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**GAUTENG PROVINCE**

EDUCATION  
REPUBLIC OF SOUTH AFRICA

# **PREPARATORY EXAMINATION**

## **2024**

**10711**

**ACCOUNTING**

**(PAPER 1)**

**TIME: 2 hours**

**ACCOUNTING P1**

**MARKS: 150**



**10711E**

**10 pages + 1 formula sheet and a 10-page answer book**

**X05**



**SA EXAM  
PAPERS**

**P.T.O.**

**INSTRUCTIONS AND INFORMATION**

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 earn 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. 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	Company Financial Statements	55	45
2	Cash Flow Statement and Financial Indicators	40	30
3	Interpretation of Financial Statements	40	30
4	Corporate Governance	15	15
<b>TOTAL</b>		<b>150</b>	<b>120</b>

**QUESTION 1: COMPANY FINANCIAL STATEMENTS****(55 marks; 45 minutes)****MNISI LIMITED**

You are provided with information for the financial year ended 29 February 2024.

**REQUIRED:**

- 1.1 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 29 February 2024. (22)
- 1.2 Complete the Statement of Financial Position (Balance Sheet) on 29 February 2024. (33)

**NOTE:** Some amounts have been entered in the ANSWER BOOK.

**INFORMATION:****A. Balances and Totals on 29 February 2024:**

	<b>R</b>	<b>R</b>
Ordinary share capital	?	?
Retained income	1 038 480	?
Fixed deposit: MRJ Bank	?	0
Loan: Hlubi Bank	1 624 000	?
Debtors' Control	480 390	
Provision for bad debts	?	24 000
Trading stock	982 400	
SARS: Income tax (provincial tax payments)	1 812 730	
Bank (favourable)	?	
Creditors' control	1 024 565	
Sales	20 035 000	
Cost of sales	11 409 700	
Directors' fees	1 307 840	
Rent income	258 300	
Audit fees	69 720	
Commission income	?	
Stationery	68 300	
Dividends on ordinary shares	260 000	

**B. Adjustments and additional information:**

- (i) Commission income for the year has been received in full at a rate of 4% of total sales revenue.
- (ii) Only two thirds (2/3) of the audit fees were paid. The balance will be paid in March 2024.
- (iii) The increase in the provision for bad debts by R6 500, was not recorded.
- (iv) Electronic equipment was donated to a local children's home. Gross profit of R 22 400 has been forfeited on this stock had it been sold. The mark-up on this item was 35% on cost. The bookkeeper has not yet recorded this entry.
- (v) The physical stock count on 29 February 2024 revealed the following:
  - Trading stock R923 200
  - Stationery used for the year R58 520
- (vi) The rent was increased by R2 700 on 1 July 2023. Rent is received one month in advance.
- (vii) The director's fee includes R385 520, which is the half yearly fees of Mr Jabu, the sole director at the beginning of the financial year. An additional director, appointed on 1 September 2023, received the same fee as Mr Jabu. Directors' fees increased by 8% on 1 May 2023 and both directors have been paid their fees for March 2024.
- (viii) In the previous years, the business did not have any financial investments. On 1 May 2023 they invested into a fixed deposit account at 9% interest per annum. The interest is not capitalised and was correctly recorded.
- (ix) Transfer a creditor's debit balance of R3 200 from the Creditors' Ledger to her account in the Debtors' Ledger.
- (x) **Loan: Hlubi Bank**
  - All transactions with respect to the loan were recorded.
  - Interest on the loan is capitalised.
  - A fixed monthly instalment (including interest) was paid in full. The repayments including interest for the year amounted to R402 000.

**NOTE:** The capital portion of the repayments will decrease by 5% over the next financial year.
- (xi) Total dividends for the year amounted to R745 000.
- (xii) An amount for tax is still receivable from SARS on 29 February 2024.
- (xiii) Total capital employed, after all adjustments were processed on 29 February 2024, was R16 176 000.

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

The information relates to Jellicoe Ltd for the year ended 29 February 2024:

**REQUIRED:**

2.1 Prepare the Ordinary Share Capital Note. (8)

2.2 Calculate the following amounts for the Cash Flow Statement:

- Income tax paid (4)
- Dividends paid (2)

2.3 Complete the following sections of the Cash Flow Statement.

- Cash flow of financing activities (7)
- Net change in cash and cash equivalents (4)

2.4 **Refer to Information B**

The CEO is concerned about an increased amount of change in working capital. Identify TWO areas that affected the change and provide ONE solution to address each of the concerns. Quote figures and trends. (4)

2.5 Calculate the following financial indicators:

- Net asset value per share (4)
- Dividends per share (4)
- % return on average shareholders' equity (3)

**INFORMATION:****A. Extract from the Statement of Financial Position on 29 February 2024:**

	2024 R		2023 R
Inventories	370 000	<b>Dr</b>	530 000
Trade debtors	1 210 000		700 000
SARS: Income Tax	46 000		93 600
Cash and cash equivalents	380 000		19 000
<b>Total assets</b>	<b>10 371 600</b>		
Ordinary Share Capital ( <b>see B below</b> )	?		5 320 000
<b>Total liabilities</b>	<b>2 946 600</b>		
Loan: NAPO Bank ( <b>see E below</b> )	2 206 800		?
Trade Creditors	550 000		925 000
Bank overdraft	0		76 800
Shareholders for dividends	189 000		0
		<b>Cr</b>	

**B. Shares and dividends**

The company has an authorised share capital of 2 800 000 ordinary shares.

1 March 2023	1 900 000 shares were in issue
31 July 2023	470 000 additional shares were issued
31 October 2024	Shares were repurchased at R4 each and the average price was R3,10 per share. These shares do not qualify for final dividends.
29 February 2024	Only 75% of shares were in issue.

- There were no final dividends declared on the share register on 28 February 2023.
- Interim dividends of 12 cents per share were declared and paid on 30 June 2023.
- Total dividends for the year amounted to R417 000.

**C. Income tax**

- Net profit before tax R1 625 000.
- Net profit after tax R1 170 000.

**D. Loan: NAPO Bank**

The loan statement received on 29 February 2024 reflected the following:

- Total interest capitalised: R268 800
- Repayments per month including interest: R56 900

**E. The average shareholders' equity is R6 500 000.**



**QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS****(40 marks; 30 minutes)****BUHLE LIMITED****REQUIRED:**

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

The information relates to Buhle Ltd, a company providing IT services and support, for the financial year ended 29 February 2024.

- 3.1 Choose a category of indicators from COLUMN B that matches a description 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	The ability of a business to settle all its debts using existing assets	A	Return on equity
		B	Risk
3.1.2	The benefit that shareholders receive for investing in a company	C	Solvency
		D	Gearing
3.1.3	Return on total capital employed		

(3)

3.2 **Profitability:**

Shareholders are complaining about the irresponsible price decrease during the 2024 financial year. The directors maintain that pricing is of significant importance when compared to competitors. Justify the directors' decision. Quote TWO financial indicators with figures.

(4)

3.3 **Liquidity:**

Comment on the net working capital of the company. Quote TWO financial indicators with figures.

(6)

3.4 **Risk and Gearing:**

Explain how the issue of new shares has affected the financial risk and gearing of Buhle Ltd. Quote TWO financial indicators and figures.

(6)



**3.5 Share price and shareholding: Refer to Information C and D.**

- Explain why directors should be interested in the price of their company's shares on the JSE. (2)
- Comment on the price of the new shares issued in February 2024. Give a reason why shareholders should not be satisfied with this price. Quote TWO financial indicators and figures to support your opinion. (5)
- A majority shareholder F. Nxumalo, currently owns 1 272 000 shares in Buhle Ltd. He is considering selling some shares in the next financial year, since he needs money to buy a new car. Calculate the maximum number of shares that he will be able to sell without losing his majority status (assume that all other shares stay unchanged). (3)

**3.6 Returns, earnings and dividends:**

The directors changed the dividend policy for the current financial year.

- Explain how the company managed to fund the high dividends, without using the borrowed money to make the shareholders happy. Provide ONE point with figures. (2)
- Explain the change in the dividend payout rate and give a reason for this change. Quote figures. (3)
- Explain whether the shareholders should be satisfied with the earnings and returns of the company. Quote TWO financial indicators. (6)

**INFORMATION:****A. Financial indicators calculated at the end of February:**

	2024	2023
Mark-up % achieved	45,0%	55,0%
% gross profit on sales	28,2%	20,1%
% operating expenses on sales	20,8%	17,8%
% net profit on sales	22,0%	16,3%
Current ratio	3,6 : 1	1,8 : 1
Acid-test ratio	2,9 : 1	0,9 : 1
Debtors' collection period	58 days	31 days
Stock holding period	78,9 days	54,6 days
Debt-equity ratio	0,4 : 1	0,9 : 1
Earnings per share	200 cents	125 cents
Dividends per share	160 cents	120 cents
Dividend pay-out rate	80,0%	96,0%
% return on average shareholders' equity	12,7%	10,3%
% return on average capital employed	16,9%	7,5%
Net asset value per share	1 841 cents	1 685 cents

**B. Additional information as at the end of February:**

	2024	2023
Market price of shares on stock exchange	1 920 cents	1 540 cents
Interest rate on loans	7,2%	8,5%
Interest rate on fixed deposits	5,5%	4,5%

**C. Issue and repurchase of shares:**

	NO. OF SHARES
Number of shares in issue on 1 March 2023	2 300 000
Number of shares repurchased on 31 August 2023	240 000
Number of new shares issued to existing shareholders on 29 February 2024 at 1 750 cents per share. <b>NOTE: Shares are sold in lots of 100.</b>	340 000
Number of shares in issue on 29 February 2024	2 400 000

**D. Extract from shareholders' register:**

F. Nxumalo is currently a majority shareholder.

	F. NXUMALO
Number of shares owned on 29 February 2024	1 272 000
% shareholding on 29 February 2024	53%

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

You are provided with an article about an internal auditor who has been found guilty of misconduct. Use the information presented and your knowledge on companies to answer the questions.

- 4.1 The shareholders of Ekurhuleni Ltd will not be happy with the audit reports of the past 5 years after the recent findings. Explain what an unqualified audit report is and why the shareholders will not be happy. (3)
- 4.2 **Watchdog (Gatekeeper):**  
An auditor serves as a watchdog regarding several important functions to ensure transparency, accountability and compliance within the company. Explain TWO key functions of an auditor in the company. (4)
- 4.3 **Shareholders concern and company reputation:**  
As a shareholder, explain TWO effects that will be a concern based on the findings in the article. (4)
- 4.4 The CFO of Ekurhuleni Ltd has emphasised that maintaining financial data integrity is crucial for the company to ensure accurate reporting and compliance with regulations. State TWO practices that can help to maintain the integrity of accounting records within the company. (4)

**INFORMATION:****Rinse and Repeat: The ongoing saga at Ekurhuleni Ltd**

An internal auditor has been found guilty of serious financial misconduct, including mismanagement of funds and the falsification of accounting records. This shocking revelation has highlighted the vulnerability of organisations to internal fraud. Mr Gel, who was supposed to be the watchdog turned out to be dishonest. Ekurhuleni Ltd has been receiving unqualified reports due to inaccurate financial reporting.

The individual entrusted with ensuring financial integrity breached that trust by misappropriating funds for personal gain and tampering with accounting books to conceal their actions. This breach not only undermined the organisation's financial stability but also eroded trust in its governance. Restoring confidence will require a concerted effort to strengthen transparency and accountability throughout the financial sector.

15

**TOTAL: 150**

## 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	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$ (* See Note 1 below)	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$ (* See Note 2 below)
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (* See Note 3 below)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
<b>NOTE:</b> 1. Trading stock at the end of a financial year may be used if required in a question. 2. Credit purchases may be used instead of cost of sales (figures will be the same if stock is constant). 3. 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.	

