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GRADE 12

ACCOUNTING P1

NOVEMBER 2025

MARKS: 150

TIME: 2 hours

**This question paper consists of 15 pages,
a formula sheet and an 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 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 blue/black 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	50	45
2	Cash Flow Statement and Financial Indicators	45	35
3	Concepts and Interpretation of Financial Information	40	30
4	Corporate Governance	15	10
TOTAL		150	120

QUESTION 1: COMPANY FINANCIAL STATEMENTS (50 marks; 45 minutes)

The following information was taken from the accounting records of Violet Limited. The financial year ended on 28 February 2025. The company trades with women's and men's clothing.

REQUIRED:
1.1 Refer to Information B.

Calculate the correct value of the closing stock of men's informal shirts. (6)

1.2 Prepare the Ordinary Share Capital Note. (8)

1.3 Prepare the Statement of Financial Position on 28 February 2025. (36)

NOTE:

- Show ALL workings in brackets.
- Certain figures are provided in the ANSWER BOOK.
- Missing amounts in shaded areas must NOT be filled in.

INFORMATION:

A. The following amounts were extracted from the accounting records on:

	28 Feb. 2025 R	29 Feb. 2024 R
Fixed deposit: Time Bank	?	
Trading stock	4 598 000	
Debtors' control	735 000	
Provision for bad debts	?	
Ordinary shareholders' equity	?	16 200 000
Ordinary share capital	17 875 000	11 395 000
Retained income	?	4 805 000
Mortgage loan: Delta Bank	3 200 000	
Creditors' control	878 500	
Bank (unfavourable)	?	

B. Trading stock:

It was discovered that the closing stock of one specific brand of men's informal shirts was valued according to the first-in-first-out stock valuation method instead of the weighted-average stock valuation method. This must be corrected.

The following records are applicable to this brand of informal shirts:

	Quantity	Cost	
		Per unit R	Total R
Stock (1 March 2024)	300		97 500
Purchases	4 800		1 605 000
Returns	100		42 500
Closing stock (28 Feb. 2025)	820		285 500

C. Fixed deposit: Time Bank

- A fixed deposit of R320 000 matured on 31 July 2025.
- The remaining 60% of the fixed deposit will mature on 31 December 2028.

D. Transfer of balance and provision for bad debts:

- A debtor, who had overpaid his account by R5 000 in the Debtors' Ledger, requested that this overpayment be transferred to his account in the Creditors' Ledger. This transfer has not yet been recorded.
- The provision for bad debts must be adjusted to 4% of the outstanding debtors.

E. Extract from the Statement of Comprehensive Income for the year ended 28 February 2025:

	R
Operating income	
Commission income	169 400
Rent income	430 500
Operating expenses	
Directors' fees	1 998 750

NOTE: The following year-end adjustments were taken into consideration in the statement above:

- Commission income for February 2025, R6 400, was still outstanding.
- Rent for March and April 2025 was received and recorded. The rent was increased by 10% on 1 December 2024.
- The company had two directors on 1 March 2024, the beginning of the financial year. They both earned the same monthly directors' fees and were paid in full. A third director, Jack Jele, was employed on 1 June 2024, earning a monthly fee of 25% lower than the other directors. Jack was paid up to 31 March 2025.

F. Mortgage loan: Delta Bank

- Fixed monthly repayments of R45 000, including capitalised interest, has been made and correctly recorded for the financial year ended 28 February 2025.
- The monthly repayments will remain the same until the loan is fully repaid in approximately four years' time.
- Interest for the next financial year is expected to be R290 000.

G. Shares and dividends:

NOTE: The relevant entries have already been recorded.

- The company had an authorised share capital of 9 000 000 shares.
- 750 000 new shares were issued on 31 March 2024.
- An interim dividend was paid on 1 September 2024.
- 150 000 shares were repurchased on 31 January 2025. EFT payments totalling R1 710 000 were made in favour of shareholders.
- The directors declared a final dividend of 90 cents per share on the 2 750 000 shares in issue on 28 February 2025.

H. Profit and income tax:

- The assessment from SARS for the financial year ended 28 February 2025 indicated that the company qualifies for a tax refund of R70 000.
- The net profit after tax was accurately calculated to be R4 721 700 for the financial year ended 28 February 2025.

I. Financial indicators calculated on 28 February 2025 after the above have been taken into account:

Current ratio	1,3 : 1
% return on average shareholders' equity	24%

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

The information relates to Mustang Ltd for the financial year ended 28 February 2025.

REQUIRED:

2.1 Calculate the following amounts in respect of the Reconciliation of Profit before Taxation and Cash Generated from Operations Note on 28 February 2025:

- Change in receivables (3)
- Change in payables (4)

NOTE: Indicate inflow or outflow of cash for answers calculated.

2.2 Complete the Cash Flow Statement for the year ended 28 February 2025. (23)

NOTE:

- Certain figures are provided in the ANSWER BOOK.
- Missing amounts in shaded areas MUST NOT be filled in.

2.3 Calculate the following financial indicators for the year ended 28 February 2025:

- Net asset value per share (3)
- Acid-test ratio (5)
- Dividend pay-out rate (5)

2.4 The directors should be concerned about the cash resources of the company for the year ended 28 February 2025. Give ONE reason (with figures) for this concern. (2)

INFORMATION:**A. Extract from the Statement of Comprehensive Income for the year ended 28 February 2025:**

	R
Cost of sales	12 800 000
Interest on loan	316 250
Net profit before tax	720 000
Taxation for the year	201 600
Net profit after tax	518 400

B. Extract from the Statement of Financial Position:

	28 Feb. 2025 R	29 Feb. 2024 R
Ordinary shareholders' equity	7 140 120	5 500 000
Mortgage loan: Merchant Bank	2 880 000	?
Bank overdraft	775 000	0

C. Fixed assets:

	28 Feb. 2025 R	29 Feb. 2024 R
Land and buildings at cost	5 600 000	5 600 000
Equipment at cost	?	745 000
Vehicles at cost	2 900 000	2 520 000
Accumulated depreciation on equipment	?	233 000
Accumulated depreciation on vehicles	?	85 000

Equipment:

- An old fridge was sold for cash at carrying value on 30 June 2024. According to the Fixed Assets Register, the cost of the fridge was R55 000 and its carrying value was R16 000 on 1 March 2024.
- Equipment is depreciated at 15% p.a. at cost.

Vehicles:

A new delivery vehicle was bought for cash on 1 December 2024. No vehicles were sold during the year.

D. Trade and other receivables:

	28 Feb. 2025 R	29 Feb. 2024 R
Debtors' control	3 167 000	1 303 500
SARS: Income tax	0	32 000
	3 167 000	1 335 500

E. Cash and cash equivalents:

	28 Feb. 2025 R	29 Feb. 2024 R
Bank	0	405 000
Petty cash	18 000	10 000
	18 000	415 000

F. Trade and other payables:

	28 Feb. 2025 R	29 Feb. 2024 R
Creditors' control	1 450 000	1 323 500
Accrued expenses	14 600	0
Shareholders for dividends	129 480	162 000
SARS: Income tax	15 300	0
	1 609 380	1 485 500

G. Shares and dividends:

- The directors paid an interim dividend on 31 July 2024.
- 50 000 new shares were issued on 1 November 2024 at a price of R20 per share.
- 2 000 shares were repurchased at 40% more than the average share price of R11 per share.
- The directors declared a final dividend on 28 February 2025.
- There were 498 000 ordinary shares in issue on 28 February 2025.
- Dividends paid as per the Cash Flow Statement for the year ended 28 February 2025 was R252 000.

H. Financial indicator:

	28 Feb. 2025	29 Feb. 2024
Debt-equity ratio	?	0,6 : 1

QUESTION 3: CONCEPTS AND INTERPRETATION OF FINANCIAL INFORMATION
(40 marks; 30 minutes)

SHORTS LTD AND LYNN LTD

The information relates to Shorts Ltd and Lynn Ltd, operating in the same industry, for the year ended 28 February 2025.

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

- Quote financial indicators and trends with figures
- Give a reason or an explanation for the financial indicators quoted

Use this key for abbreviations:

CEO: Chief executive officer
CFO: Chief financial officer
JSE: Johannesburg Securities Exchange

REQUIRED:

- 3.1 Choose the correct word(s) to complete each of the following descriptions. Write only the word(s) next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK.

Companies and Intellectual Properties Commission (CIPC); director;
International Financial Reporting Standards (IFRS); internal auditor

- 3.1.1 Guidelines for the preparation of financial statements to ensure consistency
- 3.1.2 An elected board member responsible for the running of the company and implementing policy
- 3.1.3 Responsible for maintaining records and control of new and existing companies (3 x 1) (3)

3.2 **Shorts Ltd**

3.2.1 **Operating efficiency:**

The CEO believes that the company's pricing policy, when compared to its competitors, is well managed. Quote TWO financial indicators/financial data with trends to support his statement. (4)

3.2.2 **Liquidity:**

Explain how the credit policy has improved the liquidity of the company. Quote TWO financial indicators with trends. (4)

3.2.3 Shareholding of Lewis Clark in Shorts Ltd

Refer to Information A, B and C.

- Provide a calculation to show the effect which the repurchase of shares had on Lewis's % shareholding. (4)
- Give TWO reasons why the internal auditor expressed concern about the CFO persuading the board of directors to repurchase shares. (4)
- Calculate the additional amount that the company paid for the shares repurchased, compared to the share price on the JSE. (2)

3.3 Shorts Ltd and Lynn Ltd

3.3.1 Returns and dividends pay-out policy:

- The CEOs of both companies will discuss their companies' performance. Comment on what they should mention regarding % returns. Quote ONE financial indicator with figures. (4)
- A potential investor believes that **Lynn Ltd** has a better dividend pay-out policy when compared to **Shorts Ltd**. Explain why you would agree with her. Provide TWO points with figures. (4)

3.3.2 Share price:

Comment on the shareholders' satisfaction with the performance of their share price. Quote TWO financial indicators to support your response. (4)

3.4 Lynn Ltd

The debt-equity ratio indicates that additional loans were acquired during the financial year. The directors are of the opinion that this was a good decision. Quote ONE financial indicator to support their opinion. (3)

3.5 Audit report of Lynn Ltd

- Explain why the shareholders should be concerned about this audit report. Provide TWO points. (2)
- State TWO possible decisions that the shareholders could make based on this audit report. (2)

INFORMATION:**A. Background information for Shorts Ltd:**

- Lewis Clark, the CFO, is a shareholder of Shorts Ltd.
- He has convinced the board of directors to repurchase 400 000 shares from a dissatisfied shareholder at R3 each. These shares will not qualify for final dividends.
- The transaction above occurred before the final dividends were declared. All parties involved agreed to the offer and the EFT payment was made accordingly.

B. Share capital of Shorts Ltd:

Number of shares	28 Feb. 2025	29 Feb. 2024
Authorised shares	3 000 000	3 000 000
Repurchase of shares	(400 000)	0
Number of shares in issue	1 383 250	1 783 250

Shareholding of Lewis Clark, the CFO:

	28 Feb. 2025	29 Feb. 2024
% shareholding	?	40%

C. Financial data, financial indicators, market prices of shares and interest rates:

	Shorts Ltd		Lynn Ltd	
	28 Feb. 2025	29 Feb. 2024	28 Feb. 2025	29 Feb. 2024
Sales	R77 m	R48 m	R85 m	R90 m
Mark-up %	50%	65%	60%	45%
% operating expenses on sales	17,8%	18,2%		
% net profit after tax on sales	26,4%	22%		
Current ratio	2,4 : 1	2,2 : 1		
Acid-test ratio	1,8 : 1	1,4 : 1		
Debtors' collection period	31 days	42 days		
Creditors' payment period	90 days	71 days		
Debt-equity ratio			0,6 : 1	0,4 : 1
% return on total capital employed			21,8%	19,2%
% return on shareholders' equity	6%	14,7%	16,1%	14,5%
Earnings per share	130 cents	165 cents	510 cents	528 cents
Dividends per share	162 cents	81 cents	275 cents	260 cents
Dividend pay-out rate	124,6%	49,1%	53,9%	49,2%
Net asset value per share	270 cents	258 cents	958 cents	930 cents
Market price on last day for year	256 cents		976 cents	
Interest on loans	14,2%		12,5%	
Interest on fixed deposit	7,1%		6,7%	



D. Extract from the audit report of Lynn Ltd:

... Audit Opinion

In our opinion, the financial statements fairly represent the financial position of the company, except for matters mentioned below.

The audit evidence revealed that supporting documentation of some expenditures were missing and could not be traced.

40

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

You are provided with an extract of a social and ethics committee report, as well as two unrelated articles. Use the information given and your knowledge on companies to answer the questions.

Refer to Information A.

4.1 Some shareholders are concerned about the donations made for environmental initiatives, believing that it is not their responsibility.

Advise the shareholders on why corporate donations are important for the company. Provide TWO points. (2)

Refer to Information B.

4.2 • Explain TWO points why it is important for employees to report unethical behaviour in a business. (2)

• Suggest TWO actions that the company could take to prevent similar incidents in the future. (2)

Refer to Information C.

4.3 Explain the meaning of the term *insolvent*. (2)

4.4 Comment on how the 'rights issue' improved the solvency of the company to a favourable position. Refer to the effect of the rights issue on the assets, equities and liabilities of the company, assuming that the company's bank balance was favourable. (3)

4.5 Give TWO reasons why the existing shareholders responded positively to participating in the rights issue. (4)

INFORMATION**A. Extract from the social and ethics committee report of Shiloh Ltd:**

The company has made donations to support community initiatives, including environmental seminars on recycling of tins, plastics and paper. The evidence for these donations is sufficient and properly recorded in the financial statements.

B. Article 1: Dismissal of senior financial manager of Tekko Ltd

An investigation by Tekko Ltd revealed that a senior financial manager had mismanaged company funds and had intimidated employees, who raised concerns, in her department. She had also sent threatening messages, creating a toxic work environment. The company responded by terminating her service, ensuring staff safety and launching a financial audit.

C. Article 2: Working its way out of insolvency

Piranna Ltd was declared insolvent in March 2025. Companies that are insolvent need drastic measures to improve their financial situation. Piranna Ltd opted for the implementation of a 'rights issue', where new shares would be issued to existing shareholders only.

After receiving all the approvals to implement the rights issue, Piranna Ltd offered five million shares at a 30% discounted price of R27 per share to its existing shareholders. The shares of the company were trading at approximately R39 per share.

Shareholders responded positively to this rights issue and the company has raised sufficient cash to move out of insolvency.

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	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$ (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.)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
<p>NOTE:</p> <ol style="list-style-type: none"> Trading stock at the end of a financial year may be used if required in a question. 365 days is applicable only if relevant to the whole year. Credit purchases may be used instead of cost of sales (figures will be the same if stock is constant). 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. 	