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GRADE 12

ACCOUNTING

CONTROLLED TEST 1

TERM 1 SBA TASK 2

DATE OF ADMINISTRATION : 17 MARCH 2023

DURATION : 1,5 HOUR

MARKS : 100

**This question paper consists of 9 pages,
a formula sheet and a 7-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 the questions.
3. Show workings in order to achieve 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 appropriate, calculations must be done to one decimal point.
7. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 48 marks; 43 minutes	
Topic of the question:	This question integrates:
Financial Statements: Income statement, Notes and Audit report	Financial accounting Income Statement and Audit report

QUESTION 2: 30 marks; 27 minutes	
Topic of the question:	This question integrates:
Cash Flow Statement and Financial Indicators	Financial accounting Cash Flow Statement Financial Indicators

QUESTION 3: 22 marks; 20 minutes	
Topic of the question:	This question integrates:
Analysis and interpretation of Financial Statement	Financial Accounting Concepts Interpretation of Financial Information

QUESTION 1 INCOME STATEMENT AND AUDIT REPORT (48 marks; 43 minutes)**MALEKA LTD**

The information below relates to Maleka LTD. The financial year ended on 28 February 2022.

REQUIRED:

- 1.1 Complete the statement of Comprehensive Income (Income Statement) for year ended 28 February 2022. (40)

INFORMATION.**Extract from the Pre – Adjustment Trial Balance on 28 February 2022.**

Balance Sheet Accounts Section	Debit	Credit
Ordinary share capital		2 496 000
Retained income (1 February 2022)		1 480 000
Loan : FNB Bank		1 470 000
Land and Buildings	3 000 000	
Vehicle at cost	800 000	
Equipment at cost	200 000	
Accumulated depreciation on vehicles		680 000
Accumulated depreciation on equipment		37 000
Fixed deposit: Capitec Bank	1 186 000	
Creditors control		97 500
Debtors Control	186 000	
Trading stock	1 050 300	
Bank	42 550	
SARS (income tax)	500 000	
Provision for bad debts		3 240
Consumable on hand (Packing material-1 March 2021)	820	
Nominal Accounts Section		
Sales		8 800 000
Cost of sales	?	
Debtors allowance	19 200	
Directors fees	550 000	
Audit fees	188 410	
Salaries and wages	681 600	
Rent income		70 500
Interest on fixed deposit		80 000
Interest on loan	?	
Advertising	60 000	
Insurance	14 700	
Bad debts	6 730	
Packing material	15 000	
Sundry expenses	?	
Ordinary share dividends	?	

ADJUSTMENTS AND ADDITIONAL INFORMATION.

- A. The business prices its goods at a mark-up of 60% on cost. Trade discount of R360 000 was allowed on invoices to certain customers.
- B. A credit note for R49 600 issued to a debtor, dated 25 February 2022, was recorded as an invoice.
- C. A debtor, P.Malan, with outstanding balance of R42 000, has left the country. His account must be written off.
- D. The provision for bad debts must be adjusted to 5% of the outstanding debtors.
- E. The physical stocktaking on 28 February 2022 reflected the following stock on hand:
- Trading stock R1 002 000
 - Packing material R 6 020

- F. One employee received a double salary by mistake from Salary Journal for February 2022. This must be reversed. The employee made a direct deposit to the business account as a refund on 28 February 2022. His normal salary details are as follows:

Deductions		Employers contribution	Net salary
PAYE	Pension	Pension	
R3 000	R2 000	R4 000	R15 000

Employer's contributions are part of salaries and wages account.

- G. Advertising of R40 000 consists of a month to month contract with local radio station. Advertising was paid for 13 months. From 1 November 2021, the contract rate was decreased by 10%.
- H. Make provision for depreciation as follows:
- On vehicles at 15% p.a on cost price.
 - On equipment at 10% p.a on diminishing balance.
- NOTE:** A new computer was purchased on credit on 1 June 2021 for R60 000. This has already been recorded.

I. Share Capital:

- Authorised share capital consists of 1000 000 ordinary shares.
- 600 000 shares were issued on 1 March 2021
- 200 000 new ordinary shares were issued on 1 September 2021.
- 100 000 ordinary shares were repurchased on 1 February 2022 at R1.40 above the average issue price R4.52) The transaction was properly recorded).

J. Dividends:

- Interim dividends of 30 cents per share was paid on 30 August 2021
- Final dividends of 40 cents per share was declared on 28 February 2022. Shares bought back on 1 February 2022 also qualify for the final dividends.

K. Operating profit is 15% on turnover.

L. Income tax for the financial year was calculated as R360 000. This is 30% of the net profit before tax.

1.2 Audit report

You are provided with an extract from the audit report of the independent auditors of Cooper Ltd. Read the report and answer the questions that follow.

	To Shareholders
<i>Point 1</i>	We have audited the annual financial statements of Cooper Limited for the year ended 30 June 2022, set out on pages 25 to 51.....
	Basis for Opinion
<i>Point 2</i>	An amount that was shown as additions to Land and buildings was for revaluations of the Buildings. No audit evidence was provided.
	Opinion
<i>Point 3</i>	In our opinion, the financial statements fairly present the financial position of the company at 30 June 2022, except for the increase in the value of the fixed assets in the Balance Sheet.

REQUIRED:

1.2.1 Explain why the auditors did specifically address the report to shareholders? (2)

1.2.2 **Refer to point 1.**

Explain why the independent auditors referred to pages 25-51 in the report. (2)

1.2.3 **Refer to point 2.**

The directors claimed that the value of the buildings increased over the years and that the value must be increased and shown as additions in the fixed asset note.

As the independent auditor, what advice would you give? Provide ONE point. (2)

1.2.4 **Refer to point 3.**

- The company received a/an (unqualified/qualified/disclaimer) audit report. (1)

- Give a reason for your answer. (1)

QUESTION 2**(30 marks; 27 minutes)****CASH FLOW STATEMENT AND FINANCIAL INDICATORS**

You are provided with information relating to Maboneng Limited. The financial year-end is on 31 October 2022. New shares were issued on the first day of the financial year

REQUIRED:

- 2.1 What is the main purpose of a Cash Flow Statement? (2)
- 2.2 Complete the Cash Flow Statement for the year ended 31 October 2022. Show ALL workings in brackets (21)
- 2.3 Calculate the following financial indicators on 31 October 2022:
- % Gross profit on sales (2)
 - Acid-test ratio (3)
 - Debt-equity ratio (2)

INFORMATION:

A. The following information was extracted from the Income Statement for the year ended 31 October 2022:

Sales	1 750 000
Cost of Sales	(800 000)
Gross Profit	950 000
Interest on loan (all capitalised)	175 500
Income tax	375 000
Net profit after tax	975 000

B. Information extracted from the Balance Sheet on 31 October:

	2022	2021
Current assets	4 804 000	2 820 000
Inventories	1 437 500	1 656 250
Trade and other receivables (see D)	1 075 000	956 250
Cash and cash equivalents	2 291 500	207 500
Ordinary shareholders' equity	4 450 000	4 000 000
Ordinary share capital (see F)	3 450 000	3 150 000
Retained income	1 000 000	850 000
Loan: Freeport Bank (12% p.a.)	2 000 000	1 375 000
Current liabilities	1 450 000	1 262 500
Trade and other payables (see E)	1 450 000	1 262 500

C. Fixed/Tangible assets note:

	Land and buildings	Vehicles	Equipment
Carrying value at beginning of financial year	3 000 000	660 000	157 500
Cost	3 000 000	900 000	210 000
Accumulated depreciation	0	(240 000)	(52 500)
Movements			
Additions at cost	0	0	48 000
Disposals at carrying value	500 000	82 000	0
Depreciation	0	132 000	(55 500)
Carrying value at end of financial year	2 500 000	446 000	150 000
Cost	2 500 000	750 000	258 000
Accumulated depreciation	0	(304 000)	(108 000)

Additional information in respect of fixed assets:

- A vehicle was sold at its carrying value on the LAST day of the financial year. Depreciation is written off on vehicles at 20% p.a. on the diminishing-balance method.
- Land and buildings were sold at cost during the financial year.

D.	Trade and other receivables include:	31 October 2022	31 October 2021
	SARS: Income tax	R22 500	0

E.	Trade and other payables include:	31 October 2022	31 October 2021
	SARS: Income tax	0	R27 500
	Shareholders for dividends	R450 000	R385 000

F. Details of ordinary share capital:

- Ordinary share capital at the beginning of the 2022 financial year consisted of 700 000 ordinary shares with a total value of R3 150 000.
- On 1 November 2021, 50 000 additional shares were issued at R6,00 each.
- There were no further changes to share capital.

G. The dividends (interim and final) for the financial year ended 31 October 2022 amounted to R825 000.

QUESTION 3 INTERPRETATION OF FINANCIAL INFORMATION (22 marks; 20 minutes)**MACHETE LIMITED**

You are provided with information from Machete Limited. The company is registered with authorised Share Capital of 2 000 000 shares. 60% of this shares were already issued.

REQUIRED:

- 3.1 The CEO, Nick Petje, currently owns 40% of the issued shares. The directors of the company decided to issue 50% of the unissued shares in July 2022.
- 3.1.1 Calculate the minimum number of shares that Nick must purchase in July 2022 to become the majority shareholder (3)
- 3.1.2 Nick wants to purchase the additional shares at R6 per share without Advertising the shares to the public. Give TWO reasons why you would not approve this arrangement. (4)
- 3.2 The directors are proposing that the business operations be expanded in the New financial year. One of the directors suggested that they finance the expansions by taking a loan of R1 000 000, instead of issuing new shares to the public. Quote and explain TWO financial indicators to support his opinion. (6)
- 3.3 Bongani is a shareholder in Machete Limited. He owns 32 000 shares which he purchased two years ago at R4,75 each.
- 3.3.1 Calculate the amount of dividends Bongani would earn for the financial year ending 31 October 2022. (2)
- 3.3.2 Should Bongani be satisfied with the dividend policy of Machete Limited? Quote and explain relevant financial indicators to support your answer. (3)
- 3.3.3 Bongani wants to sell his shares in Machete Limited and invest his funds in an alternative investment. You disagree with him. Quote and explain ONE relevant financial indicator, other than dividends, to discourage him from selling his shares. (4)

INFORMATION:

Financial indicators for the past two financial years ending October:

	2022	2021
Current ratio	3,10 : 1	2,23 : 1
Acid-test ratio	0,3:1	0,92 : 1
Average debtors collection period	35 days	28 days
Average Creditors payment period	65 days	90 days
Earnings per share	130 cents	94 cents
Dividends per share	110 cents	75 cents
Return on average shareholders' equity	24,1%	15%
Debt-equity ratio	0,44:1	0,34 : 1
Return on average capital employed	26%	18%
Net asset value per share	593 cents	571 cents
Prices of Machete Ltd shares on the JSE	950 cents	725 cents
Interest on fixed deposit	6,5%	6,5%
Interest rate on loans	13%	13%

TOTAL 100 MARKS

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