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**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

ACCOUNTING P1

NOVEMBER 2022

MARKS: 150

TIME: 2 hours

**This question paper consists of 13 pages,
a formula sheet and an 11-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. A Financial Indicator Formula Sheet is attached at the end of this question paper.
4. Show ALL workings to earn part-marks.
5. You may use a non-programmable calculator.
6. You may use a dark pencil or blue/black ink to answer questions.
7. Where applicable, show ALL calculations to ONE decimal point.
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	Company Financial Statements: Statement of Comprehensive Income and Statement of Financial Position	60	45
2	Cash Flow Statement and Financial Indicators	35	25
3	Interpretation of Financial Statements	40	35
4	Corporate Governance	15	15
TOTAL		150	120

QUESTION 1: COMPANY FINANCIAL STATEMENTS: STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF FINANCIAL POSITION (60 marks; 45 minutes)

The information relates to Laysano Ltd for the financial year ended on 28 February 2022.

REQUIRED:

1.1 Refer to Information B (i).

Calculate the cost of the stock that was damaged. (5)

1.2 Refer to Information B (ii).

Calculate:

1.2.1 The profit/loss on sale of the delivery vehicle (5)

1.2.2 Total depreciation for the year (4)

1.3 Complete the following for the year ended 28 February 2022:

1.3.1 Statement of Comprehensive Income (28)

1.3.2 Equities and Liabilities section of the Statement of Financial Position (18)

NOTE: Some amounts are provided in the ANSWER BOOK.

INFORMATION:

A. Extract: Balances and totals from the records on 28 February:

	2022	2021
	(R)	(R)
Ordinary share capital	6 670 000	
Retained income	?	
Loan: Saturn Bank	1 159 000	1 280 750
Debtors' control	2 746 300	
Provision for bad debts	?	85 840
Fixed deposit	1 830 000	
SARS: Income tax (provisional tax payments)	130 000	
Creditors' control	428 000	
Sales	9 355 250	
Cost of sales	5 665 250	
Directors' fees	1 124 000	
Audit fees	83 000	
Salaries and wages (including contributions)	1 381 500	
Commission income	4 560	
Rent income	183 600	
Security expenses	72 500	
Interest on fixed deposit	?	
Interest on loan	142 250	
Depreciation	328 200	
Sundry expenses	?	
Dividends on ordinary shares (interim)	207 000	

B. Additional information:**(i) Stock records:**

- The business sells sports shirts.
- The weighted-average method is used to value the shirts.
- The following information was extracted from the records:

	UNITS	UNIT PRICE	TOTAL R
Stock balance: 1 Mar. 2021	1 900	R660	1 254 000
Purchases during the year	7 100	R750	5 325 000
Total available for sale	9 000		6 579 000
Stock balance: 28 Feb. 2022	1 185	?	?
Units sold	7 750		

- **NOTE:** Damaged shirts were not included in the closing stock figure. The damaged shirts must be written off as a loss.

(ii) Fixed assets:

	2022 R	2021 R
Land and buildings		
Vehicles	?	1 750 000
Accumulated depreciation on vehicles	?	620 000
Equipment	956 000	?
Accumulated depreciation on equipment	?	318 000

- Vehicles are depreciated at 20% p.a. on a diminishing balance.
- Equipment is depreciated at 15% p.a. on cost.

The bookkeeper calculated the total depreciation as R328 200 before taking the following into account:

Vehicles:

- An old delivery vehicle, with a carrying value of R170 000 on 1 March 2021, was sold for R140 000 on 1 December 2021.

Equipment:

- An alarm system costing R48 000 was installed on 1 August 2021.

- (iii) R33 700 received from a debtor, whose account was previously written off as irrecoverable, was posted in error to the Debtors' Control Account. This must be corrected.

The provision for bad debts must then be adjusted to 3% of the Debtors' Control balance.

- (iv) The business signed a contract with Always-Safe Securities for guarding the premises. An annual premium of R32 400 for the period ended 31 July 2022 was paid in full on 1 August 2021.

- (v) All details in respect of the February 2022 salary of an employee were incorrectly debited to the Sundry Expenses Account. The following information relates to his salary:

NET SALARY	DEDUCTIONS	
	SARS: PAYE	PENSION FUND
R11 525	R3 235	R990

The business contributes R2 for every R1 deducted for the Pension Fund.

NOTE: EFT payments have already been processed for all relevant amounts payable.

- (vi) A tenant has been leasing office space on the premises since March 2020. She has paid the rent until 30 April 2022. Note that the monthly amount was reduced by R1 350 with effect from 1 January 2022.
- (vii) **Income tax** for the year is calculated at 30% of the net profit. The net profit after tax is R356 300 after adjustments.
- (viii) **Loan: Saturn Bank**
- All transactions with respect to the loan were recorded.
 - Interest of R142 250 on the loan is capitalised.
 - A fixed monthly instalment (including interest) was paid in full.
 - The capital portion of the repayments will increase by 10% over the next financial year.
- (ix) **Shares and dividends:**
- On 28 February 2022 there were 1 150 000 shares in issue.
 - A final dividend was declared on 28 February 2022.
 - Total dividends for the year amounted to R345 000.

- (x) **Net asset value per share (NAV):**

After taking into account all adjustments, the net asset value (NAV) was correctly calculated as 675 cents per share.

QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS
(35 marks; 25 minutes)

- 2.1 Choose the correct word from those given in brackets. Write only the word next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.
- 2.1.1 (Solvency/Liquidity) is the ability of the business to pay off all debts using existing assets.
- 2.1.2 Effective control of income and expenses is a reflection of the (risk/profitability).
- 2.1.3 The use of loans to finance a company is known as (returns/gearing). (3 x 1) (3)

2.2 **EAGLE LTD**

The information relates to the financial year ended 28 February 2022. The business is registered with an authorised share capital of 1 800 000 shares.

REQUIRED:

- 2.2.1 Prepare the Retained Income Note on 28 February 2022. (7)
- 2.2.2 Calculate the following amounts for the Cash Flow Statement:
- Income tax paid (4)
 - Funds used to repurchase shares (5)
 - Net change in cash and cash equivalents (4)
- 2.2.3 Calculate the following financial indicators on 28 February 2022:
- Debt-equity ratio (3)
 - % return on average capital employed (5)
 - Dividends per share (4)

INFORMATION:

A. Extract: Statement of Comprehensive Income on 28 February 2022:

Sales	R11 232 000
Depreciation	428 300
Interest on loan	382 000
Net profit before tax	1 297 700
Income tax	389 300
Net profit after tax	908 400

B. Items identified from the Statement of Financial Position on 28 February:

	2022	2021
Shareholders' equity	12 350 800	10 750 000
Ordinary share capital	11 968 000	?
Retained income	382 800	?
Loan: Lilly Bank	2 886 000	3 700 000
Total capital employed	15 236 800	14 450 000
Cash and cash equivalents	44 700	8 000
Bank	36 700	0
Petty cash	8 000	8 000
SARS: Income tax	14 400 Cr	21 300 Dr
Shareholders for dividends	?	271 400
Bank overdraft	0	133 000

C. Ordinary shares:

	NO. OF SHARES
Number of shares on 1 March 2021	1 180 000
Number of shares issued on 1 July 2021 at R9,30 each	300 000
Number of shares repurchased on 1 January 2022 at R1,40 above the average share price	120 000
Number of shares on 28 February 2022	1 360 000

D. Dividends:

- Interim dividends of R710 400 were paid on 31 August 2021.
- A final dividend of 12 cents per share was declared to all shareholders on the share register on 28 February 2022.

KEEP THIS PAGE BLANK.

QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS**(40 marks; 35 minutes)**

- 3.1 Choose the appropriate item from the list provided to fit EACH purpose below. Write only the letter (A–D) next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK.

List of items that would appear in a company's annual report:

A	Statement of Comprehensive Income (Income Statement)
B	Statement of Financial Position (Balance Sheet)
C	Cash Flow Statement
D	Directors' Report

NO.	PURPOSE
3.1.1	To reflect the effects of operating, investing and financing activities
3.1.2	To provide a written explanation of the financial performance of a company
3.1.3	To reflect the performance of a company in terms of its gross, operating and net profit

(3)

3.2 **JESSIE LTD**

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

BACKGROUND INFORMATION:

Mike Stuurman was appointed as the chief financial officer (CFO) on 1 March 2021 as a result of his successful track record of improved performances at other companies where he had worked previously. He is not a shareholder of Jessie Ltd.

REQUIRED:

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

3.2.1 Profitability:

Mike has informed the board of directors that he has identified and rectified a number of incidents of fruitless and wasteful expenditure in the company's records. Provide TWO financial indicators that justify the success of Mike's strategies. (4)

3.2.2 Dividends:

- Explain whether the change in the dividend pay-out rate in 2022 will benefit the company or not. (3)

- Sue Lee, a shareholder who owns 5 000 shares, is satisfied with the dividends she has received despite the change in the dividend policy. Explain why she feels this way. (3)

3.2.3 Risk and gearing:

Some shareholders feel that Mike was reckless when he increased the loan by R3,35 million soon after his appointment as CFO. Explain why you do not agree with them. Provide TWO points. (6)

3.2.4 Share capital and % shareholding: Refer to Information C and D.

- Calculate Brent's % shareholding on 28 February 2022. (5)

- Brent and Kerina decided that they would combine their votes at the upcoming annual general meeting (AGM).

- Explain ONE possible reason for this decision, with figures. (3)

- As an existing shareholder, explain why you would be concerned about the strategy of Brent and Kerina. Provide TWO points. (4)

3.2.5 Refer to Information A, B and C.

Mike received an offer for the post of CFO at Premier Ltd, at a much better remuneration package than the current one at Jessie Ltd. The directors of Jessie Ltd met and proposed that they offer him a better package than that offered by Premier Ltd.

Explain THREE points relating to the financial results of the company, besides those mentioned above, that the Remunerations Committee can use to justify offering Mike an improved package to remain at Jessie Ltd. (9)

INFORMATION:**A. Financial indicators calculated on 28 February:**

	2022	2021
Mark-up % achieved	70%	60%
% operating expenses on sales	14,8%	27,8%
% net profit on sales	24,7%	10,3%
Solvency ratio	3,6 : 1	5,3 : 1
Debt-equity ratio	0,3 : 1	0,2 : 1
Earnings per share	408 cents	123 cents
Dividends per share	190 cents	120 cents
Dividend pay-out rate	46,6%	97,6%
% return on average shareholders' equity	20,7%	7,3%
% return on average capital employed	16,9%	7,5%
Net asset value per share	1 841 cents	1 685 cents

B. Additional information on 28 February:

	2022	2021
Market price of shares on stock exchange	1 920 cents	1 540 cents
Interest rate on loans	7,2%	8,5%
Interest rate on fixed deposits	4,5%	3,5%

C. Issue and repurchase of shares:

Based on Mike's advice, the directors decided to issue additional shares to existing shareholders at R21,00 per share. Shareholders were allowed to purchase 10 shares for every 40 shares they owned. All shareholders exercised this right.

	NO. OF SHARES
Number of shares in issue on 1 March 2021	1 300 000
Number of shares repurchased on 31 August 2021	240 000
Number of new shares issued to existing shareholders on 28 February 2022 at R21,00 per share (these shares do not qualify for 2022 dividends)	265 000
Number of shares in issue on 28 February 2022	1 325 000

D. Extract from shareholders' register:

Brent Flower and Kerina Moss are shareholders in the company but not directors. None of their shares were repurchased on 31 August 2021.

	BRENT FLOWER	KERINA MOSS	TOTAL
Number of shares they owned on 1 March 2021	300 000	280 000	580 000
% shareholding on 1 March 2021	23,1%	21,5%	44,6%
% shareholding on 28 February 2022	?	26,4%	?

QUESTION 4: CORPORATE GOVERNANCE**(15 marks; 15 minutes)**

Extracts from local newspapers have been adapted and presented on the next page. Use the information presented and your knowledge on companies to answer the questions.

REQUIRED:**4.1 The Johannesburg Securities Exchange (JSE)****Refer to paragraph 1.**

- Explain why companies might want to be listed on the JSE. (2)
- Explain why the JSE would not tolerate 'incorrect, false and misleading financial results' from companies that are listed. (2)

4.2 Audit reports**Refer to paragraph 2.**

Explain the difference between a *qualified audit report* and a *disclaimer of opinion audit report*. (2)

4.3 Concerns of shareholders**Refer to paragraphs 1, 2 and 3.**

As a concerned shareholder, what questions would you raise at the AGM? Provide THREE different questions. In EACH case explain an appropriate reason.

(3 x 3) (9)

INFORMATION:**JSE TAKES ACTION AGAINST FORMER NON-EXECUTIVE
DIRECTORS OF MALLO LTD****Paragraph 1**

Ben Jimo, Kim Lestin and Solly Prins were **disqualified** by the JSE from serving on the board of directors of any listed company for the next five years. The three directors failed to fulfil their oversight roles in relation to the financial statements. The JSE fined Mallo Ltd R6,5 million for publishing a 'number of sets of **incorrect, false and misleading financial results**'.

Paragraph 2

They were appointed as members of the Audit and Risk Committee in 2018 when Mallo Ltd was listed on the JSE. They resigned from the board of directors after the company published its unaudited mid-year financial results in 2021. The independent auditors had issued a **qualified report** in 2019 and a **disclaimer of opinion audit report** in 2020.

Paragraph 3

Jimo, Lestin and Prins all admitted to having no knowledge of **corporate governance** or the rules and regulations governing the financial reporting of a JSE-listed company. They admitted that they were inexperienced directors and so had not fulfilled their duty of ensuring that Mallo Ltd had proper financial reporting procedures in place.

15**TOTAL: 150**

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET	
$\frac{\text{Gross profit} \times 100}{\text{Sales}} \quad 1$	$\frac{\text{Gross profit} \times 100}{\text{Cost of sales}} \quad 1$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses} \times 100}{\text{Sales}} \quad 1$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
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	
$\frac{\text{Average trading stock} \times 365}{\text{Cost of sales}} \quad 1$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors} \times 365}{\text{Credit sales}} \quad 1$	$\frac{\text{Average creditors} \times 365}{\text{Cost of sales}} \quad 1$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*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.	