

**QUESTION 1: COMPANY FINANCIAL STATEMENTS (55 marks; 45 minutes)**

The information relates to DBN Ltd. The company sells household products. The financial year ended on 29 February 2024.

**REQUIRED:****1.1 Refer to information A.**

The bookkeeper has recorded all the entries regarding fixed assets in the books. Complete the amounts denoted by **(i)** to **(iii)** on the Fixed Asset Note. (12)

**1.2 Refer to information C and D.**

Calculate the correct net profit **after tax** for the year ended 29 February 2024. Indicate (+) for increase and (-) for decrease, next to each amount. (13)

**1.3 Complete the Statement of Financial Position on 29 February 2024. (30)**

**NOTE:** Some amounts are provided in the ANSWER BOOK.

**INFORMATION:****A. Fixed assets:**

	<b>Buildings R</b>	<b>Vehicles R</b>	<b>Equipment R</b>
Carrying value: (01/03/2023)		249 850	
Cost	<b>(i)</b>		436 000
Accumulated depreciation			
Movements:			
Additions (at cost)	0	260 000	0
Disposals (at carrying value)	(420 000)	0	<b>(iii)</b>
Depreciation		<b>(ii)</b>	(32 000)
Carrying value: (29/02/2024)	9 421 300		
Cost		786 000	356 000
Accumulated depreciation			

- Depreciation is calculated as follows:
  - Vehicles: 15% p.a. on cost
  - Equipment: 20% on the diminishing-balance method
- A new vehicle was bought on 1 October 2023.
- Extract from the Fixed Assets Register in respect of equipment sold:

<b>KINOPA MWALIMU 234</b>	
Cost price: R80 000	
Date purchased: 1 September 2021	
Date sold: 31 May 2023	Sold for: R53 000
<b>CARRYING VALUE</b>	
28 February 2022	R72 000
28 February 2023	R57 600
31 May 2023	?

**B. Balances on 29 February 2024:**

Fixed assets at carrying value	R9 952 480
Ordinary share capital	?
Retained income	?
Loan: PTA Bank	?
Fixed deposit	425 000
Trading stock	1 064 200
Net trade debtors	744 900
Creditors' control	518 950
SARS: Income tax (provisional tax payments)	322 800

- C. The bookkeeper has calculated the net profit before tax as **R1 150 000**.  
The pre-adjustment balances to be adjusted are:

Audit fees	R144 000
Trading stock	1 064 200
Rent income	287 300
Directors' fees	852 800

Only the adjustments listed below must still be taken into account.

- (i) Audit fees of R45 600 were still owing on 29 February 2024.
- (ii) A donation of 100 blankets was made to a children's hospital, but the donation has not been recorded. The business uses the weighted-average method for valuing blankets. The stock records for blankets reflect the following:

	Quantity (units)	Unit price	Total cost
<b>Purchases during the year:</b>	1 500		R603 000
15 April 2023	600	R330,00	198 000
22 June 2023	900	R450,00	405 000
<b>Sales</b>	1 220		
Stock on hand: 29 Feb. 2024	280		

- (iii) Rent was increased by R1 300 per month from 1 January 2024. Only the rent for the period 1 March 2023 to 31 January 2024 was received and recorded.
- (iv) The company had one director, Jenny, at the beginning of the financial year. Jenny had been paid in advance for two months. A second director, Frank, was appointed on 1 December 2023. His monthly fee is 20% lower than that of Jenny. Frank received the fees due to him.

**D. Income tax:**

The assessment from SARS indicated total income tax for the financial year as R351 000, after all adjustments had been made. ...

**E. Share capital and dividends:**

<b>DATE</b>	<b>DETAILS</b>
1 March 2023	2 120 000 shares in issue
30 June 2023	230 000 shares repurchased: The average share price was R5,90 at the date of the repurchase
29 February 2024	1 890 000 shares in issue

- Interim dividends were not declared during the financial year.
- Final dividends of 25c per share were declared on 29 February 2024 to all shares in the share register.

**F. Transfer of debtor's balance to Creditors' Ledger:**

A debtor with a debit balance of R8 400 in the Debtors' Ledger must still be transferred to his account in the Creditors' Ledger.

**G. Loan: PTA Bank**

Extract from the Loan Statement from PTA Bank:

Balance on 1 March 2023	R1 400 000
Repayments for the financial year (including interest)	?
Interest capitalised	168 000
Balance on 29 February 2024	1 004 000

**NOTE:**

- All entries for the repayments and interest have been made.
- Directors expect to maintain the capital repayments made this year, during the next financial year.

**QUESTION 4: CORPORATE GOVERNANCE**

**(15 marks; 10 minutes)**

You are provided with a media article relating to Gadram Ltd.

**REQUIRED:**

**4.1 Refer to Paragraph 4.**

The three board members implicated in this case each own 150 000 shares. Calculate the loss that Loma and the two directors each were able to avoid by selling their shares on 13 April 2023. (3)

**4.2 Refer to Paragraph 3.**

- Explain why the text message is so important to the investigators. (2)
- Explain why you think this crime is referred to as 'insider trading'. (2)

**4.3** Explain how the rapid decline in the share price and the fraudulent financial statements are likely to affect the existing shareholders and its workers. (4)

**4.4** If you were a shareholder in Gadram Ltd, what other questions would you raise at the AGM? Explain TWO points. (4)

**INFORMATION:**

Use the information in the article and your knowledge on companies to answer the questions.

**SOCIAL MEDIA LIFTS THE LID ON MAJOR INSIDER TRADING****Paragraph 1**

Bizmiz News reported last month on the disclaimer audit report received by Gadram Ltd and that a police investigation into the false financial statements had recently begun. But this is not the end of the company's problems.

**Paragraph 2**

In March 2024, the Financial Sector Conduct Authority (FSCA) imposed a penalty of R50 million on Loma Leonard, CEO (chief executive officer) of Gadram Ltd, for breaching the Financial Markets Act (Act 19 of 2012) when he sent text messages to two directors, warning them to sell their Gadram shares.

**Paragraph 3**

The incriminating message from Loma read: 'You always ask for my opinion. It will take a long time for Gadram to get rid of all the bad news. Sell your shares immediately at the current price. Delete this message now and don't tell anyone.'

**Paragraph 4**

In deciding on the fine, the FSCA noted that on 10 April 2023 Loma had sent the message and on 13 April 2023, the three board members, Loma and the two directors, sold their shares on the JSE at R105,00 per share. The subsequent rapid decline to R8,00 per share in the market price of the shares occurred in the following two days.

15

TOTAL: 150



**QUESTION 1**

**1.1 FIXED ASSETS**

(i)

<b>Calculate: Cost price of buildings at the beginning of the year</b>	
<b>WORKINGS</b>	<b>ANSWER</b>

(ii)

<b>Calculate: Depreciation on vehicles</b>	
<b>WORKINGS</b>	<b>ANSWER</b>

(iii)

<b>Calculate: Carrying value on equipment sold</b>	
<b>WORKINGS</b>	<b>ANSWER</b>

**1.2**

**CORRECT NET PROFIT AFTER TAX FOR THE YEAR**

<b>Incorrect net profit before tax</b>	<b>1 150 000</b>
<b>Net profit before tax</b>	
<b>Net profit after tax</b>	

1.3 STATEMENT OF FINANCIAL POSITION ON 29 FEBRUARY 2024

**ASSETS**

<b>NON-CURRENT ASSETS</b>	<b>10 377 480</b>
Fixed assets	9 952 480
Investment: Fixed deposit	425 000
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	1 956 220
<b>TOTAL ASSETS</b>	

**EQUITY AND LIABILITIES**

<b>ORDINARY SHAREHOLDERS' EQUITY</b>	
Retained income	
<b>NON-CURRENT LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>	

30
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<b>TOTAL MARKS</b>
55

**QUESTION 4**

4.1 The three board members implicated in this case each own 150 000 shares. Calculate the loss that Loma and the two directors each were able to avoid by selling their shares on 13 April 2023.

WORKINGS	ANSWER

3

4.2 Explain why the text message is so important to the investigators.

Explain why you think this crime is referred to as 'insider trading'.

4

4.3 Explain how the rapid decline in the share price and the fraudulent financial statements are likely to affect the existing shareholders and its workers.

Existing shareholders	
Workers	

4



4.4

If you were a shareholder in Gadram Ltd, what other questions would you raise at the AGM? Explain TWO points.

POINT 1	
POINT 2	

4