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# education

Department of  
Education  
FREE STATE PROVINCE

## GRADE 12

### MOCK EXAMINATION

### ACCOUNTING

### MAY/JUNE 2023

**MARKS: 150**

#### **MARKING PRINCIPLES:**

1. Unless otherwise stated in the marking guidelines, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Unless otherwise stated, give full marks for correct answer. If answer is incorrect, mark workings.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). Note: if figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. If candidates provide more than the required number of responses, inspect all responses to give benefit to the candidate. Penalties may be applied for foreign entries if candidates earn full marks on a question (max -2 per Q).
8. This memorandum is not for public distribution as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
9. Where penalties are applied, the marks for that section of the question cannot be a final negative.
10. Where method marks are awarded for operation, marker must inspect reasonableness of answer.
11. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
12. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
13. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a ☒.
14. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
15. Codes: f = foreign item; p = placement/presentation.

This marking guideline consists of 7

**QUESTION 1      AUDIT REPORT, FINANCIAL STATEMENTS AND NOTES**

**1.1      AUDIT REPORT**

<b>1.1.1</b>	Disclaimer ✓
<b>1.1.2</b>	Unqualified ✓
<b>1.1.3</b>	Qualified ✓

<b>3</b>

**1.2 INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2023**

<b>Turnover</b> (3 889 960 – 1 260✓)	✓ 3 888 700	
<b>Cost of sales</b> (2 549 950 – 1 050✓)	✓ (2 548 900)	
<b>Gross Profit</b> COS must be subtracted	<input checked="" type="checkbox"/> 1 339 800	5
<b>Other Operating Income</b> operation	<input checked="" type="checkbox"/> 1 343 750	
<b>Cleaning income</b> (1 215 000 – 1 000 ✓ + 3 550 ✓)	<input checked="" type="checkbox"/> 1 217 550	
<b>Rent income</b> (115 600 + 10 600)	✓✓ 126 200	
<b>Gross Operating Income</b> operation	<input checked="" type="checkbox"/> 2 683 550	7
<b>Operating Expenses</b> Gross Op Inc – Gross Op profit	<input checked="" type="checkbox"/> 1 934 350	
<b>Cleaning expenses</b> Balancing figure	<input checked="" type="checkbox"/> 381 200	
<b>Audit fees</b>	<b>20 000</b>	
<b>Salaries and wages</b>	<b>318 200</b>	
<b>Director's fees</b> (990 000 + 45 000 ✓✓) one part correct	<input checked="" type="checkbox"/> 1 035 000	
<b>Telephone</b> (46 200 + 4 400)	✓✓ 50 600	
<b>Bank charges</b> (21 400 + 450)	✓✓ 21 850	
<b>Loss on sale of asset</b> (6 000 + 8 000 ✓✓)	<input checked="" type="checkbox"/> 14 000	
<b>Depreciation</b> (44 000 – 8 000 ✓✓ + 4 400✓✓)	<input checked="" type="checkbox"/> 40 400	
<b>Trading stock deficit</b> (8 700 ✓ – 600✓)	<input checked="" type="checkbox"/> 8 100	
<b>Donations</b> (see amount subtracted from Director's fees)	<input checked="" type="checkbox"/> 45 000	21
<b>Gross Operating profit</b> Profit before Int Exp – Int Inc	<input checked="" type="checkbox"/> 749 200	
<b>Interest Income</b>	<b>17 800</b>	
<b>Profit before Interest Expense</b> NPBT + Int exp	<input checked="" type="checkbox"/> 767 000	
<b>Interest Expense</b>	✓ (110 000)	
<b>Net profit before tax</b> NPAT + Inc tax	<input checked="" type="checkbox"/> 657 000	
<b>Income Tax</b>	<b>(197 100)</b>	
<b>Net profit after Tax</b> 197 100 x 70/30 or NPBT – Tax	✓✓ 459 900	6

–F for foreign entries (max 2)

–P for incorrect placements (max 2)

(b)

RETAINED INCOME NOTE:		
Balance at beginning		240 000
Net profit after tax		<input checked="" type="checkbox"/> 459 900
Repurchase of shares (15 000 x R4,00) correct	one part Ignore brackets	<input checked="" type="checkbox"/> (60 000)
Ordinary share dividends brackets	Ignore	<input checked="" type="checkbox"/> * (206 000)
Interim		86 000
Final 200 000 x 0,60 correct	one part	<input checked="" type="checkbox"/> 120 000
Balance at end operation Shares repurchased and share dividends must by subtracted	Ignore brackets and check operation	<input checked="" type="checkbox"/> * 433 900

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EQUITY AND LIABILITIES	
Ordinary shareholders' equity	<input checked="" type="checkbox"/> 3 633 900
Ordinary share capital	3 200 000
Retained income	<input checked="" type="checkbox"/> 433 900
Non-current liabilities	176 800
Loan: ABSA 248 800 ✓✓ (320 800 + 110 000 – 182 000) – 72 000 ✓✓	<input checked="" type="checkbox"/> 176 800
Current liabilities	<input checked="" type="checkbox"/> * 269 850
Trade creditors (45 800 + 4 400 ✓ + 10 650 <input checked="" type="checkbox"/> +) tel clean inc	<input checked="" type="checkbox"/> 60 850
SARS: Income tax (197 100 – 180 100)	✓✓ 17 000
Shareholders for dividends transfer from Ret Inc	<input checked="" type="checkbox"/> 120 000
Current portion of loan see Loan	<input checked="" type="checkbox"/> 72 000
TOTAL EQUITY AND LIABILITIES	<input checked="" type="checkbox"/> * 4 080 550

TOTAL  
MARKS

65

16



## 2.2 SOPHY SUPPLIERS LIMITED

2.2.1 Calculate or complete the following for the Cash Flow Statement on 30 June 2023:

(a) Dividends paid:

201 600 ✓ + 144 000 ✓

= 345 600 ☒ one part correct

3

(b)

Cash flow from Financing activities	<input checked="" type="checkbox"/> * 998 800
Return on shares issued	✓ 520 000
Repurchase of shares (588 000 ✓ + 319 200 ✓ )	<input checked="" type="checkbox"/> * (907 200)
Increase in loan (1 946 000 – 560 000)	✓✓ 1 386 000

\* one part correct

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2.2.2 Calculate the following:

(a) Tax paid during the year:

A calculation or a T-account could be provided – accept any form.

SARS			
Bank	<input checked="" type="checkbox"/> 1 058 000**	Balance	✓R196 400
		Income Tax	✓R442 800
		Balance	✓R418 800
			1 058 000

OR:  $\overset{\text{one mark}}{196\,400} + \overset{\text{one mark}}{442\,800} + \overset{\text{one mark}}{418\,800} = 1\,058\,000$

one method mark, one part correct  
Accept reverse signs.

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**(b) Net asset value per share (NAV)**

$$\frac{3\,214\,000 \checkmark}{1\,104\,000 \checkmark} \times 100$$

$$= 291,12 \text{ c } \checkmark \text{ One part correct, must be in cent, accept 219c}$$

3

**(c) Debt/Equity ratio**

$$1\,946\,000 \checkmark : 3\,214\,000 \checkmark$$

$$0,61 : 1 \checkmark$$

3

**(d) Return on total capital employed (ROTCE)**

$$\frac{\overset{1\,325\,100 \text{ (2 marks)}}{1\,033\,200 \checkmark + 291\,900 \checkmark}}{\frac{1}{2} \checkmark (3\,214\,000 \checkmark + 1\,946\,000 \checkmark + 3\,587\,200 \checkmark + 560\,000 \checkmark)} \times 100$$

$$= \frac{1\,325\,100 \text{ (2 marks)}}{4\,653\,600 \text{ (5 marks)}}$$

$$= 28,47\% \checkmark \text{ one part correct, must be \% , accept 28,5\% or 28\%}$$

8

**TOTAL  
MARKS****45**



**QUESTION 3      INTERPRETATION OF FINANCIAL INFORMATION**

**3.1      Comment on the liquidity of the two companies and explain which company manages the working capital more efficiently.**

Current ratio and figure for both companies ✓    ✓  
 Acid test ratio and figure for both companies ✓    ✓  
 Decision ✓ and reason ✓

- Florida's current ratio is 1,5 : 1 and Texas' current ratio is 2,1 : 1
- Florida's acid test ratio is 0,6 : 1 and Texas' current ratio is 1,1 : 1

Texas ✓ uses the working capital the more efficiently because they will be able to cover their current debts with the current assets available. ✓

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**3.2      Comment on the degree of risk and gearing of both companies. Explain how this will influence your choice of company.**

Debt/Equity ratio for both companies ✓    ✓  
 ROTCE for both companies ✓    ✓  
 Choice ✓ and reason ✓

Florida's Debt/Equity ratio is 0,3 : 1 and Texas' Debt/Equity ratio is 0,8 : 1  
 Florida's ROTCE is 15,5% (or ROTCE of 15,5% is greater than interest on loan of 14%) and Texas' ROTCE is 11,8% (or ROTCE of 11,8% is lower than interest on loan of 14%).

Florida's risk is lower and the gearing is positive (ROTCE exceeds interest).

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**3.3      Consider the Return, Earnings and Dividends of the two companies.**

**(a)      Explain whether or not Gilbert should be satisfied with the return on his investment in both companies. Provide financial indicators/figures to support your answer.**

ROSHE figures for both companies ✓  
 Compared to alternative investments ✓  
 Explanation ✓✓      Part marks incomplete and unclear question

ROSHE of Florida is 16% (was 14%) and Texas is 28% (was 24%).  
 Both ratios exceed alternative investments of approximately 7%  
 Both ratios have improved from the previous year

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- (b) Calculate the dividend pay-out policy of both companies. Indicate which company has adopted the better policy and the possible reason for that choice. Provide figures and calculations to support your answer.

Florida:

Pay-out rate is 81% ✓✓ ( $\frac{100}{124} \times 100\%$ ) (accept 80,6%) (or compare 100 vs. 124)

Texas:

Pay-out rate is 52% ✓✓ ( $\frac{75}{143} \times 100\%$ ) (accept 52,4%) (or compare 75 vs. 143)

Do not accept 124 vs 143 or 100 vs 75,  
No split marks

Choice ✓ with reason ✓ :

Florida: They pay out more than Texas, they want to keep their shareholder's satisfied

OR

Texas: They retain funds for future growth and improvement

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3.4

- (a) Refer to Information B and C. Indicate how many shares Gilbert must purchase in each company to maintain the percentage shareholding he had at the start of the year.

**Florida:**

He had 214 200 shares = 51% ✓

Total shares end of the year: 420 000 + 117 000 = 537 000 shares ✓

To maintain his % he needs: 537 000 x 51% = 273 870 shares ✓

He currently has 214 200 shares, so he needs to purchase an **additional 59 670 shares.** ✓

**Texas:**

He had 84 000 shares = 60% ✓

Total shares end of the year = 140 000 + 70 000 – 35 000  
= 175 000 shares ✓

To maintain his % he needs: 175 000 x 60% = 105 000 shares ✓

He currently has 84 000 shares, so he needs to purchase an **additional 21 000 shares.** ✓

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- (b) Calculate the amount Gilbert will spend in order to maintain his percentage shareholder in each company. Provide a reason why Gilbert would pay this amount.

**Florida:**

$$59\,670 \text{ shares } \checkmark \times R\,8,00 \checkmark = R477\,360$$

See (a) )

**Texas:**

$$21\,000 \text{ shares } \checkmark \times R16,00 \checkmark = \underline{R336\,000}$$

See (a)

$$R813\,360 \checkmark \text{ one part correct}$$

**Reason:**

In order to remain the majority shareholder. ✓

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- (c) Comment on the price per share that Gilbert paid for these shares in each company and provide figures to support your answer.

Must compare Market price to NAV: exceeds/lower than ✓ ✓  
Both figures for each company ✓ ✓

**Florida:**

Market price of R8,00 exceeds NAV of R7,20 (or by 80c)

**Texas:**

Market price of R16,00 is lower than NAV of R17,50

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**TOTAL  
MARKS**

**40**

**TOTAL: 150 marks**