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SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ACCOUNTING P1

2023

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** 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	Statement of Comprehensive Income and Current Assets	60	45
2	Retained Income Note, Cash Flow Statement and Financial Indicators	35	25
3	Interpretation of Financial Information	40	35
4	Corporate Governance	15	15
TOTAL		150	120



QUESTION 1: STATEMENT OF COMPREHENSIVE INCOME AND CURRENT ASSETS
(60 marks; 45 minutes)

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

COLUMN A		COLUMN B	
1.1.1	Independent auditor	A	investment such as a fixed deposit over a three-year period
1.1.2	Capital employed	B	debt to be settled within 12 months
1.1.3	Current liability	C	a staff member of a company who sets up effective internal control procedures
1.1.4	Financial asset	D	total of Ordinary Shareholders' Equity and Non-current Liabilities
		E	expresses an unbiased opinion on the reliability of financial statements

(4 x 1) (4)

1.2 **STARLIGHT LTD**

The information relates to the financial year ended 28 February 2023.
The company trades in electrical items.

REQUIRED:

1.2.1 **Refer to Information B (i).**

Calculate the value of the closing stock of light bulbs on 28 February 2023, using the weighted-average method. (4)

1.2.2 **Refer to Information B (ii).**

Calculate:

- Profit or loss on disposal of vehicle (5)
- Total depreciation for the year (7)

1.2.3 Complete the following:

- Statement of Comprehensive Income for the year ended 28 February 2023 (29)
- Current Assets section of the Statement of Financial Position (11)

NOTE: Some figures have been entered in the ANSWER BOOK.



INFORMATION:**A. Extract from the Pre-adjustment Trial Balance on 28 February:**

Balance Sheet accounts section	2023	2022
Loan from Pearl Bank	524 400	690 000
Vehicles	?	1 250 000
Accumulated depreciation on vehicles	?	420 000
Equipment	822 000	774 000
Accumulated depreciation on equipment	?	360 000
Fixed deposit: Pearl Bank	320 000	
Trading stock	2 969 800	
Debtors' control	645 250	
Provision for bad debts	?	21 020
Bank (Dr)	?	
SARS: Income tax (provisional tax payments)	875 000	
Nominal accounts section		
Sales	17 850 000	
Cost of sales	10 200 000	
Salaries and wages	?	
Commission income	85 900	
Rent income	89 700	
Audit fees	155 200	
Directors' fees	2 015 000	
Sundry expenses	219 760	
Bad debts	16 200	
Interest on fixed deposit	?	
Asset disposal (cash received on vehicle sold)	91 500	

B. Adjustments and additional information:

- (i) A physical stock count on 28 February 2023 revealed R2 774 800 stock on hand. However, this figure excludes the closing stock figure for light bulbs. Note that the weighted-average method is used to value the light bulbs.

Details of the light bulbs are as follows:

	UNITS	UNIT PRICE (R)	TOTAL (R)
Stock on 1 Mar. 2022	8 000	52	416 000
Purchases	47 000	74	3 478 000
Available for sale	55 000		3 894 000
Carriage on purchases			27 500
Stock on 28 Feb. 2023	1 700	?	?



(ii) **Fixed assets and depreciation:****Vehicles:**

- An old vehicle was sold for R91 500 on 30 November 2022. The amount received was recorded but no further entries were made.

Details of the vehicle sold:

Carrying value on 1 March 2022	R104 000
Depreciation: 20% p.a. on the diminishing-balance method	

- Depreciation on the remaining vehicles: R145 200

Equipment:

- Equipment is depreciated at 15% p.a. on cost.
- New equipment was bought on 31 July 2022.

(iii) The auditors are owed a further R38 800 for the current financial year.

(iv) Received R9 000 from the insolvent estate of debtor Billy Croon. His estate paid 80 cents to the rand of his outstanding balance. The money received was recorded. The balance of his account must still be written off.

(v) The provision for bad debts must be increased to R25 720.

(vi) **Directors' fees:**

- The company has two directors who were appointed in 2019. A third director was appointed on 1 October 2022.
- The directors all earn the same monthly fee.
- Directors' fees paid during the financial year have been recorded, but one director has already been paid for March and April 2023.

(vii) Rent income includes the rent for March 2023 received from the tenant. The monthly rent was increased by R1 170 on 1 January 2023.

(viii) **Loan: Pearl Bank**

- Interest on the loan capitalised has not been recorded.
- Fixed monthly repayments (including interest) have been paid and correctly recorded for the financial year.
- Interest on the loan amounts to 60% of the monthly repayments.

(ix) Income tax for the year was calculated to be R858 140.



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

The information relates to Swallows Ltd for the financial year ended 28 February 2023.

REQUIRED:

- 2.1 Prepare the Retained Income Note for the year ended 28 February 2023. (9)
- 2.2 Calculate the following figures for the 2023 Cash Flow Statement:
- Change in loan (2)
 - Proceeds from shares issued (3)
- 2.3 Complete the Cash Effects of Operating Activities section of the Cash Flow Statement. (10)
- 2.4 Calculate the following financial indicators on 28 February 2023:
- Current ratio (2)
 - Net asset value (4)
 - % return on total capital employed (ROTCE) (5)
- NOTE:** The average capital employed is R20 343 500.

INFORMATION:

A. Extract: Statement of Comprehensive Income on 28 February 2023

Sales	R12 754 500
Depreciation	316 500
Interest on loan	648 000
Net profit after tax (tax rate: 30% on net profit)	1 526 000

B. Extract: Statement of Financial Position on 28 February

	2023	2022
Ordinary share capital	R13 959 500	R12 312 500
Retained income	?	237 400
Loan: Daisy Bank	6 348 000	7 200 000
Total current assets	1 479 600	2 342 000
Total current liabilities	822 000	976 000
Shareholders for dividends	575 400	475 000
SARS: Income tax	23 600 (Dr)	42 100 (Cr)

C. Share capital

1 250 000	Shares on hand on 1 March 2022
180 000	Shares repurchased on 1 May 2022. They do not qualify for dividends. An EFT of R1 989 000 was issued for the repurchase.
?	Shares issued on 1 October 2022 at R11,40 per share
1 370 000	Shares on hand on 28 February 2023

D. Dividends

- An interim dividend of 32c per share was paid on 31 August 2022.
- A final dividend was declared on 28 February 2023.



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

You are provided with information relating to Qumbu Ltd for the year ended 28 February 2023.

REQUIRED:

NOTE: Provide financial indicators with figures and trends to support your comments or explanations (where applicable).

3.1 Liquidity

Explain whether or not the company is managing their working capital efficiently. Quote TWO financial indicators.

(5)

3.2 % shareholding

Denise Taylor, the CEO, owned 540 000 shares in the company on 1 March 2022. She continued to buy additional shares on the JSE at various times during the year. On 28 February 2023, Denise became the majority shareholder as she then owned 51% of the shares in issue.

- Calculate the total number of additional shares that Denise purchased. (4)
- Give ONE possible reason why Denise was determined to become the majority shareholder. (2)

3.3 Decisions by directors, risk and gearing

3.3.1 The Cash Flow Statement revealed decisions taken by the directors.

- Identify TWO major decisions taken by the directors in 2023 that were different to those from the previous year.
- Give ONE reason for these decisions. (6)

3.3.2 Explain the impact of these decisions on the degree of financial risk over the two years. Quote ONE financial indicator. (3)

3.3.3 Explain how these decisions affected the gearing of the company. Quote ONE financial indicator. (4)

3.4 Dividends and earnings

3.4.1 Certain shareholders expressed concern about the change in the dividend payout policy. Explain TWO points to support their opinion. (4)

3.4.2 Explain whether shareholders would be satisfied with the trend in the % return and earnings of the company, as well as the dividends they earned. Quote TWO financial indicators. (6)

3.5 Comments at the annual general meeting

Some shareholders are angry about the trends of the following two issues relating to the performance of the company:

- Cash and cash equivalents at the end of the year
- The market price of the shares on the JSE

In EACH case, provide evidence for the shareholders' concerns over these trends, and explain why they would be concerned about the future prospects for the company. (6)



INFORMATION:**A. Financial indicators and additional information on 28 February:**

	2023	2022
% operating expenses on sales	14,1%	12,0%
% operating profit on sales	14,5%	16,5%
% net profit on sales	10,4%	10,9%
Debt-equity ratio	0,1 : 1	0,4 : 1
Current ratio	0,9 : 1	1,3 : 1
Acid-test ratio	0,3 : 1	0,6 : 1
Average debtors' collection period	42,4 days	30,8 days
Earnings per share	60 cents	74 cents
Dividends per share	64 cents	50 cents
Dividend payout rate	106,7%	67,6%
% return on average equity	5,7%	7,2%
% return on average capital employed	9,0%	11,4%
Net asset value per share	1 007 cents	980 cents
Market price of shares on JSE	850 cents	1 020 cents
Interest rate on loans	13%	13%
Interest rate on fixed deposits	7%	7%

B. Share capital and % shareholding:

- On 1 March 2022, the company issued an additional 300 000 shares.
- On 28 February 2023, there were 1 500 000 shares in issue.

C. Extract from the Cash Flow Statement on 28 February:

	2023 R	2022 R
Cash flow from operating activities	(1 890 000)	(652 000)
Cash flow from investing activities		
Cash flow from financing activities	1 950 000	3 250 000
Shares	3 750 000	(250 000)
Loans	(1 800 000)	3 500 000
Net change in cash and cash equivalents	(836 000)	2 200 000
Cash and cash equivalents at beginning	1 914 000	(286 000)
Cash and cash equivalents at end	1 078 000	1 914 000



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

4.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question numbers (4.1.1 to 4.1.3) in the ANSWER BOOK.

4.1.1 The audit report presented in the annual report is addressed to the (directors/shareholders) of a company.

4.1.2 A/An (qualified/unqualified) audit report will contribute to a favourable image of the company.

4.1.3 A (qualified/disclaimer of opinion) report is received when the external auditor refuses to express an opinion on the reliability of the financial statements.

(3)

4.2 **MBOMBELA LTD**

Refer to the extract below.

Shareholders of the company were unhappy with reports about the chief financial officer (CFO) and approached the board of directors for a special meeting to discuss their concerns.

REQUIRED:

Explain THREE questions that the shareholders would want to raise with the board of directors at the meeting.

NOTES FROM BOARD MEETINGS OF DIRECTORS

The CFO, Nestor Donald, commenced duty at Mbombela Ltd on 1 May 2018 with an annual salary of R1,8 million based on his qualifications of a master's degree in Accounting Science and a doctorate from international universities.

In September 2022, Donald informed the board that he was offered a package of R3,4 million by Rose Ltd, a competitor. In response to this, the board of Mbombela Ltd decided to match the offer of Rose Ltd.

A whistle-blower (informant) alerted the chief executive officer (CEO) that Donald has no post-graduate qualifications. It was subsequently discovered that he had also lied about the job offer from Rose Ltd.

(6)



4.3 NEPTUNE LTD

Refer to the information presented by the external auditors.

Concern was raised about the productivity of the business and the remuneration (fees and salaries) of directors and employees.

REQUIRED:

Provide ONE point of possible mismanagement or corruption under EACH of the following subheadings. Quote relevant figures to support your answer in EACH case.

- Payment of directors' fees (3)
- Salaries of other employees (3)

Information identified by the external auditors on 30 April:

NOTE: Rand amounts are expressed in millions.

	% change R	2023		2022	
		No.	Amount R	No.	Amount R
General information:					
Gross profit	+ 8,1%		335 m		310 m
Operating profit	- 4,7%		101 m		106 m
Net profit	- 3,0%		96 m		99 m
Directors' fees:	+ 37,6%	11	90,8 m	8	66 m
Chief executive officer	+ 44,4%	1	26,0 m	1	18 m
Chief financial officer	+ 5,0%	1	12,6 m	1	12 m
Other full-time directors	+ 45,0%	9	52,2 m	6	36 m
Average fee (per other directors)	- 3,3%		5,8 m		6 m
Other employees:					
Salaries	+ 29,7%	275	91,3 m	220	70,4 m
Average salary (per employee)	+ 3,8%		332 000		320 000

15

TOTAL: 150



GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET	
$\frac{\text{Gross profit} \times 100}{\text{Sales}} \times 1$	$\frac{\text{Gross profit} \times 100}{\text{Cost of sales}} \times 1$
$\frac{\text{Net profit before tax} \times 100}{\text{Sales}} \times 1$	$\frac{\text{Net profit after tax} \times 100}{\text{Sales}} \times 1$
$\frac{\text{Operating expenses} \times 100}{\text{Sales}} \times 1$	$\frac{\text{Operating profit} \times 100}{\text{Sales}} \times 1$
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	
$\frac{\text{Average trading stock} \times 365}{\text{Cost of sales}} \times 1$ (See Note 1 below)	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors} \times 365}{\text{Credit sales}} \times 1$	$\frac{\text{Average creditors} \times 365}{\text{Cost of sales}} \times 1$ (See Note 2 below)
$\frac{\text{Net income after tax} \times 100}{\text{Average shareholders' equity}} \times 1$	$\frac{\text{Net income after tax} \times 100}{\text{Number of issued shares}} \times 1$ (See Note 3 below)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times 100 \times 1$	
$\frac{\text{Shareholders' equity} \times 100}{\text{Number of issued shares}} \times 1$	$\frac{\text{Dividends for the year} \times 100}{\text{Number of issued shares}} \times 1$
$\frac{\text{Interim dividends} \times 100}{\text{Number of issued shares}} \times 1$	$\frac{\text{Final dividends} \times 100}{\text{Number of issued shares}} \times 1$
$\frac{\text{Dividends per share} \times 100}{\text{Earnings per share}} \times 1$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times 100 \times 1$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
NOTE: 1. Trading stock at the end of a financial year may be used if required in a question. 2. Credit purchases may be used instead of cost of sales (figures will be the same if stock is constant). 3. 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.	

