	27 500	-
SARS: Income tax	5 200 (Cr)	3 390 (Cr)
Shareholders for dividends	98 000	50 000

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B. Share capital and dividends

- The authorised share capital is 1 000 000 ordinary shares.
- On 1 March 2020 there were 500 000 shares in issue. A further 200 000 shares were issued on this date.
- An interim dividend of R70 000 was paid on 31 August 2020.
- On 28 February 2021, 25 000 ordinary shares were repurchased from the estate of a deceased shareholder at R6,30 per share. The average issue price was R6,10 at this point.
- A final dividend was declared on 28 February 2021.

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ACTIVITY 8: NSC June 2017 adapted

MIKHA LTD

The information relates to the financial year ended 31 December 2020.

REQUIRED:

8.1 Complete the CASH EFFECTS OF OPERATING ACTIVITIES section of the Cash Flow Statement. Show workings. (9)

8.2 Calculate the following amounts that will appear in the Cash Flow Statement. State whether these are inflows or outflows.

- Change in fixed deposit (3)
- Proceeds on disposal of equipment (6)

INFORMATION:

A. Extract from Income Statement (Statement of Comprehensive Income) for the year ended 31 December 2020:

Sales	R6 090 000	
Gross profit	1 890 000	
Interest expense (all paid)	100 000	
Depreciation	360 400	
Net profit before tax	1 150 000	
Income tax	322 000	

B. Extract from Balance Sheet (Statement of Financial Position) on 31 December 2020:

	2020	**2019**
Ordinary share capital	R4 752 000	R4 200 000
Retained income	637 000	276 000
Fixed assets (carrying value)	5 828 000	4 905 800
Fixed deposits	200 000	500 000
Loan: Cheetah Bank	1 000 000	600 000
Cash and cash equivalents	126 400	2 000
Bank overdraft	-	85 600
SARS: Income tax	3 600 (Dr)	9 200 (Cr)
Shareholders for dividends	175 000	270 000

D. Dividends:

- Interim dividends were paid on 30 June 2020.
- A final dividend of 25 cents per share was declared on 31 December 2020.

E. Fixed assets:

- R1 495 000 was paid for extensions to buildings.
- Old equipment was sold for cash at carrying value.

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ACTIVITY 9: NSC Nov 2019 adapted

SUNSET LTD

The financial year ended on 28 February 2019.

REQUIRED:

Calculate the following figures for the 2019 Cash Flow Statement:

9.1	Income tax paid	(4)
9.2	Dividends paid	(4)
9.3	Proceeds of shares issued	(6)
9.4	Fixed assets purchased	(5)

INFORMATION:

A. Information from Income Statement on 28 February 2019:

Sales	R8 725 000
Gross profit	3 525 000
Depreciation	408 000
Operating profit	2 033 900
Interest expense	441 000
Income tax	477 900
Net profit after tax	1 138 000

B. Information from Balance Sheet on 28 February:

	2019	**2018**
Fixed assets (carrying value)*	R11 835 100	R10 658 000
SARS: Income tax	18 000 **Cr**	63 000 **Dr**
Shareholders' equity	8 625 000	10 065 000
Ordinary share capital	7 724 000	9 300 000
Loan: Funza Bank	3 500 000	2 800 000
Shareholders for dividends	372 000	195 000

***NOTE:** Fixed assets were sold at carrying value, R490 000.

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C. Share capital and dividends:

SHARE CAPITAL		NUMBER OF SHARES	DETAILS OF SHARES
2018	1 March	1 500 000	In issue at R6,20 per share
	30 April	300 000	Repurchased at R6,90 per share
2019	1 January	40 000	New shares issued
	28 February	1 240 000	In issue

DIVIDENDS			DIVIDENDS PER SHARE
Final	2 March 2018	Paid	13 cents
Interim	31 August 2018	Paid	35 cents
Final	28 February 2019	Declared	30 cents

ACTIVITY 10:

The information relates to Beauty Ltd on 31 August 2019, the financial year end.

REQUIRED:

10.1 Calculate the **interim dividends paid**. (5)

10.2 Calculate the **total amount paid to SARS** in respect of income tax. (4)

10.3 Complete the **CASH GENERATED FROM OPERATIONS** note. (13)

10.4 During the year, a new vehicle was purchased for **R970 000**.
Old equipment was sold for cash at carrying value.
Calculate the **proceeds** from the disposal of the equipment. (5)

10.5 No shares were repurchased during the year. Additional shares were issued at R5,00 each. Calculate the number of additional shares issued. (4)

INFORMATION:

A. **Extracts from the Income Statement on 31 August 2019**

Depreciation	453 000
Interest on Loan	252 000
Income Tax	394 000
Net Profit after Tax	555 500

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B. **Extracts from the Balance Sheet as at 31 August 2019**

ASSETS	2019	2018
NON CURRENT ASSETS	**R 2 731 000**	**2 374 000**
Fixed/Tangible Assets	2 731 000	2 374 000
CURRENT ASSETS	**2 548 000**	**1 088 000**
Inventories	254 000	272 000
Trade and Other Receivables	1 638 000	770 000
Cash and Cash equivalents	656 000	46 000
EQUITY AND LIABILITIES		
Shareholders' Equity	**2 842 000**	**1 652 000**
Ordinary Share Capital	2 270 000	1 320 000
Retained Income	572 000	282 000
NON CURRENT LIABILITIES	**1 800 000**	**1 000 000**
Trade and Other Payables	637 000	810 000

C. **Extract from the Notes to the Financial Statements – 31 August 2019**

Trade and Other Receivables	**2019**	**2018**
Trade Debtors	R 1 592 000	R 770 000
SARS (Income Tax)	46 000	----
	1 638 000	**770 000**
Trade and Other Payables		
Trade Creditors	479 500	692 500
SARS (Income Tax)	-----	95 000
Shareholders for Dividends	157 500	22 500
	637 000	**810 000**

ACTIVITY 11:

The information relates to Paulos Ltd for the financial year ended 31 December 2020.

REQUIRED:

Calculate only the missing figures indicated by **(a)** to **(e)** in the Cash Flow Statement on 31 December 2020. (19)

INFORMATION:

A. **Extract from the Income Statement (Statement of Comprehensive Income) for the year ended 31 December 2020:**

Sales	R 8 764 000
Depreciation	214 500
Interest expense	148 500
Income tax	916 550

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B. **Balance Sheet (Statement of Financial Position) on 31 December:**

	2020	2019
Tangible/Fixed assets	R 5 953 000	R 5 692 500
Inventories	660 000	?
Trade and other receivables	?	681 000
Cash and cash equivalents	?	-
Shareholders' equity	6 673 000	5 148 000
Ordinary share capital	5 478 000	4 620 000
Retained income	1 195 000	528 000
Mortgage loan: Bea Bank	600 000	1 039 500
Current liabilities	758 000	915 750
Bank overdraft	-	198 000

C. **Share Capital:**

2 310 000	ordinary shares on 1 January 2020	R 4 620 000
390 000	ordinary shares issued on 1 January 2020	858 000
2 700 000	ordinary shares on 31 December 2020	5 478 000

D. **Dividends:**

- Interim dividends of 33 cents per share was paid on 30 June 2020.
- Final dividends were declared on 31 December 2020.

E. **Tangible/Fixed assets:**

- Vehicles sold at carrying value during the year were correctly recorded. The cost price of these vehicles was R350 000 and the accumulated depreciation was R247 500 on the date sale.
-
- Extensions to buildings were completed during the financial year.

F. **Trade and other payables include the following:**

	2020	2019
Shareholders for dividends	540 000	485 100
SARS (Income tax)	?	33 000

G.

CASH FLOW STATEMENT ON 31 DECEMBER 2020	
	R
Cash effects of operating activities	**542 250**
Cash generated from operations	
Interest paid	**(148 500)**
Dividends paid	**(a)**
Income tax paid	
Cash effects of investing activities	**(631 750)**
Proceeds on sale of fixed assets	**(b)**
Purchase of fixed assets	**(c)**

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Change in financial assets	
Cash effects of financing activities	**385 500**
Proceeds from shares issued.	**825 000**
Repayment of loan	**(439 500)**
Net change in cash equivalents	**(d)**
Cash equivalents – beginning of year	**(198 000)**
Cash equivalents – end of year	**(e)**

ACTIVITY 12:

Refer to Information G (the Cash Flow Statement) in Activity 11 (above), after you have calculated the missing amounts.

12.1 Identify THREE decisions that the directors have taken.

12.2 Provide ONE possible reason for each of the decision identified above.

12.3 Comment on the net change in cash and cash equivalents.

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6. ANSWER BOOK

ACTIVITY 1

No	CASH / BANK BALANCE		NET CHANGE IN CCE	Net Inflow or Net Outflow
	OPENING BALANCE	CLOSING BALANCE		
1	R112 400 (Dr)	R187 300 (Dr)		
2	R87 500 (Cr)	R23 700 (Cr)		
3	R176 800 (Dr)	R22 900 (Cr)		
4	R19 400 (Cr)	R28 600 (Dr)		
5	R98 300 (Dr)	R15 900 (Dr)		
6	R55 200 (Cr)	R77 700 (Cr)		

ACTIVITY 2

2.1

NET CHANGE IN WORKING CAPITAL	

NET CHANGE IN CASH AND CASH EQUIVALENTS	

2.2

NET CHANGE IN WORKING CAPITAL	

WORKINGS:

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ACTIVITY 3:

3.1

Calculate: Income tax paid

Calculate: Dividends paid

3.2

NET CHANGE IN CASH AND CASH EQUIVALENTS	

ACTIVITY 4:

Calculate: Fixed Asset purchased

Calculate: Fixed Assets sold

ACTIVITY 5:

CASH EFFECTS OF INVESTING ACTIVITIES	
Fixed assets purchased	

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ACTIVITY 6:

Calculate: Proceeds from shares issued
Calculate: funds used to repurchase shares
Calculate: change on loan

ACTIVITY 7:

	WORKINGS	ANSWER	
7.1.1	Calculate the Income tax paid.		5
7.1.2	Calculate the dividends paid		3
7.1.3	Calculate the net change in cash and cash equivalents.		4

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7.2

CASH EFFECTS OF FINANCING ACTIVITIES	

10

ACTIVITY 8:

8.1

CASH EFFECTS OF OPERATING ACTIVITIES	
Cash generated from operations	1 237 400

9

8.2 Amounts in the Cash Flow Statement:

Calculate: Change in fixed deposit

3

Calculate: Proceeds on disposal of equipment

6

ACTIVITY 9:

9.1

Calculate: Income tax paid	
Workings	Answer

4

9.2

Calculate: Dividends paid	
Workings	Answer

4

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9.3 Calculate: Proceeds of shares issued

Workings	Answer

6

9.4 Calculate: Fixed assets purchased

Workings	Answer

5

ACTIVITY 10:

10.1 Calculate Interim dividends paid.

5

10.2 Calculate Income tax paid

4

10.3 CASH GENERATED FROM OPERATIONS

Net profit before tax	
Profit before changes in working capital	
Changes in working capital	
Cash generated from operations	

13

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10.4	**Calculate proceeds from disposal of Fixed Assets**	5
10.5	**Calculate the number of additional shares issued.**	4

ACTIVITY 11:

Calculate only the missing figures indicated by (a) to (e) in the Cash Flow Statement 31 December 2020.

	WORKINGS	ANSWER
(a)	Dividends paid	
(b)	Proceeds on sale of fixed assets	
(c)	Fixed assets purchased	
(d)	Net change in cash and cash equivalents	
(e)	Cash equivalents: end of year	

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ACTIVITY 12:

12.1 Identify THREE decisions that the directors have taken. Quote figures.

DECISION 1	
DECISION 2	
DECISION 3	

12.2 Provide ONE possible reason for each of the decision identified above.

DECISION 1	
DECISION 2	
DECISION 3	

12.3 Comment on the net change in cash and cash equivalents.

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7. SUGGESTED ANSWERS AND MARKING GUIDELINE

ACTIVITY 1

No	CASH / BANK BALANCE		NET CHANGE IN CCE	Net Inflow or Net Outflow
	OPENING BALANCE	CLOSING BALANCE		
1	R112 400 (Dr)	R187 300 (Dr)	74 900	INFLOW
2	R87 500 (Cr)	R23 700 (Cr)	63 800	INFLOW
3	R176 800 (Dr)	R22 900 (Cr)	199 700	OUTFLOW
4	R19 400 (Cr)	R28 600 (Dr)	48 000	INFLOW
5	R98 300 (Dr)	R15 900 (Dr)	82 400	OUTFLOW
6	R55 200 (Cr)	R77 700 (Cr)	22 500	OUTFLOW

ACTIVITY 2

2.1

NET CHANGE IN WORKING CAPITAL	63 300
Change in inventories (134 800 – 98 600)	36 200
Change in receivables (99 400 – 104 600)	(5 200)
Change in payables (113 600 – 145 900)	32 300

NET CHANGE IN CASH AND CASH EQUIVALENTS	(45 600)
Opening balance	28 900
Closing balance (– 18 700 + 2 000)	(16 700)

2.2

NET CHANGE IN WORKING CAPITAL	(2 300)
Change in inventories (921 000 – 880 000)	41 000
Change in receivables (339 000 – 329 500)	9 500
Change in payables (470 800 – 418 000))	(52 800)

Receivables: Opening balance (327 000 + 12 000) = 339 000
Closing balance (329 500) = 329 500

Payables Opening balance (456 000 + 14 800) = 470 800
Closing balance (387 600 + 22 400 + 8 000) = 418 000

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ACTIVITY 3:

3.1

Calculate: Income tax paid 658 000 x 30/70 = 282 000 (income tax expense) – 14 300 + 282 000 – 15 600 = 252 100
Calculate: Dividends paid 800 000 – 180 000 = 620 000 shares x 0,18 = 111 600 148 800 + 111 600 = 260 400

3.2

NET CHANGE IN CASH AND CASH EQUIVALENTS	108 600
Opening balance (– 77 400 + 3 000)	(74 400)
Closing balance	34 200

ACTIVITY 4:

Calculate: Fixed Asset purchased Land and buildings: 2 860 000 – 2 210 000 = 650 000 Vehicles: 583 950 – 429 000 = 154 950 (current depreciation) 154 950 x 100/15 = 1 033 000 (Vehicles balance at the end of the year) 1 033 000 – 715 000 = 318 000 (additions to vehicles) 650 000 + 318 000 = 968 000 (fixed assets purchased)
Calculate: Fixed Assets sold (180 000 – 68 000) x 20% x 6/12 = 11 200 68 000 + 11 200 = 79 200 Accumulated depreciation on date of sale 180 000 – 79 200 = 100 800 (carrying value = proceeds on sale)

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ACTIVITY 5:

CASH EFFECTS OF INVESTING ACTIVITIES	(571 000)
Fixed assets purchased (3 370 000 – 250 000) 3 120 000 + 371 000 + 184 000 – 3 050 000	(625 000)
Fixed assets sold	184 000
Change in fixed deposit 250 000 – 120 000 – increase	(130 000)

* Be aware of information given that will not be relevant to answering the question.

ACTIVITY 6:

Calculate: Proceeds from shares issued

900 000	Opening balance	6 480 000
(75 000)	Repurchased ASP: 7,20 6 480 000/900 000	(540 000)
200 000	**Shares issued** **figure** **balance**	**1 720 000**
1 025 000	Closing balance 8 070 000 – 410 000	7 660 000

A reconstruction of the OSC note to get the balancing figure. OR

7 660 000 + 540 000 - 6 480 000 = 1 720 000 (with the necessary calculations for each amount)

Calculate: funds used to repurchase shares

75 000 x R1,30
97 500 + 540 000 = 637 500
From OSC above

Calculate: change on loan

750 000 – 300 000 + 92 000 = 542 000 (loan closing balance)

750 000 – 542 000 = 208 000 decrease in loan. Therefore, an OUTFLOW of cash.

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ACTIVITY 7:

	WORKINGS	ANSWER	
7.1.1	**Calculate the Income tax paid.** (422 500 – 295 750) two or nothing 3 390 ✓ + 126 750 ✓✓ – 5 200 ✓	124 940 ☑	5
7.1.2	**Calculate the dividends paid** 50 000 ✓ + 70 000 ✓ **OR**: 50 000 + (168 000 – 98 000)	120 000 ☑	3
7.1.3	**Calculate the net change in cash and cash equivalents.** – 25 000 ✓✓ – 245 000 ✓ (2 500 – 27 500) four marks (270 000) one mark (245 000) two marks (25 000)	– 270 000 ✓	4

7.2			
	CASH EFFECTS OF FINANCING ACTIVITIES		562 500 ☑
	Proceeds from shares issued 4 117 500 ✓ + 152 500 ✓✓ – 3 000 000 ✓ 25 000 x R6,10		1 270 000 ☑
	Funds used to repurchase shares R6,30	25 000 x	(157 500)✓✓
	Change in loan	1 300 000 – 750 000	(550 000)✓✓

10

ACTIVITY 8:

8.1		
	CASH EFFECTS OF OPERATING ACTIVITIES	240 600 ☑*
	Cash generated from operations	**1 237 400**
	Interest paid	(100 000) ✓
	Income tax paid (9 200 ✓ + 322 000 ✓ + 3 600 ✓)	(334 800) ☑*
	Dividends paid (270 000 ✓ + 292 000 ✓✓)	(562 000) ☑*

10

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8.2 Amounts in the Cash Flow Statement:

Calculate: Change in fixed deposit 300 000 ✓✓ Inflow ✓	3
Calculate: Proceeds on disposal of equipment 5 828 000 ✓ + 360 400 ✓ – 1 495 000 ✓ – 4 905 800 ✓ = 212 400 ☑ OR: – 5 828 000 – 360 400 + 1 495 000 + 4 905 800 = –212 400 Inflow ✓	6

ACTIVITY 9:

9.1 Calculate: Income tax paid

Workings	Answer
477 900 – 63 000 – 18 000 ✓ ✓ ✓ – 477 900 + 63 000 + 18 000	☑ R396 900

4

9.2 Calculate: Dividends paid

Workings	Answer
195 000 + 420 000 1200 000 x 0,35 ✓ ✓ ✓ **OR**: 195 000 + 792 000 – 372 000	☑ R615 000

4

9.3 Calculate: Proceeds of shares issued

Workings	Answer
9 300 000 – 1 860 000 – 7 724 000 ✓ ✓✓✓ ✓ (300 000 x R6,20) 1 860 000 | 9 300 000 7 724 000 | 284 000	☑ R284 000

6

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9.4 **Calculate: Fixed assets purchased**

Workings	Answer
10 658 000 – 490 000 – 408 000 – 11 835 100 OR 11 835 100 + 490 000 + 408 000 – 10 658 000 ✓ ✓ ✓ ✓ 10 658 000 | 408 000 2 075 100 | 490 000 11 835 100	R2 075 100 ☑

5

ACTIVITY 10:

10.1 **Calculate Interim dividends paid.**

282 000 ✓ + 555 500 ✓– 157 500 ✓ – 572 000 ✓ = 108 000 ☑

5

10.2 **Calculate Income tax paid**

394 000 ✓ + 46 000 ✓ + 95 000 ✓ = 535 000 ☑

4

10.3 **CASH GENERATED FROM OPERATIONS**

Net profit before tax 555 500 + 394 000	949 500✓✓
Depreciation	453 000✓
Interest expense	252 000✓
Profit before changes in working capital	1 654 500☑
Changes in working capital	(1 017 000)☑
Decrease in stock (272 000 – 254 000)	18 000✓☑
Increase in trade and other receivables 1 592 000 – 770 000	(822 000)✓☑
Decrease in trade and other payables 692 500 – 479 500	(213 000)✓☑
Cash generated from operations	637 500☑

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10.4 **Calculate proceeds from disposal of Fixed Assets**

(2 374 000 + 970 000) – (453 000 + 2 731 000) = 160 000 ☑
✓ ✓ ✓ ✓

5

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10.5	**Calculate the number of additional shares issued.** (2 270 000 ✓ – 1 320 000✓) / 5 ✓ = 190 000 shares. ☑	4

ACTIVITY 11:

Calculate only the missing figures indicated by (a) to (e) in the Cash Flow Statement 31 December 2020.

	WORKINGS	ANSWER
(a)	**Dividends paid** 485 100 ✓ + 891 000 ✓✓ (2 700 000 x 0,33)	1 376 100 ☑ one part correct
(b)	**Proceeds on sale of fixed assets** 350 000 ✓ – 247 500 ✓	102 500 ☑ one part correct
(c)	**Fixed assets purchased** 5 953 000 ✓ + 102 500 ☑ (See (b) above) + 214 500 ✓ – 5 692 500 ✓	577 500 ☑ one part correct
(d)	**Net change in cash and cash equivalents** 542 250 ✓ – 631 750 ✓ + 385 500 ✓	296 000 ☑ one part correct
(e)	**Cash equivalents: end of year** 296 000 ☑ (See (d) above) – 198 000 ✓	98 000 ☑ one part correct

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ACTIVITY 12:

12.1 Identify THREE decisions that the directors have taken. Quote figures.

DECISION 1	Fixed assets purchased, R577 500 (c) above
DECISION 2	Fixed assets sold, 102 500 (b) above
DECISION 3	Shares issued, R825 000
	Loan repaid, R439 500

12.2 Provide ONE possible reason for each of the decision identified above.

DECISION 1	Replacing old assets, face-lift / image / effect of technology
DECISION 2	No longer productive / outdated / upgraded with new models
DECISION 3	Need for additional funding for assets / bank overdraft
	Not being productively used / high interest

12.3 Comment on the net change in cash and cash equivalents.

Pro-active decisions taken to eradicate the bank overdraft Problems of liquidity addressed by new issue of shares

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8. EXAMINATION GUIDANCE (SPECIFIC TO CASH FLOW STATEMENT)

1. The Cash Flow Statement is generally tested as an application-type question that involve many calculations for the different amounts required for each section.
2. It is also combined with a few calculations of financial indicators.
3. All Accounting questions follow the same layout. The "REQUIRED" is provided first, followed by the "INFORMATION" needed to answer the questions. Some of the information provided may not be required for any calculations. These, we call "distractors". Do not be confused.
4. The sub-questions are repeated in the ANSWER BOOK, to assist with time management. Take note of specific information included in the ANSWER BOOK. If columns or spaces on statements are shaded, this indicates that you are not required to calculate those amount and that those amounts have no bearing on the answers required.
5. You should read the sub-questions carefully and underline the relevant information such as verbs (what are you expected to do) and key dates to ensure that you use the correct number of months in your calculations.
6. Since all the information to answer the sub-question is presented separately (below the required), you must be able to identify the specific, relevant information that is needed to answer each sub-question; example, to calculate the Income Tax Paid, you will need the income tax amount (on the Income Statement) and the SARS: Income Tax amounts (from the Balance Sheet). This skill is mastered through regular practice.
7. Strike out all the amounts you have used, as these may not be used in other calculations.
8. Show all workings, to ensure that maximum part marks can be achieved.
9. Use your answers in following calculations (where applicable); method marks will apply in such instances.
10. If the question requires you to complete the Cash Flow Statement, ensure that you use brackets to show the outflow of cash.
11. Do not rely on the formula sheet totally, as the names of the financial indicators are not provided. E.g. If the question requires you to calculate the current ratio, the formula sheet will show: Current Assets : Current Liabilities, and not mention current ratio.

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9. GENERAL STUDY AND EXAMINATION TIPS

1. Note that Accounting is now assessed in TWO papers;
   - P1 Financial Reporting and Evaluation 150 marks 2 hours
   - P2 Managerial accounting and internal controls 150 marks 2 hours

2. It is important to be familiar with the specific content for each paper so that you can plan your revision effectively for examinations. Note that certain topics will be relevant for Paper 1 and Paper 2, and is also integrated with topics in the same paper.

3. Obtain many past examination papers, the examination guidelines and exemplar papers to form the basis of your study programme.

4. Prepare a functional study time table and focus on specific topics at different intervals. Align this to time management; exploring short-cuts for calculations, frequently asked predictable questions and recommended responses for interpretive questions.

5. Pay careful attention to the language used in past papers such as content-specific vocabulary and action verbs.

6. For calculations, always show detailed workings – they carry many part marks.

7. Familiarize yourself with the structure and layout of Questions. They follow the same pattern which is: Appetizer → Required → Information.

8. Note that the ANSWER BOOK is a vital part of the Question Paper, as many amounts and details will be included for most Questions. This is a time-saving device. Ensure that you include these amounts in your final answers, where relevant.

9. Always arrive at least 30 minutes before the commencement of the paper. You will then be able to easily take care of all the administration requirements and to make effective use of your 10 minutes reading time.

10. Use the reading time to get a global picture of the paper, and identify where you wish to start (according to your strengths). You already have the ANSWER BOOK to assist in this regard. Simply go to the relevant pages for that Question.

11. You can also answer the sub-questions in any order; always inserting what is given, working from the simple to the more challenging.

12. Write legibly and neatly; markers must be clear about your answers.

13. Keep your comments short and to-the-point. The mark allocation is your guide about the expected length of your response.

14. Have your own stationery and a good calculator (even a spare – just in case).

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