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**GRADE 12**

**2021 PRE-TRIAL  
EXAMINATION**

**ACCOUNTING P1**

**MARKS: 150**

**TIME: 2 HOURS**

This question paper consists of 8 pages,  
a formula sheet and a 8-page answer book.

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**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 black/blue 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	MINUTES
1	Financial statements of companies	60	50
2	Cash Flow Statement and Financial Indicators	40	30
3	Interpretation of financial information	35	30
4	Audit Report and corporate governance	15	10
TOTAL		150	120

**QUESTION 1: FINANCIAL STATEMENTS OF COMPANIES (60 marks; 50 minutes)**

- 1.1 Match the abbreviations in Column A with an explanation in Column B. Write only the letter (A – E), next to each number (1.1.1 – 1.1.5) in the Answer Book.

COLUMN A	COLUMN B
1.1.1 MOI	A Responsible for the registration and control of all companies.
1.1.2 CIPC	B A professional body with a membership of all chartered accountants.
1.1.3 SAICA	C A global set of reporting standards that makes financial statements comparable and consistent.
1.1.4 IFRS	D Matching and prudence are examples of principles considered when preparing financial statements
1.1.5 GAAP	E Formation document that includes all the rules, procedures and guidelines concerning a company.

(5)

**1.2 BULLDOG LTD**

The company is listed with an Authorised Share Capital of 1 200 000 ordinary shares. The financial year ended on 28 February 2021.

**REQUIRED:**

- 1.2.1 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2021. (26)
- 1.2.2 Prepare the Retained Income note. (8)
- 1.2.3 Prepare the EQUITIES AND LIABILITIES section of the Statement of Financial Position on 28 February 2021. (21)

**INFORMATION:****A. Extract of balances/totals from the Pre-Adjustment Trial Balance on 28 February 2021:**

Ordinary share capital	?
Retained income (1 March 2020)	209 000
Loan: ORT Bank	562 800
Creditors control	333 350
SARS: Income tax (provisional payments)	280 000
Bank overdraft	?
Sales	8 711 700
Cost of sales	?
Rent income	55 200
Commission income	165 700
Salaries and wages	621 500
Depreciation	329 000
Interest income	?
Audit fees	48 750
Directors fees	?
Sundry expenses	?
Ordinary share dividends (31 August 2020)	228 000

**B. Adjustments:**

- (i) A credit sales invoice for R19 800 was not recorded. Goods are sold at a profit mark-up of 50% on cost.
- (ii) The rent income for March 2021 was received and deposited. Note that the storeroom was rented out from 1 August 2020. The business allowed a reduction of R800 per month from 1 January 2021, due to limited access during COVID-19 restrictions.
- (iii) Only 75% of the audit fees was paid. The balance will be paid during March 2021.
- (iv) The company has three directors. Two of them received their fees of R213 600 each for the entire financial year. The third director, appointed on 1 June 2020, earns 10% less than the other directors. He has received his fees for March 2021.

**C. Income tax:**

Income tax at 30% of the net profit, amounted to R348 000, after taking into account all adjustments.

**D. Share capital and dividends:**

- On 1 June 2020, additional shares were issued.
- On 1 October 2020, 50 000 shares were repurchased at R1,10 above the average share price.
- On 28 February 2021, the share capital comprised 900 000 shares.
- Interim dividends were paid on 31 August 2020
- A final dividend of 17 cents per share was declared on 28 February 2021.

**E. Loan: ORT Bank**

- Fixed instalments of R12 500 per month, including interest capitalised, was paid and recorded.
- The loan statement received on 28 February 2021 reflected capitalised interest of R63 200, that must still be recorded.
- The business expected to repay 15% of the loan balance in the following financial year.

**F. Financial indicators calculated after all adjustments:**

- Current Ratio: 1,8 : 1 (based on total Current Asset of R1 260 000)
- NAV: 890 cents

**QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS****(40 marks; 30 minutes)**

The information relates to SWI LTD for the financial year ended 30 June 2021.

**REQUIRED:**

- 2.1 Calculate the following amounts for the Cash Flow Statement:
- Income tax paid (5)
  - Dividends paid (4)
  - Fixed assets purchased (5)
- 2.2 Complete the following sections of the Cash Flow Statement:
- Cash effects of financing activities (11)
  - Net change in cash and cash equivalents (4)
- 2.3 Calculate the following: (Show calculations to one decimal point.)
- 2.3.1 Debt/equity ratio (3)
  - 2.3.2 Dividend pay-out rate (4)
  - 2.3.3 % return on average shareholders' equity (4)

**INFORMATION:**

- A. **Information extracted from the Statement of Comprehensive Income (Income Statement) for the financial year ended 30 June 2021:**

Sales	R 9 375 000
Depreciation	464 000
Interest expenses	312 000
Net profit before income tax	1 375 500
Net profit after tax	962 850
Earnings per share (EPS)	99 cents

- B. **Figures extracted from the Balance Sheet and Notes:**

	30 JUNE 2021 R	30 JUNE 2020 R
Fixed assets (carrying value)	9 363 600	R 8 928 850
Fixed deposits	220 000	300 000
<b>Non-current liabilities</b>	<b>1 800 000</b>	<b>3 000 000</b>
<b>Current assets</b>	<b>1 297 000</b>	<b>1 286 200</b>
<b>Current liabilities</b>	<b>915 750</b>	<b>786 000</b>
<b>Shareholders' equity</b>	<b>8 164 850</b>	<b>6 729 050</b>
Ordinary share capital	7 711 250	6 252 500
Retained income	453 600	476 550
<b>Current assets includes:</b>		
Inventories	583 000	538 000
SARS: Income tax	0	4 200
Cash and cash equivalents	2 000	112 000
<b>Current liabilities includes:</b>		
SARS: Income tax	18 450	0
Shareholders for dividends	238 800	166 000
Bank overdraft	78 500	0

**C. Share Capital:**

- 830 000 ordinary shares were in issue on 1 July 2020.
- 240 000 shares were issued on 1 November 2020.
- 75 000 shares were re-purchased on 30 April 2021 at R9,15 each.

**D. Dividends:**

- An interim dividend of 60 cents per share was paid on 31 December 2020, to all shares on the share register.
- A final dividend of 24 cents per share was declared on 30 June 2021, to all shares on the share register at the end of the financial year.

**E. Fixed assets:**

- Old equipment was sold at carrying value, R76 250.
- Extensions to buildings were completed during the financial year.

**QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION****(35 marks; 30 minutes)**

The information was extracted from the records of Zukina Ltd for the financial year ended 28 February 2021.

**REQUIRED:**

- 3.1 Comment on the liquidity position of the business. Quote and explain THREE financial indicators (with figures) in your explanation. (8)
- 3.2 Shareholders are concerned about the % returns and dividends for the year. Provide TWO possible reasons for their concern. Quote figures. (4)
- 3.3 The directors decided to change the dividend pay-out policy for the current financial year. Provide TWO possible reasons for this decision. Quote figures. (6)
- 3.4 The debt/equity ratio shows that the company has maintained a gearing ratio of 0,4 : 1 over the two financial years. Was this a good strategy? Explain. Quote a financial indicator (with figures) to motivate your answer. (6)
- 3.5 Terro Kota, owns 360 000 shares which represents 45% of the total issued share capital. He wants to be the majority shareholder in the next financial year, and plans to buy the shares on the stock exchange on 1 March 2021.
  - Calculate the number of shares he would have to buy, and the total amount he would have to spend. Note that the company's shares are only available in batches of 100 shares. (7)
  - Provide TWO different reasons why he wants to be the majority shareholder. (4)

**INFORMATION:****A. Financial indicators and additional information.**

	<b>28 FEB. 2021</b>	<b>28 FEB. 2020</b>
Current ratio	2,9 : 1	1,8 : 1
Acid test ratio	0,7 : 1	0,9 : 1
Average debtors collection period	32 days	36 days
Stock turnover rate	5,2 times	8 times
Debt/equity	0,4 : 1	0,4 : 1
% return on average capital employed	12,8%	14,3%
% return on average shareholders' equity	7,4%	9,2%
Earnings per share	86 cents	123 cents
Dividends per share	70 cents	74 cents
Dividend pay-out rate	81,4%	60,2%
Net asset value per share	490 cents	545 cents
Market price per share on the JSE	485 cents	550 cents
Interest rate on loans	13%	12%
Interest on fixed deposits	8,0%	7,5%



**QUESTION 4: AUDIT REPORT AND CORPORATE GOVERNANCE****(15 marks; 10 minutes)**

An extracted of the Audit Report of Xoli Ltd is presented.

**REQUIRED:**

- 4.1 Identify the type of audit report that the company received, and provide a reason for your choice. (3)
- 4.2 Shareholders expressed concern about the role of the Audit Committee.
- 4.2.1 Explain the difference between an internal auditor and an external auditor. (2)
- 4.2.2 Provide THREE reasons for the concern expressed by shareholders. (6)
- 4.3 Provide TWO suggestions on how good corporate governance can be achieved. (4)

**INFORMATION:****Extract of the Audit Report:**

We have audited the annual financial statements of Xoli Ltd for the year ended 28 February 2021. The financial statements are the responsibility of the company's directors.

**Basis for Opinion**

In the course of the audit it was established that bonuses paid to directors, amounting to R12,5 million, had not been authorised by the Remunerations Committee.

**Audit Opinion**

Because of the significance of the matters described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements for the year then ended.

**Palavi and Rao,**  
**Chartered Accountants (SA)**

**31 July 2021**

**15****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	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales / Credit Purchases}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income before tax + Interest on loans}}{\text{Average shareholders' equity + Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit – Variable costs per unit}}$	
<b>NOTE:</b> * 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.	