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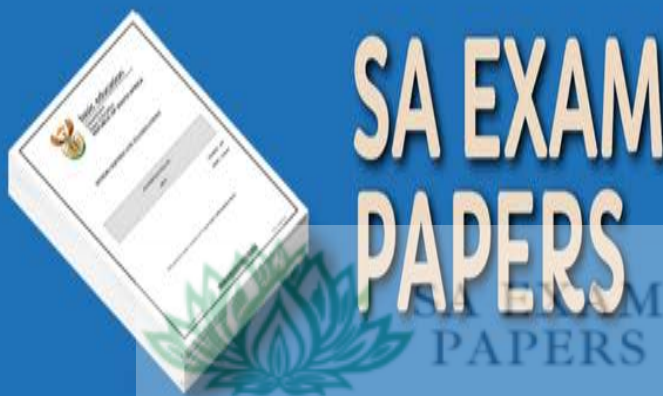


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BOHLABELA

**ACCOUNTING
GR12
PRE-TRIAL P1
AUGUST 2023**

Marks: 150

Time: 2 hours

This Question paper consists of 9 pages with an Answer Book of 9 pages and a Financial Indicator Formula Sheet

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. A financial indicator formula sheet is attached at the back of this Question paper, for your reference.
4. Show ALL workings to earn part-marks.
5. You may use a non-programmable calculator.
6. You may use a dark pencil or black/blue ink to answer the questions.
7. Where applicable, show all calculations to ONE decimal point.
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	Company financial statements	60	45
2	Cash Flow Statement and Financial Indicators	40	30
3	Interpretation of financial information	35	35
4	Corporate governance issues	15	10
TOTAL		150	120

QUESTION 1: FINANCIAL STATEMENTS OF COMPANIES**(60 marks; 45 minutes)**

The information relates to Banana Ltd, a business that sells toys. The financial year ended on the 28 February 2023.

REQUIRED:**1.1 Refer to Information A**

- Calculate the missing amounts denoted by (i) to (iv) on the Fixed Asset note. (17)
- 1.2 Calculate the correct the NET PROFIT AFTER TAX for the year ended 28 February 2023. Show all workings on the table provided. (11)
- 1.3 Prepare the Retained Income Note on 28 February 2023. (7)
- 1.4 Complete the Statement of Financial Position on 28 February 2023. (25)

INFORMATION:**A. Extract of the Fixed Asset Note**

	Buildings	Vehicles	Equipment
Carrying value on 1 March 2022	(i)	419 900	317 440
Cost			
Accumulated depreciation		(464 100)	(302 560)
Movements:			
Additions	864 200		0
Disposals	0	0	(iii)
Depreciation		(144 400)	(iv)
Carrying value on 28 February 2023	7 690 200	(ii)	
Cost		1 120 000	
Accumulated depreciation			

Depreciation policy:

- Vehicles are depreciated at 15% p.a. on cost.
- Equipment is depreciated at 20% p.a. on carrying value.

Movement of assets during the year:

- Old storage facilities not in use were disposed in July 2022.
- A new vehicle was purchased on 31 October 2022.
- Equipment was sold on 1 January 2023.

Details of the equipment sold are as follows:

Cost of equipment sold	R90 000
Accumulated depreciation on 1 March 2022	R38 160
Proceeds on sale	R50 000

**** All relevant entries regarding fixed assets were taken into account.**

B. Extract of balances and totals on 28 February:

Ordinary share capital	R 8 330 000
Retained income (1 March 2022)	246 900
Loan: ORA Bank	?
Fixed deposit	?
Trading stock	726 040
Net trade debtors	546 330
Creditors control	388 790
SARS: Income tax (provisional payments)	340 000
Cash and cash equivalents	?
Consumable stores	117 600
Audit fees	88 740
Rent income	109 600
Insurance	45 050
Ordinary share dividends (31 August 2022)	241 500

C. The bookkeeper calculated the net profit before tax as R1 243 000.

He however, did not take into account **only** the following adjustments:

(i)	Unused consumable stores on 28 February 2023, R12 440.
(ii)	Toys with a selling price of R15 050 was donated to a children's home. The mark-up % is 75% on cost.
(iii)	Only 90% of the audit fees was paid. The balance will be paid next year.
(iv)	Rent income for January and February 2023 were not yet received. The tenant occupies the premises from 1 May 2022.
(v)	Insurance included premiums up to 31 March 2023. Note that the monthly premiums increased by 5% p.a. from 1 November 2022.

D. The correct income tax for the year (after taking into account all adjustments) amounted to R380 350.**E. Share capital and dividends:**

1 March 2022	There were 920 000 shares in issue
30 May 2022	130 000 additional shares were issued.
31 August 2022	An interim dividend was paid.
1 December 2022	70 000 shares were repurchased. An EFT for R679 000 was paid to the estate of the shareholder. They do not qualify for final dividends.
28 February 2023	A final dividend of 30c per share was declared.

F. Loan: ORA Bank

- Balance on 1 March 2022, R1 075 200.
- Fixed instalments of R22 400 per month, including interest capitalised, were paid and recorded.
- The loan statement reflected interest capitalised of R123 600 for the year ended 28 February 2023. This was duly recorded.
- A part of the loan balance will be repaid in the next financial year.

G. After all adjustments, the **current ratio was correctly calculated at 1,8 : 1.**

QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS**(35 marks; 30 minutes)**

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

REQUIRED:

- 2.1 Calculate the following amounts for the Cash Flow Statement:
- Income tax paid (5)
 - Dividends paid (3)
 - Proceeds from the sale of fixed assets (5)
- 2.2 Complete the CASH EFFECTS OF FINANCING ACTIVITIES section of the Cash Flow Statement (10)
- 2.3 Calculate the following financial indicators:
- 2.3.1 % operating expenses on sales (2)
 - 2.3.2 Total dividends per share (DPS) (5)
 - 2.3.3 % return on average shareholders' equity (5)

INFORMATION:

- A. Information extracted from the Statement of Comprehensive Income for the financial year ended 28 February 2023:

Sales	R 10 400 000
Depreciation	476 000
Operating expenses	2 080 000
Interest expenses	595 000
Net profit after tax	857 500
Income tax rate	30%

- B. Figures extracted from the Statement of Financial Position and Notes:

	28 Feb 2023 R	28 Feb 2022 R
Fixed assets (carrying value)	16 032 100	11 721 200
Non-current liabilities	6 000 000	2 500 000
Current assets	2 185 000	2 055 600
Current liabilities	1 524 600	1 029 800
Shareholders' equity	10 892 500	10 447 000
Ordinary share capital	10 235 000	9 460 000
Retained income	657 500	987 000
Inventories	1 213 000	835 600
Cash and cash equivalents	6 000	344 000
SARS: Income tax	25 600 (Cr)	15 800 (Cr)
Shareholders for dividends	437 000	330 000
Bank overdraft	286 000	0

C. Share Capital

- 300 000 additional shares were issued on 1 May 2022.
- 250 000 shares were re-purchased on 1 December 2022 at 10,50 per share. The average share price at the time was R8,90. These shareholders did not qualify for final dividends.
- There were 1 150 000 shares in issue on 28 February 2023.

D. Dividends

- Interim dividends of R350 000 was paid on 31 August 2022, to all shares on the share register.
- A final dividend was declared on 28 February 2023.

E. Fixed assets:

- Additions to the buildings were constructed during the year at a cost of R4 909 900.
- Old equipment was sold at carrying value.

QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION**(40 marks; 35 minutes)**

The information was extracted from the records of Winter Ltd for the financial year ended 28 February 2023.

REQUIRED:

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

3.1 Liquidity:

Comment on whether the company is able to meet its short term debts in the next financial year. Quote and explain TWO financial indicators. (6)

3.2 Risk and gearing:

Some of the directors were concerned about the large increase in the loan.

- Comment on the effect of the increase in loan on the financial risk of the company. Quote ONE financial indicator. (3)
- Explain whether the directors concern is justified or not. Quote ONE other financial indicator (apart from the one mentioned above). (4)

3.3 Returns and dividends:

- If you were a shareholder, explain whether you would be concerned about the return on your investment or not. Quote ONE financial indicator. (4)
- Gloria, a shareholder, is happy with the dividends she received. Comment on whether she is justified to feel this way. Provide TWO points. Quote TWO financial indicators, with figures, to support your answer. (4)
- Provide TWO possible reasons why the directors decided on the dividend pay-out policy they adopted for the current financial year. (4)

3.4 Share price:

- Explain why the market price per share is an important indicator to shareholders. (2)
- Quote and explain TWO financial indicators that will indicate why shareholders may be concerned about the share price on the stock exchange. (4)

3.5 Shareholding of Jingleheimer Smit:

Jingleheimer Smit owns 540 500 shares in Winter Ltd. The company plans to issue 300 000 additional shares in the next financial year. Jingleheimer is interested in becoming the majority shareholder.

- Calculate the number of shares he would have to buy to achieve his objective. Note that the company's shares are only available in batches of 100 shares. (5)
- Provide TWO different reasons why he may want to be the majority shareholder. (4)

INFORMATION:**A. Financial indicators and additional information.**

	28 Feb 2023	28 Feb 2022
Debt / equity ratio	0,6 : 1	0,2 : 1
Current ratio	1,4 : 1	2,0 : 1
Acid-test ratio	0,6 : 1	1,2 : 1
Stock turnover rate	6,4 times	8,4 times
Debtors average collection period (days)	57 days	48 days
Earnings per share (EPS)	67 cents	98 cents
Dividends per share (DPS)	63 cents	45 cents
Dividend pay-out rate	94%	46%
% Return on average shareholders' equity	8,0%	10,3%
% Return on average capital employed	12,2%	14,3%
Net asset value per share (NAV)	947 cents	950 cents
Market price of shares (cents)	938 cents	962 cents
Interest rate on loan	14%	14%
Interest on fixed deposit	6,5%	7%

B. Shareholding of Jingleheimer Smit:

Shares in issue	1 150 000 shares
Shares owned by Jingleheimer	540 500 shares
% shareholding	47%

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

An extract of an article from a recent publication is presented. Use the information, as well as your general knowledge on companies to the answer the questions.

REQUIRED:

- 4.1 South African Institute of Chartered Accountants (SAICA) is a professional body that is responsible for the delivery of quality accountancy skills.
Explain why its members must be qualified Chartered Accountants. (2)
- 4.2 Provide ONE reason why SAICA would treat this matter with such seriousness. (2)
- 4.3 State TWO reasons why directors are expected to have the qualities that Mango is accused of not possessing (having). (2)
- 4.4 If you were a shareholder of Orange Ltd, provide THREE different questions that you would raise at a meeting of shareholders concerning this matter. In EACH case, state a reason for your question. (9)

INFORMATION:**"SAICA ACTS ON CFO"**

O. Mango, the former Chief Financial Officer (CFO) of Orange Ltd was heavily implicated in corrupt activities involving billions of Rand. Two years after an official complaint by a lobby group, SAICA found Mango guilty of 15 charges and formally terminating his membership, effectively striking him from the roll and preventing him from practicing as a Chartered Accountant (CA). Mango refused to attend any of the disciplinary hearings. .

The charges against Mango related to his role in procuring (the purchase) over 1 000 diesel vehicles for field workers, which started in 2016. These vehicles were "overpriced" and the company lost billions of Rand to corruption. It was established that mango was hands-on throughout this deal, often negotiating with the service providers. He got the deal approved at R25 billion, then after the contracts were signed, he inflated this by an additional R15 billion.

SAICA found Mango to be grossly negligent, dishonest, and lacked accountability. These were considered to be a serious breach of the SAICA code of conduct while holding a senior position at the company, resulting in them experiencing a substantial financial loss.

15**TOTAL: 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 & other receivables + Cash & cash equivalents) : Current liabilities	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales / Credit Purchases}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*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.	