## SA's Leading Past Year

## Exam Paper Portal

## STUD.Y

# You have Downloaded, yet Another Great Resource to assist you with your Studies : 

Thank You for Supporting SA Exam Papers

Your Leading Past Year Exam Paper Resource Portal

Visit us @ www.saexampapers.co.za


> SAEAMM RADPERES

# NATIONAL SENIOR CERTIFICATE 

## GRADE 12

JUNE 2023

## ACCOUNTING P1

MARKS: 150
TIME: 2 hours

This question paper consists of 11 pages, a formula sheet and a 12-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 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 Financial Indicator Formula Sheet attached 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 | TIME <br> (minutes) |  |  |  |
| :---: | :--- | :---: | :---: | :---: | :---: | :---: |
| 1 | Statement of Comprehensive Income <br> and Statement of Financial Position | 60 | 45 |  |  |  |
| 2 | Notes to Financial Statements, Cash <br> flow Statement and Financial <br> Indicators | 40 | 30 |  |  |  |
| 3 | Interpretation of Financial Statements | 35 | 30 |  |  |  |
| 4 | Corporate Governance | 15 | 15 |  |  |  |
| TOTAL |  |  |  |  | $\mathbf{1 5 0}$ | $\mathbf{1 2 0}$ |

## QUESTION 1: STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF FINANCIAL POSITION

(60 marks; 45 minutes)
The information relates to Midros Ltd for the financial year ended on 28 February 2023.

REQUIRED:
1.1 Refer to Information B (i) and (ii).

Calculate:
1.1.1 The profit/loss on the trade-in of the old vehicle
1.1.2 The total depreciation for the year
1.2 Complete the following for the year ended 28 February 2023:
1.2.1 Statement of Comprehensive Income (Income statement)

### 1.2.2 Equity and Liabilities section of the Statement of Financial Position (Balance sheet)

NOTE: Some amounts are provided in the ANSWER BOOK.

## INFORMATION:

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

|  | $\mathbf{2 0 2 3}$ <br> (R) | $\mathbf{2 0 2 2}$ <br> (R) |
| :--- | ---: | ---: |
| Vehicles | $?$ | 1350000 |
| Accumulated depreciation on vehicles | $\mathbf{?}$ | 855000 |
| Equipment | 923500 | 1022500 |
| Accumulated depreciation on equipment | 1500000 | 800900 |
| Fixed deposit: River Bank | $?$ | 15950 |
| Provision for bad debts | 196040 |  |
| SARS: Income tax (provisional tax payments) | $?$ | 2205500 |
| Mortgage loan: Somerville Bank | 970750 |  |
| Ordinary share capital | 448725 |  |
| Retained income | 11724000 |  |
| Creditors control | 7363500 |  |
| Net sales | 982290 |  |
| Cost of sales | 63620 |  |
| Salaries and wages | 1925000 |  |
| Employer's contributions | 174675 |  |
| Directors' fees | 15090 |  |
| Rent income | $?$ |  |
| Bad debts |  |  |
| Sundry expenses (balancing figure) |  |  |

## B. Adjustments and additional information:

(i) The following transaction was not recorded:

An old vehicle, cost price R270 000, was traded-in on 28 February 2023 for a newer model which cost R616 500. The accumulated depreciation on the trade-in date was R111 240. The trade-in value for the old vehicle was R105 000.

Depreciation on vehicles is calculated at $20 \%$ p.a. on the diminishing balance.
(ii) Depreciation for the year:

- Depreciation on equipment was brought into account.
- Make provision for depreciation on vehicles.
(iii) An invoice for R28 800 issued to a debtor for goods purchased on 26 February 2023 was incorrectly recorded as a credit note.
The mark-up on these goods were $60 \%$.
(iv) An amount of R3 230 which was not received from the insolvent estate of a debtor, must be written-off as irrecoverable.
(v) The provision for bad debts must be decreased by R2 000.
(vi) Rent increased by 10\% per month with effect from 1 September 2022, as per the lease agreement. Rent is received until March 2023.
(vii) Extract from the salaries journal for February 2023:

| Deductions | Net salary | Contributions |
| :---: | :---: | :---: |
| R15 600 | R47 330 | R7 550 |

The total for gross salaries was not posted to the general ledger. All the relevant payments for salaries were made.
(viii) The company had five directors until one resigned on 30 June 2022. The one who resigned was only replaced on 1 October 2022. All directors are on the same fee structure. The fees for two directors for February 2023 are still outstanding.
(ix) Income tax for the financial year was calculated as R242 040. This is 30\% of the net profit before tax.
(x) The Loan statement received from Somerville Bank reflects the following:

| Balance at the beginning of the financial year | R2 205500 |
| :--- | :---: |
| Interest capitalised | $?$ |
| Repayments including interest | 1260000 |
| Balance at the end of the financial year | 1125000 |

The loan balance will be reduced by R625 000 in the next financial year.
(xi) Dividends:

- Total dividends for the year amounted to R410 000, which includes an interim dividend of R160 000 paid on 31 August 2022.


## QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS

(40 marks; 30 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 An increase in inventory represents an (inflow/outflow) of cash.
2.1.2 A decrease in accounts payable represent an (inflow/outflow) of cash.
2.1.3 An adjustment for (depreciation / income tax) should be made when calculating the cash effects of operating activities.

$$
\begin{equation*}
(3 \times 1) \tag{3}
\end{equation*}
$$

### 2.2 EAGLES LTD

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

## REQUIRED:

2.2.1 Prepare the Retained Income note on 28 February 2023.
2.2.2 Complete the Cash Flow Statement on 28 February 2023.

NOTE: Some amounts are provided in the ANSWER BOOK.
2.2.3 Calculate the following financial indicators on 28 February 2023.

- Acid-test ratio
- \% Return on average shareholders' equity (ROSHE)
- Dividends per share


## INFORMATION:

A. Extract: Statement of Comprehensive Income for the year ended 28 February 2022:

| Sales | R 2 450 000 |
| :--- | ---: |
| Depreciation | 567490 |
| Profit before interest expense | 1208200 |
| Net profit before tax | 1120000 |
| Net profit after tax | 784000 |

B. Income tax was calculated at $30 \%$ for the current financial year.
C. Items extracted from Statement of Financial Position on 28 February:

|  | 2023 | 2022 |
| :--- | ---: | ---: |
| Fixed deposit | $\mathbf{1 4 4 4 5 0}$ | $\mathbf{2 7 7 5 5 0}$ |
| Current assets | $\mathbf{2 1 7 5 6 0 0}$ | $\mathbf{2 0 0 3 7 9 0}$ |
| Current liabilities | $\mathbf{7 5 3 0 6 5}$ | $\mathbf{7 1 9 8 0 0}$ |
| Inventories | 1469700 | 1431000 |
| Trade debtors | 603400 | 557340 |
| Cash and cash equivalents | 92840 | 15450 |
| SARS: Income tax | 9660 Dr | 20020 Cr |
| Shareholders for dividends | 207070 | 150000 |
| Bank overdraft | 0 | 28480 |
| Non-current liabilities | $\mathbf{7 3 5 0 0 0}$ | $\mathbf{9 8 0 0 0 0}$ |
| Ordinary share capital | $?$ | $\mathbf{9 5 2 0 0 0 0}$ |
| Ordinary shareholders equity | $\mathbf{1 1 8 8 7 8 2 0}$ | $\mathbf{9 8 1 4 0 0 0}$ |

D. Share capital and dividends:

| 1 March 2022 | 1 190000 shares were in issue. |
| :--- | :--- |
| 30 June 2022 | 85000 shares repurchased at R2 above the <br> average share price. <br> These shares do not qualify for dividends. |
| 30 August 2022 | Interim dividends of 12 cents per share paid. |
| 1 November 2022 | R2 479 500 received for additional shares issued. |
| 28 February 2023 | 1380500 shares were in issue. |
| 28 February 2023 | A final dividend was declared. |

## QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS

(35 marks; 30 minutes)
3.1 Choose an explanation in COLUMN B that matches a term in COLUMN A. Write only the letters (A-D) next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK.

| COLUMN A |  | COLUMN B |  |
| :--- | :--- | :--- | :--- |
| 3.1.1 | Return | A | Total liabilities exceeding total assets |
| 3.1 .2 | Current asset | B | Vehicle used in operating the business |
| 3.1 .3 | Insolvent | C | The percentage net income on equity |
|  |  | D | Fixed deposit matures in the next financial year |

### 3.2 ROCK LTD and WILLS LTD.

The information relates to two companies which operate in the same industry. The financial year ends on 28 February each year.

## REQUIRED:

NOTE: Provide figures, trends, financial indicators or calculations in EACH case to support your comments and explanations.
3.2.1 Identify the company with the better profitability financial indicators. Quote TWO financial indicators.
3.2.2 Identify and explain which company is managing its liquidity more
efficiently. Quote TWO financial indicators.
3.2.3 Comment on the dividend pay-out policy of each company. Provide a
possible reason why each company decided on the policy adopted.
Quote figures.
3.2.4 The directors of Wills Ltd decided to increase the loan during the current financial year. Explain whether this was a good decision or not. Quote TWO financial indicators.

> 3.2.5 The shareholders of Rock Ltd are satisfied with the market price of their shares, whereas the shareholders of Wills Ltd are not satisfied. Explain by quoting a financial indicator for EACH company.
3.2.6 Refer to Information C.

Wills Ltd will issue a further 300000 shares during the new financial year. The Mentoor family is interested to buy 180000 of these shares.

- Calculate the \% percentage shareholding of the Mentoor family if they buy these shares.
- As a shareholder, why would you be concerned about the interest shown by the Mentoor family? Provide THREE points.


## INFORMATION:

A. Financial indicators calculated on 28 February 2023:

|  | ROCK LTD | WILLS LTD |
| :--- | :---: | :---: |
| Mark-up \% achieved | $45 \%$ | $52 \%$ |
| \% Operating expenses on sales | $25,5 \%$ | $18.3 \%$ |
| \% Operating profit on sales | $7,4 \%$ | $10,3 \%$ |
| Current ratio | $1,5: 1$ | $4,2: 1$ |
| Acid-test ratio | $0,7: 1$ | $1,2: 1$ |
| Average debtors' collection period | 28 days | 45 days |
| Debt/equity ratio | $0,3: 1$ | $0,6: 1$ |
| $\%$ return on average shareholders' equity | $22,3 \%$ | $14,2 \%$ |
| $\%$ return on average capital employed | $15,9 \%$ | $9,5 \%$ |
| Dividends per share | 117 cents | 190 cents |
| Earnings per share | 390 cents | 250 cents |
| Dividend pay-out rate | $30 \%$ | $76 \%$ |
| Net asset value per share | 784 cents | 652 cents |

B. Additional information on 28 February 2023:

|  | ROCK LTD | WILLS LTD |
| :--- | :---: | :---: |
| Market price per share on stock exchange | 838 cents | 515 cents |
| Interest on fixed deposits | $6 \%$ | $6 \%$ |
| Interest on loans | $11 \%$ | $11 \%$ |

C. Extracts from the accounting records on 28 February 2023:

|  | ROCK LTD | WILLS LTD |
| :--- | :---: | :---: |
| Number of shares in issue | 2000000 | 1600000 |
| $\%$ shareholding of the Mentoor family | $23,9 \%$ | $50,5 \%$ |

## QUESTION 4: CORPORATE GOVERNANCE

4.1 The following extract represent a certain type of audit report.

In our opinion the financial statements present fairly, in all material respects, the financial position of the company as at 28 February 2023.

## REQUIRED:

4.1.1 Identify the type of audit report in the extract above and give a reason for your answer.
4.1.2 Explain the effect of this type of report for the image of the company. Provide ONE point.
4.2 The following information was extracted from a local publication. It relates to a company listed on the JSE.

The JSE has imposed the maximum fine on former CEO (Chief Executive Officer) of Millo Ltd, as well as barring her from serving as a director on the board of any JSE listed company, for ten years. The JSE stated that it had imposed the above penalty for the following reasons:

- The release of financial statements that did not comply with listing requirements.
- The financial statements contained incorrect, false and misleading information.
- Fictitious source documents that falsely inflated income by millions of rands, were also discovered.


## REQUIRED:

4.2.1 Provide TWO possible reasons why the CEO was fined, and not the company.
4.2.2 Provide TWO points why the JSE took this action.
4.2.3 Identify ONE other party (stakeholder) that could also be accountable for allowing this situation. Provide a reason.

| 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 and other receivables + Cash and cash equivalents) : Current liabilities |  |
| $\frac{\text { Average trading stock }}{\text { Cost of sales }} \times \frac{365}{1}$ | Cost of sales Average trading stock |
| $\frac{\text { Average debtors }}{\text { Credit sales }} \times \frac{365}{1}$ | $\frac{\text { Average creditors }}{\text { Cost of sales }} \times \frac{365}{1}$ |
| $\frac{\text { Net income after tax }}{\text { Average shareholders' equity }} \times \frac{100}{1}$ | $\frac{\text { Net income after tax }}{\text { Number of issued shares }} \times \frac{100}{1}$ |
| Net income before tax + Interest on loans shareholders' equitv + Average non-current liabilities x $\frac{100}{1}$ |  |
| $\frac{\text { Shareholders' equity }}{\text { Number of issued shares }} \times \frac{100}{1}$ | $\frac{\text { Dividends for the year }}{\text { Number of issued shares }} \times \frac{100}{1}$ |
| $\frac{\text { Interim dividends }}{\text { Number of issued shares }} \times \frac{100}{1}$ | $\frac{\text { Final dividends }}{\text { Number of issued shares }} \times \frac{100}{1}$ |
| $\frac{\text { Dividends per share }}{\text { Earnings per share }} \times \frac{100}{1}$ | $\frac{\text { Dividends for the year }}{\text { Net income after tax }} \times \frac{100}{1}$ |
| Total fixed costs |  |
| NOTE: <br> 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. |  |

