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# **CAPE WINELANDS / WEST COAST EDUCATION DISTRICTS**

## **PREPARATORY EXAMINATION**

**GRADE 12**

**ACCOUNTING P1**

**SEPTEMBER 2022**

**MARKS: 150**

**TIME: 2 HOURS**

**This question paper consists of 10 pages,  
a formula sheet and a 9-page answer book.**

## INSTRUCTIONS AND INFORMATION

Read the following instructions 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 part-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 formula sheet at the end of the 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	Transaction analysis and audit report	20	15
2	Statement of Financial Position and Notes	60	55
3	Cash Flow Statement and Financial Indicators	30	20
4	Analysis and Interpretation	40	30
<b>TOTAL</b>		150	120

## QUESTION 1: TRANSACTION ANALYSIS AND AUDIT REPORT

(20 marks; 15 minutes)

### CONCEPTS

- 1.1 Choose the correct word from those given in brackets. Write only the word next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.
- 1.1.1 The concept of (limited / unlimited) liability ensures that shareholders are not responsible for the debts of the business in the event of bankruptcy.
- 1.1.2 When preparing financial statements, creditors will be reflected as trade and other (receivables / payables / equity).
- 1.1.3 The separate disclosing of significant items, such as interest expenses, is an application of the (prudence / materiality) GAAP principle. (3)

### 1.2 CLAY-BRICK LTD

#### REQUIRED:

Analyse the transactions below according to the headings on the table provided in the ANSWER BOOK

- Indicate *account debited* and *account credited* in the General Ledger and the effect on the accounting equation. Indicate an increase as +, a decrease as – and no effect as 0. Refer to the example provided.
- Assume a favourable bank balance at all times.

**Example: Bought packing material on credit, R2 700.**

NO.	ACCOUNT DEBITED	ACCOUNT CREDITED	AMOUNT	A	O	L
e.g.	Packing material	Creditors' Control	2 700	0	-	+

#### TRANSACTIONS:

- 1.2.1 Electronic funds transfers (EFT) totalling R225 000 were made to shareholders, being the amount owing to them at the end of the previous financial year.
- 1.2.2 The company received R550 000 for the issue of new shares.
- 1.2.3 The income tax assessment for the year was received. The income tax amount, R840 000, exceeded the provisional tax payments made. (9)

### 1.3 Independent audit report:

You are provided with an extract of the audit report for Clay-Brick Ltd for the financial year ended 30 June 2022.

#### REQUIRED:

- 1.3.1 Identify the type of audit report that the company received. Give a reason for your answer. (2)
- 1.3.2 Explain why the auditor referred to:
- Pages 10 to 25 (2)
  - International financial Reporting Standards and the Companies Act of South Africa (2)
- 1.3.3 Name any TWO items of audit evidence that the auditors may have used. (2)

#### INFORMATION:

##### Extract of the audit report:

###### To Shareholders

###### Basis of Opinion

We conducted our audit in accordance with international standards on auditing.

We are independent of the company, as applicable to performing audits, and with other ethical requirements as per the professional code of conduct. The audit evidence we obtained was sufficient and appropriate.

###### Opinion

We have audited the financial statements, as set out on pages 10 to 25. These comprise the Statement of Comprehensive Income, Statement of financial Position and the Cash Flow Statement for the year ended 30 June 2022.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the business as at the year ended, its financial performance and cash flows, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

**Poobie and Piet**  
**Registered Auditors**

**31 August 2022**

**QUESTION 2: ADJUSTMENTS, STATEMENT OF FINANCIAL POSITION  
(BALANCE SHEET) AND NOTES (55 marks; 45 minutes)**

- 2.1 Complete each of the following statements by choosing a word(s) from the list below. Write only the word(s) next to the question numbers (2.1.1. to 2.1.3) in the **ANSWER BOOK**.

external auditors; directors; shareholders; internal auditors
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2.1.1 The ... are employed by the company to set up and monitor control processes.

2.1.2 ... are appointed to give an unbiased opinion on the financial statements.

2.1.3 ... are appointed by the owners of the company to perform key management functions. (3)

**2.2 RIZPAH LTD**

The information relates to the financial year ended 28 February 2022.

2.2.1 Calculate the correct net profit after tax by accounting for the adjustments with **information C and D**. (11)

2.2.2 Complete the following Notes to the Statement of Financial Position (Balance Sheet):

- Ordinary Share Capital (8)
- Retained Income (8)

2.2.3 Prepare the Statement of Financial Position (Balance Sheet) on 28 February 2022. (30)

**INFORMATION:**

**A. Extract from the accounting records on 28 February:**

Balance Sheet Accounts	2022 R	2021 R
Fixed deposit	733 500	?
Ordinary Share Capital	11 931 000	?
Retained Income	1 794 000	?
Loan: CW-Loans	?	?
SARS: Income tax (provisional tax)	675 000	
Creditors' control	926 170	
Shareholders for dividends	320 100	243 000
Debtors' control	1 312 500	
Provision for bad debts	?	35 460
Trading stock (balancing figure)	?	
Petty cash	7 500	7 500
Bank overdraft (balancing figure)	?	
<b>Nominal accounts</b>		
Audit fees	72 000	
Rent income	153 600	

**B. Share Capital and Dividends**

DATE	DETAILS
1 March 2021	75 % of the authorised share capital of 1 200 000 ordinary shares were in issue.
30 August 2021	80 000 shares were repurchased from a retired shareholder. He was paid 20% (R204 000) above the average share price and would no longer qualify for dividends.
31 August 2021	An interim dividend of 42 cents per share was paid.
1 December 2021	An additional 150 000 shares were issued.
28 February 2022	A final dividend was declared.

C. The following adjustments were not considered with the calculation of the net profit before tax of R2 226 840 in the Statement of Comprehensive Income (Income Statement):

- The provision for bad debts must be increased by R3 740
- Only half the audit fees were paid. The balance will be paid in March 2022.
- The tenant occupies part of the premises from 1 May 2021. He has not paid the rent for January and February 2022. Rent remained constant for the accounting period.

D. Income tax for the year is calculated at 30% of the net profit:

E. R360 000 of the fixed deposit will mature on 1 April 2022.

F. A debit balance of R26 920 from the Debtors' Ledger must be transferred to the Creditors' Ledger.

G. The following figures and financial indicators were calculated on 28 February 2022, after all adjustments were processed:

Current Assets	R3 120 000
Current ratio	1,6 : 1
Debt-equity ratio	0,4 : 1

H. The loan from CW-Loan will be reduced by a capital portion of R342 000 in the 2023 financial year.

**QUESTION 3: CASH FLOW STATEMENT AND FINANCIAL INDICATORS**  
**( 30 marks; 20 minutes)**

- 3.1 Three financial statements are provided as options in which each of the following items would appear. Choose the financial statement and write only the letter (A – C) next to the question numbers (3.1.3 to 3.1.3) in the ANSWER BOOK, e.g. 3.1.4 D.

A	Statement of Financial Position (Balance Sheet)
B	Statement of Comprehensive Income (Income Statement)
C	Cash Flow Statement

- 3.1.1 Profit on sale of a fixed asset
- 3.1.2 Amount due to shareholders for final dividends payable
- 3.1.3 Total amount spent on the repurchase of shares (3)

**3.2 SUNRISE LTD**

The financial year ended on 28 February 2022.

- 3.2.1 Calculate the following figures for the 2022 Cash Flow Statement:

- Income tax paid (4)
- Dividends paid (4)
- Proceeds of shares issued (5)
- Fixed assets purchased (5)

- 3.2.2 Calculate financial indicators for the year ended 28 February 2022:

- % operating profit on sales (3)
- Net asset per share (3)
- Debt-equity ratio (3)



**INFORMATION FOR SUNRISE LTD:**

**A. Information from Statement of Comprehensive Income on 28 February 2022:**

Sales	4 362 500
Gross Profit	1 762 500
Depreciation	204 000
Operating profit	1 016 950
Interest expense	220 500
Income tax	238 950
Net profit after tax	569 000

**B. Information from Statement of Financial Position on 28 February 2022**

	<b>2022</b>	<b>2021</b>
Fixed assets (carrying value)*	R5 917 550	R5 329 000
SARS: Income tax	9 000 (Cr)	31 500 (Dr)
Shareholders' equity	4 312 500	5 032 500
Ordinary share capital	3 862 000	4 650 000
Loan: UOME-Bank	1 750 000	1 400 000
Shareholders for dividends	186 000	97 500
<b>*NOTE:</b> Fixed assets were sold at carrying value, R245 000		

**C. Share capital and dividends:**

<b>SHARE CAPITAL</b>		<b>NUMBER OF SHARES</b>	<b>DETAILS OF SHARES</b>
2021	1 March	1 500 000	In issue at R3,10 per share
	30 April	300 000	Repurchased at R3,45 per share
2022	1 January	40 000	New shares issued
	28 February	1 240 000	In issue

<b>DIVIDENDS</b>			<b>DIVIDENDS PER SHARE</b>
Final	2 March 2021	Paid	6,5 cents
Interim	31 August 2021	Paid	17,5 cents
Final	28 February 2022	Declared	15 cents

## QUESTION 4: ANALYSIS AND INTERPRETATION

( 40 marks; 20 minutes)

### 4.1 KIM LTD AND CHEVY LTD

#### Refer to Information D to F

Mike Tyson owns shares and is a director in both these companies.

He recently invested another R840 000 in each company by buying shares on the JSE at market value as follows:

KIM LTD	CHEVY LTD
R16,80	R8,00

#### REQUIRED:

**NOTE:** Provide figures, financial indicators or calculations in EACH case to support your comments and explanations.

#### 4.1.1 Purchase of shares:

- Explain why directors should be interested in the price of their companies' shares on the JSE. (2)
- Calculate the number of additional shares in KIM Ltd that Mike was able to buy on the JSE in 2022. (3)
- Comment on the price that Mike paid for these shares and give TWO reasons why he might have been satisfied to pay his price. (6)

#### 4.1.2 Dividends and earnings:

- Explain your opinion on which company has the better dividend pay-out policy. (6)
- Compare and comment on the % return on equity earned by EACH company. (4)
- Mike feels that the earnings per share (EPS) of CHEVY LTD is much better than that of KIM LTD. Explain why he feels this way. (5)

#### 4.1.3 Refer to the Cash Flow Statements:

The poor economy has negatively affected KIM LTD more than CHEVY LTD.

- Explain TWO decisions taken by the directors of **KIM LTD** in response to the state of the economy, and how these decisions will affect the company in future. (6)
- Explain TWO decisions taken by the directors of **CHEVY LTD** that affect risk and gearing. Quote and comment on TWO financial indicators. (8)

**D. Shareholding of Mike Tyson in two companies**

	<b>KIM LTD</b>	<b>CHEVY LTD</b>
Number of shares bought in 2019	580 000 shares	1 430 000 shares
Total shares issued by each company	1 240 000 shares	2 600 000 shares
Additional shares bought by Mike	?	105 000 shares
Mike's % shareholding before buying additional shares	46,8%	55,0 %

**E. Financial indicators and additional information on 28 February 2022:**

	<b>KIM LTD</b>	<b>CHEVY LTD</b>
Earnings per share (EPS)	194 cents	166 cents
Dividends per share (DPS)	130 cents	160 cents
Debt-equity ratio	0,1 : 1	0,7 : 1
% return on average equity	6,2 %	18,2 %
% return on average capital employed	9,4 %	15,1 %
Net asset value (NAV)	1 500 cents	890 cents
<b>Additional information:</b>		
Interest on loans	12,0 %	12,0 %
Interest on investments	6,5 %	6,5 %

**F. Extracts from the Cash Flow Statements for the year ended 28 February 2022:**

	<b>KIM LTD</b>	<b>CHEVY LTD</b>
Cash flow from <b>investing activities</b>	R5 400 000	(R5 460 000)
Purchase of fixed assets	0	(3 160 000)
Sale of fixed assets	3 600 000	0
Change in investments	1 800 000	2 300 000
Cash flow from <b>financing activities</b>	(5 340 000)	8 000 000
Proceeds of new shares issued	0	400 000
Shares repurchased	(2 140 000)	0
Cash effects of long-term loan	(3 200 000)	7 600 000

**40**

**TOTAL MARKS:**

**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)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
<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.	