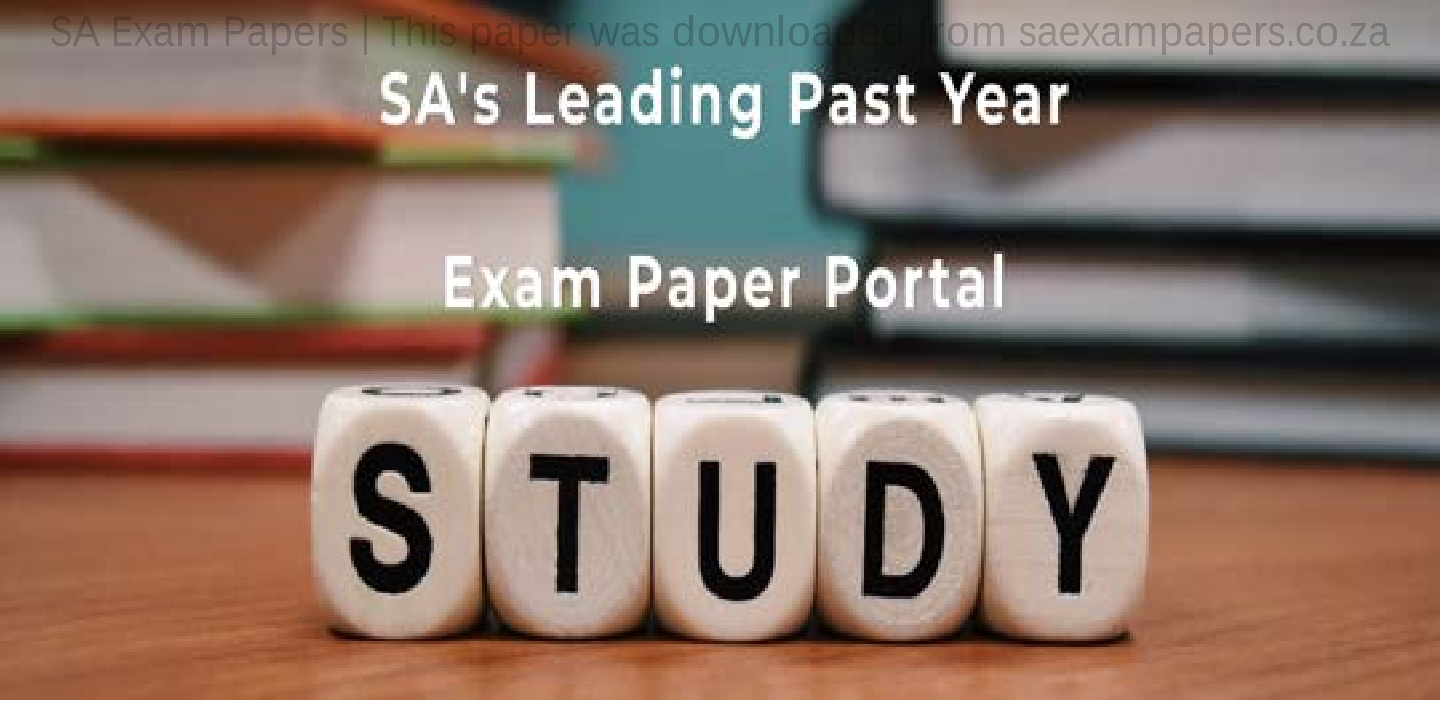
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KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

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GRADE 12

ACCOUNTING P1

PREPARATORY EXAMINATION

SEPTEMBER 2023

MARKS: 150

TIME: 2 Hours

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 ALL 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 applicable, show all calculations to ONE decimal point.
7. A Financial Indicator Formula Sheet is attached at the end of this question paper.
8. Write neatly and legibly.
9. Use the information and 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 Section of Statement of Financial Position	60	50
2	Cash Flow Statement and Financial Indicators	40	30
3	Interpretation of Financial Statements	35	30
4	Corporate Governance and Audit Report	15	10
TOTAL		**150**	**120**

QUESTION 1: COMPANY FINANCIAL STATEMENTS **(60 marks; 50 minutes)**

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

REQUIRED:

1.1 Calculate the total depreciation for the year. (10)

1.2 Complete the Statement of Comprehensive Income for the year ended 28 February 2023 (35)

1.3 Complete the Current Liabilities section of the Statement of Financial Position. (15)

Note: Some information and figures are provided in the ANSWER BOOK.

INFORMATION:

A.

EXTRACT: PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY		
Balance sheet accounts	**2023 R**	**2022 R**
Ordinary share capital	8 700 000	6 900 000
Retained Income	?	850 000
Loan: Triumph Bank	2 850 000	3 100 000
Vehicles	?	800 000
Accumulated depreciation on vehicles	?	415 000
Equipment	910 000	?
Accumulated depreciation on equipment	?	782 000
Provision for bad debts	?	8 135
Fixed deposit	?	
Creditors control	112 755	
Debtors control	135 300	
SARS (Income tax) (Dr)	500 000	
Nominal accounts		
Sales	?	
Cost of sales	4 809 000	
Service fee income	550 000	
Rent income	62 800	
Directors fees	625 000	
Audit fees	188 410	
Salaries and wages	526 855	
Insurance	14 700	
Advertising	87 000	
Sundry expenses	?	
Interest on fixed deposit	?	
Ordinary share dividends	210 000	

B. **Trade discounts** of R360 000 was allowed on invoices to certain customers. The business prices its goods at a mark-up of 70% on cost.

C. **The provision for bad debts** must be adjusted to R7 515.

D. **Rent** has been received until 31 May 2023. The monthly rent increased by 10% on 1 November 2022.

E. **Directors' fees** were paid to two directors. One director requested that his fees for March 2023 be paid in February 2023, due to his financial problems. The committee agreed. The two directors receive the same monthly pay.

F. **Advertising** of R57 700 consists of a monthly contract with a local radio station. Advertising was paid for 13 months. The contract rate was decreased by R200 per month from 1 December 2022.

G. **Vehicles:**

- An old delivery vehicle, with a carrying value of R170 000 on 1 March 2022, was sold for R150 000 cash on 1 December 2022.
- Depreciation for vehicles at 20% on a diminishing balance.

H. **Equipment:**

- New equipment costing R50 000 was purchased on 1 November 2022 for cash. Transaction was properly recorded.
- Equipment is depreciated at 15% p.a. on cost.

I. **Two debtors** with credit balances totaling R15 000 must be transferred to the Creditors Ledger.

J. **Loan**:

The repayments on the loan are fixed at R40 000 per month (including capitalised interest).

Interest for the next financial year will decline by 5% from the 2023 interest on loan.

K. **After taking all the adjustments above into account, the following were correctly calculated:**

• Operating profit	R2 030 000
• Total dividends for the year	R380 000

L. **Income tax** for the financial year was calculated as R600 000. This is 30% of the net profit before tax.

60

QUESTION 2

CASH FLOW STATEMENT AND FINANCIAL INDICATORS (40 marks; 30 minutes)

You are provided with information related to Ladysmith Limited, a public company, for the financial year ended 30 June 2023.

REQUIRED:

2.1 Prepare the Retained income Note on 30 June 2023: (9)

2.2 Calculate the following amounts for the Cash Flow Statement. Show workings.

2.2.1 Dividends paid (3)

2.2.2 Income tax paid (4)

2.3 Complete the following sections of the Cash Flow Statement.

2.3.1 Investing activities (8)

2.3.2 Financial activities (5)

2.4 Calculate the following financial indicators for the year ended 30 June 2023:

2.4.1 % Operating expenses on sales (3)

2.4.2 Current ratio (4)

2.4.3 Net asset value per share (NAV) (4)

INFORMATION:

A. Shares and dividends:

- 1 July 2022: 800 000 shares were in issue
- 30 September 2022: 30 000 ordinary shares were repurchased from a retired shareholder at R9,80.
- 31 December 2022: Interim dividend of 40 cents per share was paid.
- 1 January 2023: 100 000 new shares were issued at R13,12.
- 30 June 2023: Final dividends were declared to all shareholders in the shares register.

B. Extract from the Statement of Comprehensive Income for the year ended 30 June 2023:

	R
Sales	6 000 000
Cost of sales	4 000 000
Depreciation	56 000
Operating expenses	1 500 000
Net profit before tax	1 400 000
Net profit after tax	980 000

C. Extract from the Statement of Financial Position on 30 June:

	2023	2022
Ordinary shareholders' equity	?	
Ordinary share capital	7 395 000	6 320 000
Retained Income	?	811 800
Non-current liabilities (15% p.a.)	2 549 950	1 782 950
Total Liabilities	4 500 100	2 868 200
Current assets	3 900 000	2 200 000
Investment in fixed deposit	4 100 000	1 900 000
Fixed/Tangible assets	5 000 000	5 900 000
SARS (Income tax)	**Dr** 50 000	**Cr** 30 000
Shareholders for dividends	321 900	250 000

D. Fixed assets

- The building was sold at carrying value during the financial year, R2 000 000.
- Equipment was purchased during the financial year.

40

QUESTION 3

INTERPRETATION OF FINANCIAL STATEMENTS **(35 marks; 30 minutes)**

3.1 Choose a term from the list below that answers the specific following questions. Write only the term next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK.

Return on capital employed; return on equity; solvency; liquidity; profitability

3.1.1 Is the business able to pay off all its debts?

3.1.2 Can the business pay off short-term debts in the next financial year?

3.1.3 Will shareholders be satisfied with the benefit that they receive for investing in the company?

(3 x 1) (3)

3.2 CHATSWORTH LTD

You are provided with information relating to Chatsworth Ltd, a public company, for the financial year ended 31 August 2023.

REQUIRED:

NOTE: Provide figures, trends, financial indicators or calculations in EACH case to support your comments and explanations.

3.2.1 **Profitability:**

Quote and explain TWO financial indicators to show that the company is managing its expenses more efficiently. (4)

3.2.2 **Liquidity:**

The directors are satisfied with the liquidity of the company. Quote THREE financial indicators to support this statement. (6)

3.2.3 **Dividends, Returns and Earnings:**

- Comment on the dividend pay-out policy. Provide ONE point. (2)
- A shareholder wants to sell her shares to invest in a 3-year fixed deposit account at her bank. Explain whether this is a wise decision. (4)

3.2.4 **Risk and gearing:**

One of the directors believes that the company could increase loans in the new financial year. Quote TWO financial indicators (with figures) and explain each indicator to support her opinion. (6)

3.2.5 **Share capital and % shareholding: Refer to information C.**

The CEO, Stanley Foster, currently owns 46% of the issued shares after the repurchasing of shares on 31 October 2022. The board of directors has decided to issue all the unissued shares in April 2023.

- Calculate the minimum number of shares that Stanley must buy in April 2023 to gain control of the company. (6)
- Stanley wants to purchase the additional shares at R9,00 without advertising the shares to the public. Give TWO reasons why you would not support him. (4)

INFORMATION:

A. Financial Indicators calculated on 31 August:

	2023	**2022**
% operating expenses on sales	13.8%	19.5%
% Operating profit on sales	24.5%	22.8%
% Net profit on sales	20.9%	21.8%
Current ratio	2.4 : 1	1.9 : 1
Acid-test ratio	1 : 1	0.8 : 1
Stock turnover rate	6 times	3 times
Total assets to total liabilities	3.0 : 1	5.0 ; 1
Earnings per share	158 cents	130 cents
Dividends per share	169 cents	90 cents
Dividend payout rate	107%	69%
Net asset value per share	1 050 cents	950 cents
Debt-equity ratio	0.6 : 1	0.8 : 1
% Return on average capital employed	17.2%	12.7%
% Return on average shareholders' equity	18.9%	18%

B. Additional information on 31 August:

	2023	**2022**
Market price of shares on stock exchange	1 590 cents	1 340 cents
Interest on loan	13%	13%
Interest on alternative investment	11%	7.5%

C. Issue and repurchase of shares:

	NO. OF SHARES
Authorised share capital	3 000 000
Number of shares in issue on 1 September 2022	2 050 000
Number of shares repurchased on 31 October 2022	260 000
Number of shares in issue on 31 August 2023	?

None of Stanley's shares were repurchased on 31 October 2022.

QUESTION 4

CORPORATE GOVERNANCE AND AUDIT REPORT **(15 Marks; 10 Minutes)**

4.1 Choose the correct term from COLUMN B to match the description in COLUMN A. Write only the letter (A – D) next to the question number (4.1.1 to 4.1.3) in the ANSWER BOOK.

COLUMN A		COLUMN B	
4.1.1	Guidelines for the preparation of financial statements to ensure consistency.	A	Memorandum of Incorporation
4.1.2	Sets out the rights, duties and responsibilities of shareholders and directors.	B	IFRS
		C	Matching concept
4.1.3	Revenue generated and related expenses are recognised in the same accounting period.	D	Going concern concept

(3 x 1) (3)

4.2 CORPORATE GOVERNANCE

REQUIRED:

4.2.1 According to the Companies Act, 2008 (Act 71 of 2008), a company must have a remunerations committee.

- Explain the role/responsibility of this committee. (2)
- Give one reason why this committee is necessary in a public company. (2)

4.2.2 Explain why it should be company policy that directors must declare all gifts, donations or favours received from suppliers. Provide TWO points. (4)

4.3 AUDIT REPORT

REQUIRED:

Internal auditors should be appointed in private and public companies.

Explain TWO roles/responsibilities of internal auditors in companies. (4)

15

TOTAL MARKS: 150

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	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*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.