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PREPARATORY EXAMINATION

GRADE 12

ACCOUNTING P1

SEPTEMBER 2022

MARKS: 150

TIME: 2 HOURS

**This question paper consists of 11 pages, 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 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 the 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	Statement of Comprehensive Income and Statement of Financial Position	60	48
2	Cash Flow Statement and interpretation	45	36
3	Financial Indicators	30	24
4	Corporate governance	15	12
TOTAL		150	120

QUESTION 1: STATEMENT OF COMPREHENSIVE INCOME, STATEMENT OF FINANCIAL POSITION
(60 marks; 48 minutes)

- 1.1 Choose the description from COLUMN B that matches the concept in COLUMN A. Write only the letter (A–D) next to the question numbers (1.1.1 to 1.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.1.1	Statement of Comprehensive Income (Income statement)	A	The owner's equity (net worth) of a company, its assets and liabilities, at the end of the financial year
1.1.2	Statement of Financial Position (Balance Sheet)	B	An opinion expressed on the fair presentation of the figures in the financial year
1.1.3	Cash Flow Statements	C	The net profit or loss of a company for a financial year
1.1.4	Independent Auditor's Report	D	The effect of the operating, financing and investing activities on the money possessed by the business

(4)

1.2 **GLOBAL TRADING LTD**

The information relates to Global Trading Limited, and the financial year ended on 30 June 2022. The business uses the perpetual (continuous) inventory system.

REQUIRED:

- 1.2.1 (22)
- 1.2.2 Prepare the Ordinary Share Capital Note on 30 June 2022. (7)
- 1.2.3 Prepare the Retained Income Note on 30 June 2022. (8)
- 1.2.4 Complete the Equities and Liabilities section of the Statement of Financial Position (Balance Sheet) on 30 June 2022. (19)

INFORMATION:

A. List of balances/totals on 30 June 2022:

BALANCE SHEET ACCOUNTS SECTION	
Ordinary Share Capital	6 775 000
Retained income (1 July 2021)	1 190 264
Mortgage loan: Custom Bank	354 000
Fixed assets	6 169 000
Fixed deposit: Custom Bank	390 000
Trading stock	817 450
Debtors' control	742 488
Provision for bad debts (1 July 2021)	10 600
SARS: Income tax (provisional payments)	300 000
Creditor's control	166 800
Prepaid expenses	3 350
Income received in advance	5 450

B. The net profit before tax of R1 089 238 was determined BEFORE taking into account the following information:

- i. Provision for bad debts must be adjusted to R7 800.
- ii. An invoice was issued on 30 June 2022 for R8 712; a 10% trading discount was allowed. Goods were sold with a mark-up of 60%. No entry has been made to this transaction.
- iii. The auditor discovered that the trading stock deficit of R5 600 was a trading stock surplus.
- iv. Consumable goods on hand at the end of the financial year amounted to R5 400.
- v. Directors' fees paid for the year amounted to R648 000. The company has FIVE directors who receive the same fee. One of the directors asked the company to only pay out his fees for the last six months in July 2022, when he plans to go on an overseas vacation.
- vi. BE Builders was paid R120 000 for the construction of a storeroom (R90 000) and repairs to the building (R30 000). The entire amount was debited to land and buildings in error.
- vii. Rent for July 2022, R3 300, received in advance.
- viii. Advertising includes a six-month contract for R7 200 with the local newspaper. This amount was paid for the period 1 May 2022 to 31 October 2022.
- ix. Income tax amounts to R333 564 for the year.

C. Dividends and shares:

- i. Interim dividends of R110 000 were paid on 31 December 2021.
- ii. Share capital

1 July 2021	3 000 000 shares were issued (R3 900 000).
30 September 2021	250 000 shares were repurchased at R2,50 each from an existing shareholder (R625 000). It has been recorded.
30 June 2022	1 000 000 new shares were issued at R3,20 each. It has been recorded.

- iii. The directors declared a final dividend of 10 cents per share on 30 June 2022. Shares issued on 30 June 2022 do not qualify for final dividends.
- D.** A creditors' debit balance of R2 600 in the Creditors' Ledger must still be transferred to his account in the Debtors' Ledger.
- E.** The company wants to pay off R9 250 per month on their loan in the next financial year.

QUESTION 2: CASH FLOW STATEMENT AND INTERPRETATION

(45 marks; 36 minutes)

- 2.1 Give ONE word/term for each of the following descriptions by choosing a word/term from the list below. Write only the word/term next to the question numbers (2.1.1 to 2.1.4) in the ANSWER BOOK.

directors' report; Statement of Financial Position; shareholder;
director; internal auditor; Cash Flow Statement; independent auditor

- 2.1.1 A person employed by a company – to check and advise management on the financial control systems.
- 2.1.2 This person appointed by the shareholders; expresses an unbiased opinion on the financial statements of a company.
- 2.1.3 A person appointed to manage a company and make decisions to ensure its smooth running.
- 2.1.4 This financial statement provides users of financial statements with information of all the financial resources during the accounting period. (4)

2.2 BOOTS & ALL LTD

You are provided with information relating to Boots & All Ltd for the financial year ended 30 June 2022.

REQUIRED:

- 2.2.1 Calculate the following for the financial year ended 30 June 2022:
- (i) The mark-up % achieved for the year. (4)
 - (ii) % return on shareholders' equity. (5)
 - (iii) The net asset value per share. (3)
- 2.2.2 Calculate the missing amounts in the Cash Flow Statement represented by letters **(a)** to **(d)**. Indicate whether the amount is an inflow or outflow. (17)
- 2.2.3 Using Information B and E, calculate the following:
- (i) The total dividends for the financial year. Note that the interim and final dividends were determined on different numbers of shares. (4)
 - (ii) The balance of the loan on 30 June 2022. (2)

2.2.4 The Cash Flow Statement highlights some crucial decisions taken by the directors over the past year:

- Explain TWO of these crucial decisions. Quote figures to support your answer.
- Explain how these decisions would benefit the company. (6)

INFORMATION:

A. Extract from Income Statement for the financial year ended 30 June 2022:

	R
Sales	9 000 000
Cost of sales	5 625 000
Depreciation	380 000
Interest on loan	185 000
Net profit before income tax	1 330 000
Net profit after income tax	931 000

B. Extract from Balance Sheet on 30 June 2022:

	2022	2021
	R	R
Fixed assets (carrying value)	4 326 000	1 489 000
Ordinary shareholders' equity	7 500 000	6 450 000
Ordinary share capital	5 950 000	5 200 000
Retained income	1 550 000	1 250 000
Mortgage loan (Puma Bank 13% p.a.)	?	950 000
SARS (income tax)	Cr 32 000	Dr 18 000
Shareholders for dividends	105 000	71 500
Inventory	670 000	580 000

C. Additional information:

- (i) Ordinary share capital:
- 1 500 000 shares have been authorised.
 - 650 000 shares were issued at the end of the previous financial year, 30 June 2021.
 - 100 000 ordinary shares were issued on 1 May 2022.
 - 50 000 ordinary shares were repurchased from dissatisfied shareholders. They were repurchased at R11,75 per share; the average price was R8,50 per share.

- (ii) Fixed assets:
- Equipment was bought during the year, R3 357 000.
 - Some fixed assets were sold at carrying value during the financial year.

D. Financial indicators for the past two years

	2022	2021
	R	R
Current ratio	1,5 : 1	1,0 : 1
Stock turnover rate	9 times	7 times
Debt-equity ratio	0,24 : 1	0,15 : 1
% return on average shareholders' equity	?	12%
% return on total capital employed	17,8%	15%
Dividends per share	34 cents	20 cents
Earnings per share	133 cents	120 cents
Net asset value per share	?	992 cents
Market price on JSE	1 050 cents	980 cents

E. Cash Flow Statement for the year ended 30 June 2022

Cash flow from operating activities	
Cash generated by operations	1 800 000
Interest paid	(185 000)
Dividends paid	(201 500)
Income tax paid	(a)
Cash flow from investing activities	
Purchases of fixed assets	3 357 000
Proceeds on sale of fixed assets	(b)
Increase in fixed deposit	(60 000)
Cash flow from financing activities	
Proceeds on shares issued	(c)
Buy back of shares	(d)
Increase in mortgage loan	850 000
Net change in cash and cash equivalents	
Cash and cash equivalents at the beginning	190 000
Cash and cash equivalents at the end	(547 200)

QUESTION 3: FINANCIAL INDICATORS OF TWO COMPANIES

(30 marks; 12 minutes)

3.1 FINANCIAL INDICATORS OF TWO COMPANIES

Your friend, Peter, is considering buying shares in a company that sells sportswear. He asks you for advice and presents you with the following financial indicators of two companies he is contemplating. The companies are of similar size, and they have issued the same number of shares.

NOTE:

When answering the questions, compare the information given and quote relevant financial indicators of both companies (percentages, ratios and/or figures).

REQUIRED:

- 3.1.1 Zee Ltd is more liquid than Ryan Ltd. Quote and explain TWO financial indicators (with figures) to prove your agreement. (6)
- 3.1.2 Which company uses more loans? Quote and explain a financial indicator to support your answer. Explain whether this is a good idea or not. (6)
- 3.1.3 Explain why you think the market price of Ryan Ltd's shares is much better than that of Zee Ltd. Quote and explain TWO financial indicators to support your answer. (4)
- 3.1.4 Which company is more likely to expand its business? Explain your answer by using relevant calculations. (5)
- 3.1.5 Ryan Ltd has a better percentage return, earnings and dividends than Zee Ltd. Explain THREE financial indicators to support this opinion. (9)

INFORMATION:

	Ryan Ltd	Zee Ltd
Market price per share on the JSE	755 cents	590 cents
Net asset value per share	605 cents	625 cents
Earnings per share (EPS)	813 cents	179 cents
Dividends per share (DPS)	537 cents	182 cents
% return on shareholders' equity	28,5%	11,5%
% return on capital employed (before tax)	35,6%	12,4%
% interest rate on loans	14%	14%
Debt/Equity ratio	0,2 : 1	1,9 : 1
Current ratio	5,8 : 1	1,7 : 1
Acid-test ratio	3,7 : 1	0,8 : 1
Debtors' average collection period	55 days	26 days

QUESTION 4: CORPORATE GOVERNANCE

(15 marks; 12 minutes)

AUDIT REPORTS

You are provided with extracts from the independent audit reports of Metsi Ltd and Just Water Ltd.

Extract from audit report of Metsi Ltd:

In our opinion, the financial statements fairly present, in all material respects, the financial position of this company on 28 February 2022 and the results of their operations and cash flow for the year ended under International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Extract from audit report of Just Water Ltd:

We found that the internal control procedures were not adhered to – and that documentation did not exist for a significant portion of the transactions tested.

Because of the significance of the matter described in the previous paragraph, we could not obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Therefore, we do not express an opinion on the financial statements for the year ended 28 February 2022.

REQUIRED:

- 4.1 Comment on the audit reports of both companies. If you want to buy shares in a company, explain how the report will affect your decision concerning the shares you would purchase in the company. In which company would you invest? (5)
- 4.2 The board of directors has different committees with different functions. Choose the function in COLUMN B that matches the committee in COLUMN A. Write only the letter (A–D) next to the question numbers (4.2.1 to 4.2.4) in the ANSWER BOOK.

4.2.1 Audit committee	A Review salaries, bonuses and other earnings.
4.2.2 Remuneration committee	B Responsible for performing risk assessment regularly.
4.2.3 Social and ethics committee	C Ensure that the appointment of an auditor complies with the Companies Act and the legislation.
4.2.4 Risk committee	D Monitor the impact of the public activities and their products or service to the environment, health and public safety.

(4)

- 4.3 The purpose of a business rescue plan is to provide a company with temporary supervision and protection against its creditors, to give them a 'breathing space' to reorganise and restructure its financial affairs. Name TWO parties who might be affected by a business rescue plan. (2)
- 4.4 Who is the audit report addressed to? Give a reason for your answer. (2)
- 4.5 Give TWO examples of audit evidence that the auditors would have required to complete the audit. (2)

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