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WEST COAST EDUCATION DISTRICT

PREPARATORY EXAMINATION

ACCOUNTING PAPER 1

GRADE 12

26 AUGUST 2024

MARKS: 150

TIME: 2 HOURS

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL questions.
 2. A special ANSWER BOOK is provided in which to answer ALL questions. Show
 3. ALL workings 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 questions. Where
 6. 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 this formula sheet is NOT compulsory.
- Write neatly and legibly.
8. Use the information in the table below as a guide when answering the question paper.
 9. Try NOT to deviate from it.

QUESTION	TOPIC	MARKS	MINUTES
1	Financial Statements	65	52
2	Cash Flow Statement and Financial Indicators	35	28
3	Interpretation of Financial Statements	40	32
4	Corporate Governance	10	8
TOTAL		150	120



(65 marks; 52 minutes)

The information relates to The Cleaning House Limited for the financial year ended 29 February 2024. They sell cleaning material, and they also provide cleaning services.

REQUIRED:

- 1.1.1 Refer to information B: Calculate the value of the multi-purpose cleaning material. (7)
- 1.1.2 Calculate the Trading stock deficit for the period. (5)
- 1.2 Calculate the missing amounts to complete the Statement of Comprehensive Income for the financial year ended 29 February 2024. (30)
- 1.3 Prepare the Retained Income note to the Statement of Financial Position on 29 February 2024. (7)
- 1.4 Prepare the Equity and Liabilities section of the Statement of Financial Position on 29 February 2024. (16)

INFORMATION:

Trial Balance on 29 February 2024	
	R
Ordinary Share Capital (200 000 shares)	3 200 000
Equipment	80 000
Accumulated depreciation on Equipment	36 000
Trading stock	120 580
Debitors control	60 449
Provision for bad debt	4 815
Bank overdraft	35 260
Creditors control	45 800
SARS: VAT (Cr)	16 859
SARS: Income tax (Dr)	180 100
Ordinary Shareholder's Dividends	86 000

- A. The following credit note was issued to a client who was unsatisfied with the wrong products delivered and cleaning service rendered. A mark-up of 20% is used. The transaction has not yet been recorded.

The Cleaning House CREDIT NOTE VAT no: 36900 0009 No. 14 Date: 27 February 2024 To: York Park Building			
Units	Details/Description	Unit price	Total
3	Multipurpose cleaner 10 litre	420	1 260
			1 260
	VAT – 15%		189
			1 449

- B. **Trading stock:**

The company uses the periodic inventory system and the weighted average method to calculate the multi-purpose cleaning agents' value. The inventory was taken on 28 February 2024, but the final value of the multi-purpose cleaning agents has yet to be calculated. **(Round the weighted price to the nearest round)**

The value of the other cleaning materials and agents was calculated at R89 560.

Information on multi-purpose cleaning agents

	Number of units	Value per liter	Total value (R)
Opening stock	160 liter	R40	6 400
Purchases:	1 750 liter		101 000
March 2023	500 liter	R55	27 500
June 2023	1 000 liter	R58	58 000
January 2024	250 liter	R62	15 500
Closing stock	370 liter		

- C. A creditor with a debit balance of R4 600 was transferred to the Debtors ledger on 29 February. The provision for bad debts must be adjusted to 6%.
- D. The Telephone account for February 2024 was received, R4 400 but has not yet been paid.
- E. The Bank Statement received on 29 February 2024, reflected the following transactions that must still be considered:
- A direct deposit of R14 200 was received from Desmine's Salon for cleaning services. 75% of this amount is for March to May 2024.
 - Service fees, R450.
- F. Rent income increased by R500 per month from 1 May 2023. The last month's rent is still outstanding.

- G. The directors informed the bookkeeper that they will donate half their last month's fees, to the SAVE THE CHILDREN fund on behalf of the company. The payments to the directors and the fund were made, but no entries have been made in the records.
- H. **Fixed assets:**
- An old delivery vehicle, with a carrying value of R170 000 on 1 March 2023, was sold for R150 000 cash on 1 December 2023
 - Depreciation for vehicles at 20% on a diminishing balance.
- I. Interest on a loan was capitalised but has not yet been entered. The loan statement received on 29 February 2024 reflects the following:

Loan statement on 29 February 2024: ABSA	
Balance on 1 March 2023	R320 800
Interest charged	R110 000
Repayments during the year	R182 000
Balance on 29 February 2024	?

The repayment on the capital amount of the loan, will remain the same in the following financial year.

- J. Cleaning expenses is the balancing figure in the Statement of Comprehensive Income.
- K. Income tax for the year amounts to R197 100. This is 30% of the net profit before tax.
- L. **Shares:**
- 75 000 new shares were issued on 1 June 2023 at R17 per share.
 - 15 000 shares were repurchased on 5 January 2024 at R20 per share.
 - All transactions with regards to shares were recorded correctly.
- Dividends:**
- Interim dividends were declared and paid on 31 October 2023.
 - A final dividend of 60c per share was declared on 29 February 2024.

QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS**(35 marks; 28 minutes)**

The information relates to Carlin Ltd for the financial year ended 30 June 2024.

REQUIRED:

- 2.1 Complete the Note for Reconciliation between net profit before tax and cash generated from operations for the year ended 30 June 2024: (6)
- 2.2 Calculate the following figures in the 2024 Cash Flow Statement:
- 2.2.1 Taxation paid (4)
- 2.2.2 Fixed assets purchased (6)
- 2.2.3 Shares issued (2)
- 2.2.4 Funds used for the repurchased shares (2)
- 2.2.5 Net change in cash and cash equivalents (4)
- 2.3 Calculate the following:
- 2.3.1 Earnings per share (3)
- 2.3.2 Debt-equity ratio (3)
- 2.3.3 Return on total average capital employed (5)

INFORMATION:**A. Information from the financial statements on 30 June:**

	2024 R	2023 R
Fixed assets (carrying value)	1 541 940	944 800
Financial assets	130 000	190 000
Shareholders' equity	2 499 900	1 117 500
Ordinary share capital	2 375 000	1 000 000
Retained income	124 900	117 500
Loan: Nedbank	350 000	1 070 000
Inventory	1 125 000	1 145 000
Trade and other receivables	1 115 000	1 143 000
Cash and cash equivalent	88 900	2 500
Trade and other payables	1 150 940	1 070 800
Bank overdraft	-	153 000
Depreciation	16 645	22 000
Interest expenses	120 000	123 000
Total capital employed	2 849 900	2 187 500

B. NOTES TO THE STATEMENT OF FINANCIAL POSITION:

	2024 R	2023 R
TRADE AND OTHER RECEIVABLES	1 115 000	1 143 000
Debtors Control	1 102 000	1 130 000
Accrued Income	9 000	6 000
Prepaid Expenses	4 000	3 000
SARS: Income Tax	0	4 000

TRADE AND OTHER PAYABLES	1 150 940	1 070 800
Creditors Control	873 565	1 047 300
Accrued expenses	7 000	9 500
SARS: Income Tax	10 375	0
Shareholders for dividends	260 000	14 000

ADDITIONAL INFORMATION:**(i) Share capital and dividends**

- The company is registered with an authorised share capital of 300 000 ordinary shares.
- On 30 June 2023 there were 100 000 shares in issue.
- 100 000 additional shares issued at R15 on 1 January 2024.
- On 30 June 2024, 10 000 shares were repurchased from the estate of a deceased shareholder at R3,50 above the average price.
- The interim dividends of 20 cents per share was declared and paid on 15 December 2023. The final dividends were declared on 30 June 2024.

(ii) Sale of equipment

Cost price	R40 000
Accumulated depreciation on date sold	R20 570
Date sold	1 April 2024
Selling price (at carrying value)	?

(iii) Income tax

- Income tax for the year amounted to R197 600.
- Net profit after tax; R322 400.

(40 marks; 32 minutes)**ERASMUS LIMITED AND VAN ZYL LIMITED**

Felicia Kock owns shares in both companies. She wants to analyse both companies' financial results to improve her portfolio.

REQUIRED:

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

- 3.1 Comment on the liquidity of the two companies and explain which company manages their working capital more efficiently. (6)
- 3.2 Comment on the degree of risk and gearing of both companies. Explain how this will influence your choice of company. (6)
- 3.3 Consider the **Return, Earnings and Dividends** of the two companies.
- (a) Explain whether Felicia should be satisfied with the return on her investment in both companies. Provide financial indicators / figures to support your answer. (4)
- (b) Calculate the dividend pay-out rate of both companies. Indicate which company has adopted the better rate and the possible reason for that choice. (6)
- 3.4 **Refer to Information B and C.**
- (a) Indicate how many shares Felicia must purchase in Erasmus Ltd to maintain the percentage shareholding she had at the start of the year. (4)
- (b) Calculate the amount Felicia will have to pay to purchase these shares. (3)
- (c) Felicia wants to maintain her majority shareholding in Van Zyl Ltd. What is the minimum number of shares which she would have to purchase to be successful in her aim. Also provide a reason why Felicia would want to be the majority shareholder of a company. (7)
- (d) Comment on the value of the shares in each company and provide figures to support your answer. (4)

A. Financial indicators and additional information on 29 February 2024:

	Erasmus Ltd	Van Zyl Ltd
Current ratio	1,5 : 1	2,1 : 1
Acid test ratio	0,6 : 1	1,1 : 1
Debt-Equity ratio	0,3 : 1	0,8 : 1
Return on total capital employed (ROTCE)	15,5%	11,8%
Interest on loan	14%	14%
Return on shareholder's equity (ROSHE)	16% (14% in 2023)	28% (24% in 2023)
Interest on fixed deposit	10%	10%
Earnings per share (EPS)	124 cents	143 cents
Dividends per share (DPS)	100 cents	75 cents
Market value of shares	R8,00	R16,00
Net asset value per share (NAV)	R7,20	R17,50

B. Share capital of the two companies:

	Erasmus Ltd		Van Zyl Ltd	
Beginning of the year: 1 March 2023	420 000 shares	R2 856 000	140 000 shares	R1 960 000
New shares issued during the year	117 000 shares	R936 000	70 000 shares	R1 120 000
Shares repurchased during the year	—	—	35 000 shares	R560 000

C. Number of shares Felicia owns in each company:

- At the start of the year, Felicia owned the following shares in each company:

Erasmus Limited	214 200 shares
Van Zyl Limited	84 000 shares

(10 marks; 8 minutes)

You are provided with a media article relating to West Coast Ltd.

REQUIRED:**4.1 Refer to Paragraph 4.**

The three board members implicated in this case each own 150 000 shares.

Calculate the loss that Sanet and the two directors each were able to avoid by selling their shares on 13 April 2023. (2)

4.2 Refer to Paragraph 3.

- Explain why the text message is so important to the investigators. (2)
- Explain why you think this crime is referred to as 'insider trading'. (2)

4.3 Explain how the rapid decline in the share price and the fraudulent financial statements are likely to affect the existing shareholders and its workers. (4)

INFORMATION:

Use the information in the article and your knowledge on companies to answer the questions.

SOCIAL MEDIA LIFTS THE LID ON MAJOR INSIDER TRADING**Paragraph 1**

Network24 reported last month that West Coast Ltd received a disclaimer of opinion audit report for falsifying financial statements. The police has started to investigate the false financial statements, but this is not the end of the company's problems.

Paragraph 2

In March 2024, the Financial Sector Conduct Authority (FSCA) imposed a penalty of R50 million on Sanet Coetzee, CEO (chief executive officer) of West Coast Ltd, for breaching the Financial Markets Act (Act 19 of 2012) when she sent text messages to two directors, warning them to sell their West Coast Ltd. shares.

Paragraph 3

The incriminating message from Sanet read: "You always ask my opinion. It will take a long time for West Coast Ltd. to get rid of all the bad news. Sell your shares immediately at the current price. Delete this message now and don't tell anyone."

Paragraph 4

In deciding on the penalty, the FSCA noted that on 10 April 2023 Sanet had sent the message and on 13 April 2023, the three board members, Sanet and the two directors, sold their shares on the JSE at R105 per share. This resulted in a rapid decline of R8,00 per share in the market price occurred in the following two days.

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

