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Department of
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FREE STATE PROVINCE

PREPARATORY EXAMINATION

GRADE 12

ACCOUNTING P1

SEPTEMBER 2023

MARKS: 150

TIME: 2 HOURS

**This question paper consists of 11 pages, a formula sheet
and a 9-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 answer the questions using a dark pencil or blue/black ink.
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 the 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	Statement of Comprehensive Income and Statement of Financial Position	60	50
2	Cash Flow Statement and Financial Indicators	45	35
3	Interpretation of Financial Information	30	25
4	Corporate Governance	15	10
TOTAL		150	120

**QUESTION 1: STATEMENT OF COMPREHENSIVE INCOME, STATEMENT OF
FINANCIAL POSITION (60 marks; 50 minutes)****1.1 CONCEPTS**

Choose the correct term to complete each of the following statements. Write only the term next to the question numbers (1.1.1 to 1.1.4) in the ANSWER BOOK.

retained income; trade and other payables; operating income;
financial asset; ordinary share capital; operating expense

- 1.1.1 The portion of the loan which will be paid during the following financial period will be recorded in the ...
- 1.1.2 A fixed deposit which will only mature in two years will be recorded as a/an ... in the statement of financial position.
- 1.1.3 The average share price will be recorded in the ... note if a share is repurchased.
- 1.1.4 A bank overdraft will be recorded under ... in the statement of financial position. (4 x 1) (4)

1.2 THUTHUKANI LTD

The information relates to Thuthukani Limited; the financial year ended on 28 February 2023.

REQUIRED:

- 1.2.1 Prepare the Statement of Comprehensive Income for the financial year ending 28 February 2023. (41)
- 1.2.2 Calculate the amount for Net trade debtors in the Statement of Financial Position on 28 February 2023. (4)
- 1.2.3 Prepare the Retained Income Note on 28 February 2023. (8)
- 1.2.4 Calculate the amount for Non-current Liabilities in the Statement of Financial Position on 28 February 2023. See information B (xi). (3)

INFORMATION:**A. Extract from the Pre-adjustment trial balance on 28 February:**

BALANCE SHEET ACCOUNTS SECTION		
	2023 (R)	2022 (R)
Ordinary Share Capital	?	4 800 000
Retained income	?	1 682 458
Mortgage loan: Westside Bank	760 000	
Fixed deposit: Westside Bank	180 000	140 000
Debtors' control	458 650	
Provision for bad debts	?	9 820
SARS: Income tax (provisional payments)	186 000	
Creditor's control	166 800	
NOMINAL ACCOUNTS SECTION		
Sales	?	
Cost of sales	1 845 000	
Salaries and wages	360 500	
Stationery	24 684	
Insurance	46 500	
Rent income	92 736	
Interest on fixed deposit	12 400	
Directors' fees	276 000	
Audit fees	24 600	
Bad debts	16 680	
Bad debts recovered	3 850	
Depreciation	46 000	
Interest on loan (Balancing figure)	?	
Ordinary share dividends	21 600	

B. Adjustments not considered yet:

- (i) Goods are sold at a markup of 80% on the cost price. Discount for damaged goods sold during the year amounted to R14 600.
- (ii) Stationery to the value of R22 600 was used during the year.
- (iii) Included in the amount for insurance was a yearly premium of R5 520 paid on 1 December 2022 for the year ending 30 November 2023.
- (iv) One worker was not paid his salary for February 2023. His details are as follows:

Deductions	Net salary	Employer's contributions
R5 600	R14 500	R3 800

NOTE:

Contributions are recorded in the salaries and wages account.

- (v) Rent was received until 30 April 2023. The monthly rent was increased by 12% on 1 November 2022.
- (vi) The fixed deposit at Westside Bank was increased by R40 000 on 1 June 2022 at the existing rate of 8% p.a. The transaction was recorded. Make provision for the outstanding interest. Interest is not capitalised.
- (vii) The company has four directors. Each one of them receives the same monthly fee. Two directors received their fees for the whole year, one only received his for nine months, and one has already received his for March 2023.
- (viii) 25% of the audit fees are still outstanding.
- (ix) R1 670 was received from a debtor whose account was written off the previous year. The amount was recorded in the Debtors' control column in the CRJ. Correct the error.
- (x) Provision for bad debts must be adjusted to R9 360.
- (xi) The loan from Westside Bank was taken out on 1 July 2019. The loan will be repaid over ten years in equal monthly instalments. Repayments were made from the end of July 2019, and all payments were paid and recorded.

(xii) **Shares and dividends**

• Share capital consists of 2 000 000 issued shares.
• 1 200 000 of the shares were issued in 2019 for R4,00 each, and the rest of the shares were issued at R6,00 each at the beginning of the year.
• On 31 December 2022, 12 000 shares were repurchased at a price of R7,30 from the estate of a shareholder.
• A final dividend of 2 cents per share was declared on 28 February 2023. The shares repurchased do not qualify for dividends declared.

- (xiii) Income tax is calculated at 30% of the net profit before income tax. The net profit after tax was correctly calculated as R422 450.

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QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS
(45 marks; 35 minutes)**FREE STATE SUPPLIERS LIMITED**

You are provided with information relating to Free State Suppliers Ltd for the financial year ending 28 February 2023.

REQUIRED:

- 2.1 Calculate the following for the financial year ending 28 February 2023.
- (i) The acid-test ratio. (4)
 - (ii) The debt-equity ratio. (3)
 - (iii) The return on average shareholders' equity. (6)
- 2.2 Refer to information D (i) to confirm the value of the closing stock on 28 February 2023 is R1 350 000. (5)
- 2.3 Complete the following note to the Cash Flow Statement:
- Reconciliation between profit before taxation and cash generated from operations. (13)
- 2.4 Refer to information D (ii).
- Calculate the amount for the purchase of the fixed assets. (5)
- 2.5 Prepare the following section of the Cash Flow Statement:
- Cash flows from financing activities (5)
- 2.6 Complete the net change in Cash and Cash equivalents as it would appear in the Cash Flow Statement. (4)

INFORMATION:**A. Extract from Statement of Comprehensive Income for the year ended 28 February 2023:**

	R
Depreciation	185 700
Interest on loan	175 000
Net profit before income tax	2 400 000
Income tax	672 000

B. Extract from Statement of Financial Position on 28 February:

	2023	2022
Fixed assets (carrying value)	4 178 300	3 532 000
Inventory	1 350 000	1 281 500
Trade and other receivables	1 580 000	1 530 000
Cash and cash equivalents	168 000	28 000
Shareholders' equity	4 478 300	3 409 000
Ordinary share capital	3 600 000	2 500 000
Retained income	878 300	909 000
Mortgage loan: Puma Bank	1 420 000	1 300 000
Trade and other payables	1 598 000	1 786 000
Bank Overdraft	0	56 000

C. Notes to the financial statements on 28 February:

	2023	2022
Trade and other receivables:		
Net trade debtors	1 554 000	1 420 000
Accrued income	26 000	35 000
SARS: Income tax	-	75 000
	1 580 000	1 530 000
Trade and other payables:		
Trade creditors	1 347 000	1 586 000
Shareholders for dividends	225 000	200 000
SARS: Income tax	26 000	-
	1 598 000	1 786 000

D. Additional information:**(i) Inventory:**

The company uses the weighted-average method to value the stock. The following information was taken from the accounting records for the year ended 28 February 2023:

Date	Details	Number of units	Total (R)
01/03/2022	Opening stock	1 500	1 281 500
28/02/2023	Purchases for the year	31 500	3 668 500
		33 000	4 950 000
28/02/2023	Units sold	24 000	?

(ii) Fixed assets:

- Fixed assets were sold at a carrying value of R368 000.
- Fixed assets were purchased during the year.

(iii) Share capital:

Shares were issued during the year. No shares were repurchased during the year.

(iv) Dividends:

Interim dividends paid during the year amounted to R180 000.

QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION**(30 marks; 25 minutes)**

You are provided with information relating to Joze Limited. The financial year ended on 28 February 2023.

REQUIRED

- 3.1 A company's published annual report comprises five main parts. Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (3.1.1 to 3.1.5) in the ANSWER BOOK.
- 3.1.1 The statement of financial position indicates whether the shareholders can rely on the financial statements.
- 3.1.2 The directors' report is a written, verbal explanation of the operations of the company during a financial year.
- 3.1.3 The cash flow statement reflects the net worth of the company.
- 3.1.4 The independent auditors' report reflects the effect of the operating, financial and investing activities on the cash resources.
- 3.1.5 The statement of comprehensive income reflects the profit/loss of the company for the financial year. (5)
- 3.2 Refer to the market value per share. Many people feel that the market value of the share on the JSE indicates whether the directors are doing a good job.
- Explain why the market value is so important in this regard.
 - If the company issued all its unissued shares the following year, how much capital could it expect to raise for the company? Provide a calculation to support your opinion. Note that the authorised share capital comprises 1 000 000 ordinary shares. The shares will be issued at 10% more than the current market price. (7)
- 3.3 Rather than issue more shares, the directors are considering taking out additional loans. Quote TWO relevant financial indicators (actual ratios or percentages) to support their opinion. (6)
- 3.4 John Davids, one of the shareholders, is currently the owner of 400 000 shares. What will happen to his shareholding if all the unissued shares are issued? Show calculations to support your answer. (6)

- 3.5 On 1 March 2022, additional shares were issued at R3,00 each. Quote and explain relevant financial indicators with figures to show why the existing shareholders will be satisfied with this price. (6)

INFORMATION

- A. The following financial indicators were calculated for the past two years ended 28 February:

	2023	2022
Current ratio	4,1 : 1	2,1 : 1
Acid-test ratio	2,5 : 1	1,3 : 1
Debt-equity ratio	0,1 : 1	0,1 : 1
% return on average shareholders' equity	33,3%	25,0%
% return on total capital employed	44,3%	25,6%
Net asset value per share	217,3 cents	213,6 cents
Dividends per share	20 cents	10 cents
Earnings per share	68,9 cents	55,2 cents

- B. Other relevant information for the past two years ended on 28 February:

	2023	2022
Market price per share	240 cents	210 cents
Interest rate on loan	13%	13%
Number of shares in issue	762 500	700 000

30

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

- 4.1 The board of directors wants to buy computers and IT systems from a certain computer company for R25 million. You find out the CEO's wife is a majority shareholder in the computer company.
- Express your opinion on the scenario mentioned above. Provide ONE point.
 - How should this scenario be handled by a board of directors or by shareholders? Provide ONE point. (4)
- 4.2 You are a non-executive director and a member of the audit committee of a company. You notice that the internal auditor has not identified deficiencies in the internal control procedures e.g., the division of duties in the accounting department is not ideal.
How should this scenario be handled by you as a non-executive director? Provide ONE point. (2)
- 4.3 External independent auditors may charge high audit fees for their specialised work. What do you think will be the consequences for the auditor if it is proven that the auditor was negligent in the performance of his responsibilities? Name TWO consequences. (4)
- 4.4 Read the following extract and answer the questions that follow:

INFORMATION:**CARPETS GALORE LTD***

Shareholders of Carpet Galore Ltd were once again left without a dividend in a year wherein its profits showed a big rise.
It is the third year in a row that shareholders did not receive any dividends.
The company's share price ... with 7% after the results for the year ended June 2022 were released.
According to John Mokeana, the CEO, the directors took the decision regarding the dividends in light of Covid-19, which is not yet over.

*Based on true articles; names changed.

- 4.4.1 Do you think the share price of the company increased or dropped? (1)
- 4.4.2 How will shareholders react to this? Provide TWO points. (4)

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