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GRADE 12

ACCOUNTING P1
SEPTEMBER 2022

MARKS: 150

TIME: 2 hours

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

INSTRUCTION AND INFORMATION

Read the following instruction carefully and follow them precisely

1. Answer ALL questions.
2. A special ANSWER BOOK is provided in which to answer ALL questions.
3. Show ALL workings to earn pert-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer 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	Statement of Financial Position	50	40
2	Cash Flow Statement and Financial Indicators	35	28
3	Interpretation of Financial Information	45	36
4	Corporate governance and audit of the company	20	16
TOTAL		150	120

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QUESTION 1: NOTE AND STATEMENT OF FINANCIAL POSITION.**(50 marks; 40 minutes)****KELLY LTD****REQUIRED:****Refer to information A – F**

1.1 Prepare the Retained Income Note on 28 February 2022. (11)

1.2 Complete the Statement of Financial Position (Balance Sheet) for the year ended 28 February 2022. (27)

NOTE:

Show workings, Certain figures are provided in your answer book.

1.3 The CEO, Paul Joe, owns 42% of the issued shares on 28 February 2022. The board of Directors wants to issue the unissued shares in the next financial year.

1.3.1 Calculate the number of shares that Paul must buy to gain control of the company. (4)

1.3.2 Paul wants to buy shares at the current Net asset value without advertising them to the public. As an existing shareholder, why would you not be satisfied with this arrangement? Explain. Provide TWO points. (4)

1.4 Kelly Ltd is planning to spend R500 000 on staff development and training over the next two years. Explain where this amount should be shown in the published annual report, and provide a reason for your answer. (4)

INFORMATION:

A. The following balances were extracted from the records of KELLY LTD on 28 February 2022:

	R
Ordinary share capital	?
Retained income (1 March 2021)	57 480
Fixed assets at carrying value	3 940 900
Fixed Deposit: Dube Bank	415 000
Loan from director: J France	1 155 000
Inventory (all trading stock)	222 600
Trade and other payables	231 920
SARS: Income tax (provisional tax payment)	280 000
Cash in bank	212 400

B. Share Capital and Dividends:

- Authorised shares: 800 000
- On 1 March 2021, 80% of the authorised share capital was in issue.
- Interim dividends of 28 cents per share was paid on 30 August 2021.
- On 28 February 2022, the company repurchased 40 000 shares at R1,25 above the average share price of R6,00. The full amount for this transaction was paid by EFT, but the EFT has not yet been entered in the CPJ.
- A final dividend of R210 000 was declared on 28 February 2022.

C. Profit and tax:

Income tax at 31% of the net profit for the year amounted to R306 280.

D. Fixed deposit:

R165 000 of the fixed deposit matures on 30 June 2022. The rest matures in 2025.

E. Loan from Director J France:

- The loan was originally received on 1 December 2019.
- This loan is to be repaid over 5 years in equal monthly instalments with effect from 31 December 2019. All payments have been made.
- Interest is not capitalised and has been paid in full.

F. Financial indicators on 28 February 2022:

Current ratio	1,5 : 1
Net asset value (NAV)	650 cents
Market price (Security Exchange)	710 cents

QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS

(35 marks; 28 minutes)

The information relates to Castro Ltd for the financial year ended 30 June 2022.

REQUIRED:

- 2.1 Complete the Note for Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2022: (4)
- 2.2 Calculate the following figures in the 2022 Cash Flow Statement:
- 2.2.1 Taxation paid (4)
 - 2.2.2 Fixed assets purchased (6)
 - 2.2.3 Shares issued (2)
 - 2.2.4 Funds used for the repurchased shares (2)
 - 2.2.5 Net change in cash and cash equivalents (4)
- 2.3 Calculate the following:
- 2.3.1 Earnings per share (4)
 - 2.3.2 Debt-equity ratio (3)
 - 2.3.3 Return on average capital employed (6)

INFORMATION:

A.

Information from the financial statement on 30 June:		
	2022 R	2021 R
Depreciation	16 645	22 000
Interest expenses	120 000	123 000
Fixed assets (carrying value)	1 541 940	944 800
Financial assets	130 000	190 000
Shareholders' equity	2 499 900	1 117 500
Ordinary share capital	2 375 000	1 000 000
Retained income	124 900	117 500
Loan	350 000	1 070 000
Inventory	1 125 000	1 145 000
Trade and other receivables	1 115 000	1 143 000
Cash and cash equivalent	88 900	2 500
Trade and other payables	1 150 940	1 070 800
Bank overdraft	-	153 000
Total capital employed	2 849 900	2 187 500

B.

NOTES TO THE BALANCE SHEET:		
	2022 R	2021 R
TRADE AND OTHER RECEIVABLES	1 115 000	1 143 000
Debtors Control	1 102 000	1 130 000
Accrued Income	9 000	6 000
Prepaid Expenses	4 000	3 000
SARS: Income Tax	0	4 000
TRADE AND OTHER PAYABLES	1 150 940	1 070 800
Creditors Control	1 043 565	1 047 300
Accrued expenses	7 000	9 500
SARS: Income Tax	10 375	0
Shareholders for dividends	260 000	14 000

ADDITIONAL INFORMATION:**A. Share capital and dividends.**

- The company is registered with an authorised share capital of 300 000 ordinary shares.
- On 30 June 2021 there were 100 000 shares in issue.
- 100 000 additional shares issued at R15 on 1 January 2022.
- On 30 June 2022, 10 000 shares were repurchased from the estate of a deceased shareholder at R3,50 above the average price.
- The interim dividends of 20 cents per share was declared and paid on 15 December 2021. The final dividends were declared on 30 June 2022.

B. Sale of equipment.

Cost price	R40 000
Accumulated depreciation to date sold	R20 570
Date sold	1 April 2022
Selling price (at carrying value)	?

C. Income tax.

- Income tax for the year amounted to R197 600.
- Net profit after tax; R322 400.

QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION**(45 marks; 36 minutes)**

- 3.1 Complete the following sentences using the word (s) in the list below. Write only the word next to the question number (3.1.1 – 3.1.5) in the ANSWER BOOK.

liquid; profitable; solvent; return; risk/gearing

3.1.1 A company with total assets exceeding total liabilities is ...

3.1.2 A company that relies heavily on loans will have high ...

3.1.3 A company that controls its income and expenses properly will be ...

3.1.4 The percentage net income on equity indicates the ... earned by shareholders

3.1.5 A company that is able to settle its immediate debts is ...

(1 x 5) (5)

3.2 **FINANCIAL INDICATORS OF TWO COMPANIES:**

Your friend, Jack, has bought shares in both companies. He asks you for your opinions on the financial results. The companies are the same size.

REQUIRED:

Explain your answer to the following questions. In each case compare and quote financial indicators of both companies (actual figures, ratios or percentages) to support your answer.

3.2.1 Jack is of the opinion that KAT Ltd is handling its working capital more effectively and is in a better liquidity situation than KIT Ltd. Explain and quote THREE financial indicators to support his opinion (9)

3.2.2 The operating efficiency of KIT Ltd are better than that of KAT Ltd. Quote and explain ONE financial indicator to support your opinion. (2)

3.2.3 Which company uses more loans? Explain whether this is a good idea or not. In each case, quote a financial indicator to support your answer. (6)

3.2.4 Compare and comment on the dividends pay-out policies of both companies. (8)

3.2.5 KIT Ltd has a better percentage return, earnings and dividends than KAT Ltd. Explain by quoting THREE financial indicators to support this opinion. (9)

3.2.6 The existing shareholders of the TWO companies hold different opinions of the current market value of their shares.

- Explain why the existing shareholders of KIT Ltd are happy with this. Quote a financial indicator /figure to support your answer. (3)
- Explain why the existing shareholders of KAT Ltd are very disappointed with this. Quote a financial indicator/figure to support your answer. (3)

INFORMATION:

	KIT LTD	KAT LTD
Market price per share on the JSE	750 cents	885 cents
Net asset value per share	609 cents	939 cents
Earnings per share	410 cents	176 cents
Dividends per share	240 cents	185 cents
% return on shareholders' equity	21,3%	11,2%
% return on total capital employed	32,6%	13,6%
% interest rate on loan	15,0%	15,0%
Debt/equity ratio	0,3 : 1	2,0 : 1
Current ratio	6,0 : 1	1,5 : 1
Acid-test ratio	2,8 : 1	0,9 : 1
Period for which stock is on hand	150 days	88 days
Average debtors' collection period	53 days	25 days
% Gross profit on cost of sales	62,2%	58,3%
% Operating expenses on sales	37,9%	44,5%
% Operating profit on sales	10,1%	7,3%

QUESTION 4: CORPORATE GOVERNANCE AND AUDIT OF THE COMPANY

(20 marks; 16 minutes)

You are provided with the following extract for Don Ltd from the report of the independent auditors.

REQUIRED:

- 4.1 Explain what is meant by Corporate Governance. (2)
- 4.2 Provide TWO examples of corporate governance that would occur in a company. (4)
- 4.3 Refer to the underlined words in paragraph 2.
 - Give TWO examples of audit evidence. (4)
- 4.4 Explain why an independent auditor would want to see that the following GAAP principles that are applied:
 - Matching (2)
 - Going concern (2)
- 4.5 Refer to paragraph 3. Explain why you would be satisfied with this audit report opinion. (3)
- 4.6 To whom is an audit report addressed? Give reason for your answer. (3)

INFORMATION:

EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS

Paragraph 1 We have audited the annual financial statements of Don Ltd set out on Pages 10 to 19 for the year ended 31 May 2022. 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.

Paragraph 2 **An audit includes:**

- Examining, on a test basis, evidence supporting the amounts in the financial statements
- Assessing the accounting principles used and significant estimates made by management;
- Evaluating the overall financial statement presentation.

Paragraph 3 **Audit opinion:**
In our opinion, the financial statements fairly present, in all material respects, the financial position of the company at 31 May 2022 and the results of their operations and cash flow for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 1973 (Act 71 of 1973) in South Africa.

Bob & John, Chartered Accountants (SA)

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.	