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GRADE 12
LEJWELEPUTSWA
JUNE MOCK EXAM
PAPER 1
ACCOUNTING
JUNE 2023

MARKS: 150

TIME: 2 hours

**This question paper consists of 8 pages,
a formula sheet and an 8-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. 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 this 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	MINUTES
1	Financial Statements	60	45
2	Cash Flow Statement and Financial Indicators	40	30
3	Interpretation of Financial Information	35	30
4	Corporate Governance	15	15
TOTAL		150	120

QUESTION 1: STATEMENTS: COMPREHENSIVE INCOME AND FINANCIAL POSITION																																										
(60 marks; 45 minutes)																																										
The information relates to Zabi Ltd for the financial year ended 28 February 2022.																																										
REQUIRED:																																										
Complete the following: (NOTE: Some information is printed in the ANSWER BOOK.)																																										
1.1	Statement of Comprehensive Income for the year ended 28 February 2022	(40)																																								
1.2	Retained income note on 28 February 2022	(7)																																								
1.3	EQUITY and LIABILITIES section of the Statement of Financial Position on 28 February 2022	(13)																																								
INFORMATION:																																										
A	Amounts extracted from the records on 28 February 2022																																									
	<table border="1"> <thead> <tr> <th></th> <th>R</th> </tr> </thead> <tbody> <tr><td>Loan: Parks Bank</td><td>610 320</td></tr> <tr><td>Creditors' control</td><td>562 500</td></tr> <tr><td>Fixed deposit: Winkie Bank</td><td>150 000</td></tr> <tr><td>Trading stock</td><td>900 000</td></tr> <tr><td>Bank (favourable balance)</td><td>469 500</td></tr> <tr><td>Debtors' control</td><td>593 000</td></tr> <tr><td>Provision for bad debts (1 March 2021)</td><td>34 120</td></tr> <tr><td>SARS: Income Tax (Dr)</td><td>660 000</td></tr> <tr><td>SARS: PAYE</td><td>36 000</td></tr> <tr><td>Pension fund</td><td>13 500</td></tr> <tr><td>Sales</td><td>8 085 500</td></tr> <tr><td>Insurance</td><td>48 750</td></tr> <tr><td>Bad debts</td><td>33 260</td></tr> <tr><td>Rent income</td><td>85 100</td></tr> <tr><td>Directors' fees</td><td>825 000</td></tr> <tr><td>Consumable stores</td><td>33 900</td></tr> <tr><td>Interest on fixed deposit</td><td>11 090</td></tr> <tr><td>Bad debts recovered</td><td>11 760</td></tr> <tr><td>Ordinary share dividends</td><td>237 500</td></tr> </tbody> </table>		R	Loan: Parks Bank	610 320	Creditors' control	562 500	Fixed deposit: Winkie Bank	150 000	Trading stock	900 000	Bank (favourable balance)	469 500	Debtors' control	593 000	Provision for bad debts (1 March 2021)	34 120	SARS: Income Tax (Dr)	660 000	SARS: PAYE	36 000	Pension fund	13 500	Sales	8 085 500	Insurance	48 750	Bad debts	33 260	Rent income	85 100	Directors' fees	825 000	Consumable stores	33 900	Interest on fixed deposit	11 090	Bad debts recovered	11 760	Ordinary share dividends	237 500	
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B.	Additional information:																																									
(i)	Mark-up:																																									
	A mark-up percentage of 100% on cost was maintained during the financial year.																																									

	(ii)	Ordinary share capital and dividends							
		<ul style="list-style-type: none">On 1 May 2021 an additional 300 000 shares were issued.On 1 September 2021 the company repurchased 40 000 shares at 80 cents above the average share price of R8,50 each.950 000 shares were in issue on 28 February 2022.The total dividend for the year amounted to R570 000.							
C	Adjustments not taken into account:								
	(i)	Totally damaged goods returned on 26 February 2022 was incorrectly recorded as R7 200. The amount according to the credit note issued is R2 700.							
	(ii)	Consumable stores on hand on 28 February 2022, R5 900.							
	(iii)	An amount of R2 240 received from F. Solomon, whose account had been written off as irrecoverable, was posted in error to the bad debts account.							
	(iv)	Provision for bad debts should be adjusted to R29 660.							
	(v)	The insurance account includes an annual premium of R22 500 paid for the period 1 July 2021 to 30 June 2022.							
	(vi)	The premises has been rented since 1 April 2021 with an agreement that rent will be reduced by R1 000 per month with effect from 1 January 2022. The rent for February 2022 is still outstanding.							
	(vii)	The company pays the same monthly fee to all directors. One of the three directors resigned on 30 November 2021 and a new director was appointed on 1 February 2022. The fee of the new director is still outstanding.							
	(viii)	Sundry Expenses is the missing figure in the Statement of Comprehensive Income.							
	(ix)	After taking all adjustments into account, the operating profit was accurately calculated as R1 602 190.							
	(x)	Extract from the loan statement received from Sparks Bank: <table border="1"><tr><td>Interest capitalised</td><td>?</td></tr><tr><td>Repayments (including interest)</td><td>161 280</td></tr><tr><td>Balance at the end of the financial year</td><td>703 800</td></tr></table> R100 000 of the loan will be paid back in the next financial year.	Interest capitalised	?	Repayments (including interest)	161 280	Balance at the end of the financial year	703 800	
Interest capitalised	?								
Repayments (including interest)	161 280								
Balance at the end of the financial year	703 800								
	(xi)	The income tax rate is 30%.							
			60						

QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS**(40 marks; 30 minutes)**

- 2.1 Calculate the following financial indicators for the financial year ended 30 April 2022:
- 2.1.1 Debt-equity ratio (3)
 - 2.1.2 Earnings per share (EPS) (4)
 - 2.1.3 Dividend pay-out rate (%) (3)
 - 2.1.4 % return on average equity (ROSHE) (5)
 - Funds used to repurchase shares (4)
 - Net change in cash and cash equivalents (2)
- 2.2 Complete the following section for Cash generated from operations:
- 2.3 Calculate the following amounts for the Cash Flow Statement:
- 2.3.1 Taxation paid (5)
 - 2.3.2 Proceeds from sale of fixed assets (5)
 - 2.3.3 Funds used for the repurchase of shares (2)
- 2.4 Complete the following section of the Cash Flow Statement:
- Net change in cash and cash equivalents (4)

INFORMATION:**A. Extract: Statement of Comprehensive Income on 30 April 2022.**

Depreciation	R 280 800
Interest on loan	151 200
Net profit before tax	1 660 000
Net profit after tax	1 162 000

B. Extract: Statement of Financial Position and Notes :

	30 April 2022 R	30 April 2021 R
Fixed assets (carrying value)	11 434 000	9 984 400
Fixed deposit	120 000	600 000
Current Assets	1 202 400	906 000
Trade and other receivable (Note 1)	481 800	352 500

Cash and cash equivalent	6 000	67 800
Shareholders' equity	10 776 400	8 893 800
Non-current liabilities	1 080 000	1 440 000
Current liabilities	900 000	1 156 600
Trade and other payables	432 000	814 600
Bank overdraft	264 000	0
Shareholders for dividends	144 000	192 000

Note 1: Trade and other receivables

Net trade debtors	448 000	323 800
Accrued income	28 400	
SARS (income tax)	5 400	28 700

C. Fixed assets:

- The total cost for the acquisition of a new vehicle and extension to the building during the year amounted to R1 632 000.
- During the year equipment was sold at carrying value.

D. Share capital and shares:

- Additional shares were issued on 1 May 2021.
- On 30 April 2022 shares were repurchased. The value of the shares as per the average issue price amounted to R25 000. The repurchase price was 10% more than the average issue price.

E. Dividends and earnings per share:

	30 April 2022	30 April 2021
Interim dividend (per share)	45 cents	25 cents
Final dividend declared (per share)	25 cents	15 cents
Earnings per share	?	94 cents

QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION (35 marks; 30 minutes)

- 3.1** Choose the financial statement(s) in COLUMN B that matches the financial indicator in COLUMN A. Write only the letter (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 Solvency	A Statement of Comprehensive Income
3.1.2 Return on capital employed	B Statement of Financial Position
3.1.3 Profitability	C Statement of Comprehensive Statement of Financial Position
	D Cash Flow Statement

3.2 KARABO LTD

The information for this company relates to the financial year ended on 28 February 2022.

REQUIRED:

- 3.2.1 The directors are satisfied with the improvement in the liquidity of the company. Quote and explain THREE financial indicators with figures and trends that show an improvement of the liquidity position. (6)
- 3.2.2 Explain why the shareholders should be satisfied with their return on investment in the company. Quote figures and trends in your explanation. (4)
- 3.2.3 One of the directors feels that the company should pay back the loan as soon as possible. Explain why you disagree with him. Quote TWO financial indicators with figures and trends. (6)
- 3.2.4 One of the shareholders wants to sell her shares at R6 each.
- Provide ONE reason why you would agree with her to sell her shares. Quote a financial indicator with figures and trends. (2)
 - Provide ONE reason why you disagree with her to sell her shares. Quote a financial indicator with figures and trends. (2)
- 3.2.5 The shareholders should be happy with the earnings per share (EPS) because it is better than the previous year. Explain why you agree with them. Quote figures and calculations. (4)

INFORMATION:**A Financial Indicators for the last two financial years:**

	28 Feb. 2022	29 Feb. 2021
Current ratio	2,1 : 1	2,9 : 1
Acid-test ratio	0,6 : 1	0,9 : 1
Average debtors' collection period	35 days	33 days
Average creditors payment period	65 days	90 days
Stock turnover rate	10.2 times	9,1 tim
Debt/equity ratio	0,3 : 1	0,3 : 1
Dividends per share (DPS)	80 cents	55 cents
Earnings per share (EPS)	104 cents	75 cents
% Return on average equity	15,3%	10,4%
% Return on average capital employed	17,2%	12,1%
Net asset value per share (NAV)	650 cents	625 cents
Interest rate on loan	14%	13%
Interest rate on fixed deposit	7%	7%
Market price of shares (JSE)	600 cents	640 cents

3.3 SOCKER LTD AND BOLL LTD

The information relates to two companies competing in the same industry. The financial year of each company ends on the last day of May.

NOT E: Alton Flan is a shareholder in both companies. Both companies will issue new shares in the new financial year. Alton Flan considers buying new shares in Socker Ltd only.

3.3.1 Explain what effect this consideration will have on the % shareholding of Alton Flan in EACH company. Quote figures and trends. (6)

3.3.2 Calculate the number of shares Alton Flan could buy in Boll Ltd. (2)

INFORMATION:

A. Extracts from accounting records on 31 May 2022

	SOCKER LTD	BOLL LTD
Number of shares in issue	980 000	1 000 000
Number of shares owned by Alton Flan	450 800	550 000

B. Shares to be issued in the new financial year

	SOCKER LTD	BOLL LTD
Total number of shares	120 000	80 000
Number of shares Alton Flan considers buying	110 200	0
Issue price	R5	R4

35

QUESTION 4: CORPORATE GOVERNANCE AND AUDIT REPORT**(15 marks; 10 minutes)**

You are provided with an extract of the audit report for Tantass Ltd for the financial year ended 28 February 2022.

REQUIRED:

4.1 Explain the role of the remunerations committee and give a reason why there is a need for this committee. (3)

4.2 Explain why the auditor referred to pages 7 to 22 in this report. (2)

4.3 Identify the type of audit opinion that the company received and provide a reason for your answer. (2)

- 4.4 Explain the effect of this type of report for the image of the company. Provide TWO points. (4)
- 4.5 State TWO possible consequences for the independent auditor if he had NOT referred to the increase in directors' fees. (4)

INFORMATION:**EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS****Basis for Opinion**

In the course of the audit, it was found that the increase in directors' fees had not been authorised by the Remunerations Committee.

Audit Opinion

We have audited the financial statements, as set out on pages 7 to 22.

In our opinion, the financial statements fairly present the financial position of the company as at 28 February 2022, except for the increase in directors' fees, which was not authorised.

Rivas and Miller
Registered Accountants and Auditors

31 May 2022

15**TOTAL: 150 MARKS****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	

$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income before tax + Interest on loans}}{\text{Average shareholders' equity + Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
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.	