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GRADE 12

**2024 PRE-TRIAL
EXAMINATION**

ACCOUNTING P1

MARKS: 150

TIME: 2 HOURS

This question paper consists of 10 pages,
a formula sheet and a 11-page answer book.



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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 end of this question paper.
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 | 30 |
| 4 | Corporate Governance | 15 | 15 |
| TOTAL | | 150 | 120 |

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

You are provided with information from the records of Fassi Ltd for the financial year ended 29 February 2024.

REQUIRED:

- 1.1 Complete the Statement of Comprehensive Income for the year ended 29 February 2024. (32)
Note: Some information is included in the ANSWER BOOK.
- 1.2 Prepare the following notes to the Statement of Financial Position:
- 1.2.1 Ordinary share capital (8)
- 1.2.2 Retained income (8)
- 1.3 Complete the **EXTRACT** from the **EQUITY AND LIABILITIES** section of the Statement of Financial Position. (12)

INFORMATION:**A. Extract of relevant balances/totals from the books on 29 February 2024:**

| | |
|---|-----------|
| Ordinary share capital | ? |
| Retained income | ? |
| Mortgage loan | 375 500 |
| Trading stock (before stocktaking) | 450 300 |
| Debtors' control | 520 200 |
| Provision for bad debts (1 March 2023) | 19 500 |
| Creditors' control | 512 100 |
| SARS: Income tax (provisional tax payments) | 975 900 |
| Rent income | 109 200 |
| Salaries and wages | 843 200 |
| Directors' fees | 2 300 000 |
| Audit fees | 102 000 |
| Interest income | ? |
| Sundry expenses | ? |
| Ordinary share dividends (interim) | 342 000 |

- B.** The gross profit for the year ended 29 February 2024 was calculated at R8 480 000.
A mark-up of 100% on cost was achieved.

C. The following adjustments was not taken into account:

- i) Stocktaking on 29 February 2024 revealed the following:
Trading stock, R468 200.
- ii) Adjust the provision for bad debts to 5%.
- iii) 75% of the audit fees was paid.
- iv) The company had four directors during the entire financial year, receiving the same monthly fee. Two of the directors are still owed their fees for February 2024.
- v) Office space was rented out from 1 May 2023. On 1 January 2024 the rent was increased by R1 200 per month. The rent for February 2024 is outstanding.
- vi) Sundry expenses and Interest income are the balancing figures.

D. Mortgage loan

- Provide for interest on loan capitalised.
- A fixed monthly repayment of R8 300 have been made and recorded for the financial year ended 29 February 2024.
- The loan statement received reflected a closing balance of R427 000.
- Loan repayments in the next financial year will include a capital portion equal to one-fifth ($\frac{1}{5}$) of the outstanding loan amount.

E. Operating profit on sales was 25%.

F. Income tax at 28% of the net profit amounted to R1 186 640.

G. Share capital and dividends:

Authorised share capital: 1 900 000 ordinary shares.

| | |
|-------------------|--|
| 1 April 2024 | Payments were received for the remaining 25% of unissued shares. These shares were issued at R3,90 per share. |
| 1 September 2024 | Interim dividends were paid. |
| 26 February 2024 | 200 000 shares were repurchased at R,4,50 per share. |
| 29 February 2024. | A final dividend of 30 cents per share was declared. All shareholders during the year were entitled to final dividends. |

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

NONGENA LTD

The information relates to the financial year ended 29 February 2024.

REQUIRED:

2.1 Complete the following note to the Cash flow statement:

Reconciliation between net profit before tax and cash generated from operations (11)

2.2 Calculate the following amounts that would appear on the Cash Flow Statement.

2.2.1 Income tax paid (4)

2.2.2 Dividends paid (4)

2.2.3 Purchase of fixed assets (5)

2.2.4 Net change in cash and cash equivalents (4)

2.3 Calculate the following financial indicators for the financial year ended 29 February 2024.

2.3.1 Current ratio (3)

2.3.2 % return on average capital employed (5)

2.3.3 Dividends per share (4)

INFORMATION:

A. Extract from the Statement of Comprehensive Income for the year ended 29 February 2024:

| | |
|-----------------------------|-----------|
| Sales | 4 042 500 |
| Cost of sales | 2 541 000 |
| Depreciation | 240 640 |
| Interest expense | 120 120 |
| Income tax | 245 560 |
| Net profit after income tax | 631 440 |

B. Extract from the Statement of Financial Position at the end of February:

| | 2024 | 2023 |
|--------------------------------------|------------------|------------------|
| Fixed assets | 1 987 625 | 1 850 200 |
| Financial assets | ? | ? |
| Current assets | 1 085 765 | 934 490 |
| Inventories | 710 500 | 672 500 |
| Trade and other receivables | 290 115 | 256 830 |
| Cash and cash equivalents | 85 150 | 5 160 |
| Ordinary Shareholders' Equity | 2 090 200 | 1 850 800 |
| Ordinary share capital | 1 600 000 | 1 400 000 |
| Retained income | 490 200 | 450 800 |
| Mortgage loan: Nala Bank | 435 000 | 510 000 |
| Current Liabilities | 728 190 | 820 890 |
| Trade and other payables | 429 660 | 466 620 |
| SARS: Income tax | 10 530 | 25 870 |
| Shareholders for dividends | 288 000 | 210 000 |
| Bank overdraft | 0 | 118 400 |

C. A vehicle was sold at carrying value during the year for R110 500.

E. Ordinary share capital:

- 140 000 shares in issue 1 March 2023.
- On 30 April 2023, 30 000 additional shares were issued and R300 000 was received.
- R110 000 was paid for 10 000 shares repurchased on 1 December 2024.

F. Dividends:

- An interim dividend of 80c per share was paid 1 September 2023.
- A final dividend was declared on 29 February 2024.

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

The financial year ends on 28/29 February each year.

REQUIRED:

NOTE: Where comments or explanations are required, you must:

- Quote financial indicators and trends with figures
- Give a reason or an explanation on the relevant financial indicators

3.1 Choose the statement from COLUMN B that matches a category of financial indicators in COLUMN A. Write only the letter (A-E) next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

| COLUMN A | COLUMN B |
|------------------------------|--|
| 3.1.1 Liquidity | A Is the business managing expenses effectively to increase profitability? |
| 3.1.2 Risk and gearing | B Is the investment in the company better than investing in alternative investments? |
| 3.1.3 Return to shareholders | C Will the company be able to pay off its current debts? |
| 3.1.4 Operating efficiency | D Will the company be able to pay off all its debts using existing assets? |
| | E How is the company managing loans or borrowed capital? |

(4 x 1) (4)

3.2 The directors are satisfied with the improvement in the current ratio and acid-test ratio. Explain why you would disagree with them regarding the company's liquidity. Quote TWO financial indicators. (6)

3.3 Retention or distribution of profits to shareholders. (4)

- Comment on whether the company tends to towards retaining or distributing its profits. Quote relevant financial indicators. (4)
- Explain how the distribution of profits could affect the share price on the JSE. Give ONE explanation in favour and ONE against the distribution of profits. (4)

3.4 Explain why the shareholders should be satisfied with the return they get from the company. Quote a financial indicator and figures. (4)

3.5 Comment on the gearing and degree of risk for 2024. Quote TWO relevant indicators in your comment. (6)

3.6 All the new shares issued on 29 February 2024 were sold to the CEO, Imran. Explain TWO points why you think the shareholders are not happy with this. Quote figures. (4)

3.7 Calculate Imran's percentage shareholding on 29 February 2024. Comment on your findings. (3)



INFORMATION:**A. Financial indicators, market prices of shares and interest rates:**

| | 2024 | 2023 |
|--|-------------|-------------|
| Mark-up % | 60% | 70% |
| Current ratio | 2,2 : 1 | 1,6 : 1 |
| Acid-test ratio | 0,9 : 1 | 0,7 : 1 |
| Debtors' collection period | 49 days | 30 days |
| Stock-holding period | 103 days | 69 days |
| Debt-equity ratio | 0,4 : 1 | 0,1 : 1 |
| Earnings per share | 98 cents | 96 cents |
| Dividends per share | 85 cents | 77 cents |
| Return on average shareholders' equity (ROSHE) | 13,5% | 11,9% |
| Return on capital employed (ROTCE) | 16,4% | 15,3% |
| Net asset value per share | 778 cents | 728 cents |
| Interest rate on loans | 13% | 12% |
| Market value on JSE | 780 cents | 725 cents |
| Interest rate on fixed deposit | 10% | 10% |
| Price at which new shares were issued | 510 cents | |

B. Share capital and shareholding of Imran.

| | 2024 | 2023 |
|---------------------------------|-------------|-------------|
| Number of shares authorised | 4 000 000 | 4 000 000 |
| Number of shares issued | 2 550 000 | 2 500 000 |
| Number of shares owned by Imran | 1 295 000 | 1 245 000 |

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

4.1 The board of directors have different committees with various roles to fulfil.

Choose from the list of committees below to complete the sentences that follow. Write only the word(s) next to the question numbers (4.1.1 to 4.1.2) in the ANSWER BOOK.

| | |
|-----------------------------|------------------------|
| Social and ethics committee | Risk committee |
| Audit committee | Remuneration committee |

4.1.1 ... examine the impact of the public activities and their products or service to the environment, health and public safety.

4.1.3 ... ensure fair salaries and bonuses.

(2 x 1) (2)

4.2 You are provided with an extract about a corporate scandal on the next page.

Use the information presented and your knowledge on corporate governance to answer the following questions.

4.2.1 Identify and explain the type of audit report referred to in paragraph 3. (3)

4.2.2 Provide TWO points why an existing shareholder would be concerned about this report? (4)

4.2.3 Explain why Emerald auditing firm was used to audit the company financial statements. (2)

4.2.4 Explain TWO concerns from the extract which relates to poor corporate governance and provide ONE consequence in each case. (4)

INFORMATION:**GALA GLOBAL LTD**

Gala Global did deals with companies that were secretly linked to former CEO George Steffens and his close alliances. The company inflated its profits and assets by R180 billion by forging documents.

Gala cooked up false income to boost some of its failing companies. George also granted himself and the CFO, Tania Steffens (his new wife), an undeclared incentive.

Emerald auditing firm discovered irregularities and refused to sign-off on the company's books. CEO George Steffens resigned a few days later.

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. | |

