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GRADE 12

JUNE 2021

**ACCOUNTING P1
FINANCIAL REPORTING AND EVALUATION
(EXEMPLAR)**

MARKS: 150

TIME: 2 hours

This question paper consists of 11 pages, including a formula sheet and a 10-page answer book.

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show ALL workings to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer the questions.
6. Where applicable, show ALL calculations to ONE decimal point.
7. If you choose to do so, you may use the Financial Indicator Formula Sheet attached at the end of this question paper. The use of this formula sheet is NOT compulsory.
8. Write neatly and legibly.
9. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

| QUESTION | TOPIC | MARKS | TIME (minutes) |
|----------|--|-------|-------------------|
| 1 | Concepts, Analysis of transactions and Audit report | 25 | 20 |
| 2 | Balance sheet (Statement of Financial Position) and Notes | 55 | 45 |
| 3 | Cash flow statement, Financial indicators and Interpretation | 50 | 40 |
| 4 | Analysis and interpretation of two companies | 20 | 15 |
| TOTAL | | 150 | 120 |

QUESTION 1: CONCEPTS, ANALYSIS OF TRANSACTIONS AND AUDIT REPORT
(25 marks; 20 minutes)**1.1 CONCEPTS**

Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question number (1.1.1–1.1.3) in the ANSWER BOOK.

1.1.1 The (shareholders / directors) are responsible for the management duties of the company.

1.1.2 The management of the company appoints the (external / internal) auditor.

1.1.3 (Inside trading / White-collar crime) is the use of confidential information by someone in the company in order to get advantage over others.

(3 x 1) (3)

1.2 ANALYSIS OF TRANSACTIONS**REQUIRED:**

Complete the table provided to indicate the account to be debited and credited as well as the effect on the accounting equation for each transaction:

Note:

Accept that the bank balance is favourable.

TRANSACTIONS:

1.2.1 The income tax for the year is calculated at R330 000.

1.2.2 Paid R120 000 for the repurchase of shares. This is R15 000 more than the value of the shares in the books of the company. (11)

1.3 AUDIT REPORT FOR YEAR ENDED 31 DECEMBER 2019

The financial statements of Zenko Ltd were audited. You are provided with extracts from the audit report.

EXTRACTS FROM THE AUDIT REPORT:

Independent Auditors' Responsibility

We have audited the annual financial statements of Zenko Ltd, set out on pages 25 to 52 for the year ended 31 December 2019. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis for ... Opinion

A donation of R250 000 in the Income Statement could not be verified, as no documentation existed for this expense. The managing director claims it was a contribution towards an outreach programme in the local community.

... Audit Opinion

In our opinion, except for the expenditure for donation in the Income Statement which could not be verified, the financial statements fairly represent the financial position of the company at 31 December 2019.

REQUIRED:

- 1.3.1 Explain why the auditors found it necessary to stipulate the page numbers in the report. (2)
- 1.3.2 What type of report did Zenko Ltd receive from the independent auditors? Explain your answer. (3)
- 1.3.3 State TWO possible consequences for the independent auditor if he had NOT mentioned the donation in his report. (2)
- 1.3.4 Explain why the company would make contributions towards outreach programmes in the local community. Mention TWO points. (4)

QUESTION 2: BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AND NOTES

(55 marks; 45 minutes)

MAKIZOLE LIMITED

You are provided with information for the financial year ended 29 February 2020.

REQUIRED:

2.1 Complete the following notes for the financial year ended 29 February 2020.

- (a) Ordinary share capital (8)
- (b) Retained income (12)

2.2 Complete the Balance Sheet (Statement of Financial Position) on 29 February 2020.

Where notes are not required, show ALL workings. (35)

INFORMATION:

A. Extract from the books on 29 February 2020:

| Balance sheet accounts section | R |
|---|-----------|
| Ordinary share capital | 4 500 000 |
| Retained income | 745 000 |
| Fixed assets at carrying value (balancing figure) | ? |
| Trading stock (see information D) | ? |
| Debtors' control | 473 000 |
| Provision for bad debts | 18 500 |
| Bank (favourable) | 429 500 |
| Water and electricity deposit | 2 640 |
| Fixed deposit: Shallow Bank (6% p.a.) | 715 000 |
| Creditors' control | 727 760 |
| SARS (Income tax) | 405 500 |
| Nominal accounts section | |
| Consumable stores | 119 750 |
| Interest on fixed deposit | 35 750 |
| Directors' fees | 552 000 |
| Dividends on ordinary shares | 390 000 |

B. Share capital:

- The company is authorised to sell 1 400 000 ordinary shares.
- 650 000 shares were in issue on 1 March 2019.
- 250 000 new shares were issued on 1 September 2019. The amount of R1 300 000 was received and has been properly recorded.
- 100 000 shares were repurchased on 5 February 2020 from an unsatisfied shareholder for 30 cents above the average share price. This transaction was not recorded. This shareholder does not qualify for final dividends.

C. Dividends:

- An interim dividend was paid on 20 August 2019.
- The directors declared a final dividend of 40 cents per share on 29 February 2020.

D Stock records:

The first-in-first-out method of valuing stock is used.

| | Number of units | Price per unit | Total (R) |
|---|-----------------|----------------|-----------|
| Stock balances: | | | |
| 1 March 2019 | 1 000 | 250 | 250 000 |
| 29 February 2020 | 1 250 | | ? |
| Purchases: | 10 500 | | 3 380 000 |
| April 2019 | 5 000 | R300 | 1 500 000 |
| July 2019 | 4 000 | R350 | 1 400 000 |
| January 2020 | 1 200 | R400 | 480 000 |
| Returns: 50 units from the order received in January 2020. | | | |

E. The following adjustments have not been taken into account:

- Consumable stores used during the year amounts to R109 950.
- Interest on fixed deposit still outstanding, R7 150.
- The three directors earn the same monthly fees. The third director was appointed on 1 January 2020 and has not been paid yet.

F. 75% of the fixed deposit matures on 31 March 2020.

G. After the actual tax was calculated on the corrected net profit for the year, it was found that the provisional tax paid was R35 500 less than the actual tax.

H. Income tax is calculated at 30% of net profit.

I. After processing all adjustments the debt-equity ratio is 0,1 : 1.

QUESTION 3: CASH FLOW CALCULATIONS, FINANCIAL INDICATORS AND INTERPRETATION
(50 marks; 40 minutes)

- 3.1 Choose the correct term to complete each of the following statements. Write only the letter (A–D) next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK.

| | |
|---|-----------------|
| A | Working capital |
| B | Inflow of cash |
| C | Depreciation |
| D | Outflow of cash |

3.1.1 ... is regarded as a non-cash item.

3.1.2 A decrease in trading stock will indicate a/an ...

3.1.3 Current assets minus current liabilities are referred to as ... (3 x 1) (3)

3.2 CACADU LTD

The following information was taken from the accounting records of CACADU Ltd. The financial year ended on 30 June 2019.

REQUIRED:

3.2.1 Calculate the following amounts for the Cash Flow Statement:

- Operating profit before changes in working capital (6)
- Income tax paid (5)
- Dividends paid (4)

3.2.2 Complete the following sections of the Cash Flow Statement:

- Cash effects from investing activities (7)
- Cash effects from financing activities (4)
- Net change in cash and cash equivalents (2)

3.2.3 Calculate the following financial indicators on 30 June 2019:

- % Operating expenses on sales (4)
- % Return on average shareholders equity (ROSHE) (5)

3.2.4 Quote TWO financial indicators with figures and trends which should be a concern to the company's liquidity. (4)

3.2.5 Comment on the degree of financial risk and gearing of the company. Quote TWO financial indicators with figures and trends to support your answer. (6)

INFORMATION:**A. Information taken from the Income Statement on 30 June 2019:**

| | |
|------------------------|-----------|
| Sales | 7 920 000 |
| Gross operating income | 3 070 220 |
| Operating profit | 1 753 420 |
| Depreciation | 578 050 |
| Interest on loan | ? |
| Net profit before tax | 1 650 000 |
| Net profit after tax | 1 188 000 |

B. Information taken from the Balance sheet on 30 June:

| | 2019 | 2018 |
|----------------------------------|------------|-----------|
| Fixed Assets (at carrying value) | 4 895 000 | 2 582 800 |
| Shareholders equity | 6 708 900 | 3 945 700 |
| Ordinary share capital | 6 344 800 | 3 465 000 |
| Retained income | 364 100 | 480 700 |
| Fixed deposit: Bruce Bank | 100 000 | 100 000 |
| Bank | 241 250 Dr | ? |
| Loan: V&R Bank | ? | ? |
| SARS: Income Tax | 16 400 Dr | 11 500 Dr |
| Shareholders for dividends | 810 000 | 77 000 |

C. Ordinary shares:

- On 1 March 2019 shares were bought back from the insolvent estate of a shareholder. A cheque for R117 000 was issued which is R12 000 more than the average price.
- On 30 June 2019, R2 984 800 was received from new shareholders and their names were entered into the shareholders register.

D. Ordinary dividends:

The total dividend for the year amounted to R1 255 000.

E. Fixed assets were sold at carrying value, R900 250..**F. The loan statement received from V&R Bank on 30 June 2019 reflected the following:**

| | R |
|---|---------|
| Balance at the beginning of the financial year | 789 140 |
| Repayments during the year (including interest) | 231 670 |
| Interest capitalised | ? |
| Balance at the end of the financial year | 670 890 |

G. Other financial information and indicators for the past two years:

| | 2019 | 2018 |
|----------------------------------|---------|---------|
| Current ratio | 2,1 : 1 | 1,8 : 1 |
| Acid test ratio | 1,1 : 1 | 1,2 : 1 |
| Stock turnover rate | 4 times | 7 times |
| Debtors' collection period | 40 days | 30 days |
| Creditors' payment period | 60 days | 60 days |
| Debt/Equity ratio | 0,1 : 1 | 0,2 : 1 |
| % return on shareholder's equity | ? | 20,2% |
| % return on capital employed | 29,1% | 29,4% |
| Interest rate on loans | 13% | 12% |

QUESTION 4: ANALYSIS AND INTERPRETATION OF TWO COMPANIES**(20 marks; 15 minutes)**

Alton Jantjes owns shares in Lion Ltd and in Bull Ltd.

He recently inherited R130 000 and wants to increase his investment in either of these companies.

NOTE: Both companies have no intention in issuing additional shares (to increase the share capital).

REQUIRED:

Where necessary, quote figures, percentages and financial indicators to motivate your answers.

4.1 Calculate the number of shares that Alton can buy in Lion Ltd. (2)

4.2 **REFER TO THE SHARE CAPITAL AND THE SHARE PRICES:**

Alton is more interested in purchasing the additional shares in Lion Ltd.

Provide TWO reasons why he feels this way.

Make reference to a comparison between both companies in your answer. (6)

4.3 **REFER TO THE DPS AND THE EPS:**

- Alton is happy with the DPS at Lion Ltd. Provide ONE reason why. (3)

- Provide ONE reason for the dividend policy at Bull Ltd. (3)

4.4 Comment on the return on investment of both companies. Provide ONE separate point for each company. (6)

INFORMATION:

Information is for both companies for the year ended 29 February 2020.

| | LION LTD | BULL LTD |
|--|------------------------|----------------------|
| Ordinary share capital (number of shares in issue) | 500 000 | 900 000 |
| Number of shares owned by Alton | 240 000 | 460 000 |
| Price of shares on JSE (market price) | 650 cents | 340 cents |
| Net asset value (NAV) per share | 622 cents | 412 cents |
| Dividends per share (DPS) | 34 cents | 42 cents |
| Earnings per share (EPS) | 75 cents | 52 cents |
| Average return on shareholders' equity (ROSHE) | 12,2% (13% in 2019) | 6,7% (9% in 2019) |
| Interest rate on fixed deposit | 8% (in both years) | |

20**TOTAL: 150**

| GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET | |
|---|--|
| $\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$ | $\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$ |
| $\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$ | $\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$ |
| $\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$ | $\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$ |
| Total assets : Total liabilities | Current assets : Current liabilities |
| (Current assets – Inventories) : Current liabilities | Non-current liabilities : Shareholders' equity |
| (Trade & other receivables + Cash & cash equivalents) : Current liabilities | |
| $\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$ | $\frac{\text{Cost of sales}}{\text{Average trading stock}}$ |
| $\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$ | $\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$ |
| $\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$ | $\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below) |
| $\frac{\text{Net income before tax + Interest on loans}}{\text{Average shareholders' equity + Average non-current liabilities}} \times \frac{100}{1}$ | |
| $\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$ | $\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$ |
| $\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$ | $\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$ |
| $\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$ | $\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$ |
| $\frac{\text{Total fixed costs}}{\text{Selling price per unit – Variable costs per unit}}$ | |
| Note: * In this case, if there is a change in the number of issued shares during a financial year, the weighted average number of shares is used in practice. | |