Education

KwaZulu-Natal Department of Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

APRIL 2021

COMMON TEST

NATIONAL
SENIOR CERTIFICATE

GRADE 12

MARKS: 100

TIME : 1½ hour

This question paper consist of 10 pages.

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INSTRUCTIONS AND INFORMATION

Read the following instructions and be sure to follow them carefully:

1. This question paper consists of 10 pages including formula sheet.
2. A special **ANSWER BOOK** consisting of 6 pages is provided in which to answer all the questions.
3. Answer **ALL** the questions.
4. **Workings must be shown in brackets in order to earn part marks.**
5. Non-programmable calculators may be used.
6. You may use dark pencil or black / blue pen to answer the questions.
7. Marks will be deducted for missing details and foreign entries.
8. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

Question 1: 50 Marks, 45 Minutes	
The topic of this question is:	**Content:**
Financial Statement, Notes and Audit Report	• Income Statement • Retained Income Note • Audit Report
Question 2: 20 Marks, 18 Minutes	
The topic of this question is:	**Content:**
Cash Flow Statement	• Calculation of amounts for Cash Flow Statement
Question 3 : 30 Marks, 27 Minutes	
Ratio's and analysis and interpretation	• Return on shareholders' equity • Net assets value per share • Interpretation

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QUESTION 1 FINANCIAL STATEMENT AND AUDIT REPORT (50 Marks; 45 Minutes)

The information below relates to Mooi river LTD. The financial year ended on 28 February 2021.

MOOI RIVER LIMITED

REQUIRED:

1.1 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2021. (37)

1.2 Prepare the Retained income note for the financial year ended 28 February 2021. (10)

1.3 Audit Report:

1.3.1 To whom is the Audit Report addressed? (1)

1.3.2 Other than the shareholders list TWO other parties that will be interested in the audit report of the company. Briefly explain why each would be interested. (2)

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INFORMATION:

EXTRACT FROM THE PRE-ADJUSTMENT TRIAL BALANCE ON
28 February 2021

Balance Sheet Accounts Section	**Debit**	**Credit**
Ordinary share capital		2 496 000
Retained income (1 February 2021)		1 480 000
Loan: Triumph Bank		1 470 000
Land and buildings	R3 000 000	
Vehicles at cost	R800 000	
Equipment at cost	R200 000	
Accumulated depreciation on vehicles		680 000
Accumulated depreciation on equipment		37 000
Fixed deposit: Wayde Bank	1 186 000	
Creditors control		97 500
Debtors control	186 000	
Trading stock	1 050 300	
Bank	42 550	
SARS (Income tax)	500 000	
Provision for bad debts		3 240
Consumables on hand (Packing material – 1 March 2019)	820	
Nominal Accounts Section		
Sales		8 800 000
Cost of sales	?	
Debtors allowance	19 200	
Directors fees	550 000	
Audit fees	188 410	
Salaries and wages	681 600	
Rent income		70 500
Interest on fixed deposit		80 000
Interest on loan	?	
Advertising	60 000	
Insurance	14 700	
Bad debts	6 730	
Packing material	15 000	
Sundry expenses	?	
Ordinary share dividends	?	

ADJUSTMENTS AND ADDITIONAL INFORMATION:

A. The business prices its goods at a mark-up of 60% on cost. Trade discounts of R360 000 was allowed on invoices to certain customers.

B. A credit note for R49 600 issued to a debtor, dated 25 February 2021, was recorded as an invoice.

C. A debtor, Z Hilton, with an outstanding balance of R42 000, has left the country. His account must be written off.

D. The provision for bad debts must be adjusted to 5% of the outstanding debtors.

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E. The physical stocktaking on 28 February 2020 reflected the following stock on hand:

- Trading stock R 1 002 000
- Packing material R 6 020

F. One employee received a double salary by mistake from Salary Journal for February 2021. This must be reversed. The employee made a direct deposit to the business account as a refund on 28 February 2021. His normal salary details are as follows:

Deductions		Employers contribution	Net salary
PAYE	**Pension**	**Pension**	
R3 000	R2 000	R4000	R15 000

Employer's contributions are part of salaries and wages account.

G. Advertising of R40 000 consists of a month to month contract with local radio station. Advertising was paid for 13 months. From 1 November 2020, the contract rate was decreased by 10%.

H. Make provision for depreciation as follows:
- On vehicles at 15% p.a. on cost price.
- On equipment at 10% p.a. on diminishing balance

Note: A new computer was purchased on credit on 1 June 2020 for R60 000. This has already been recorded.

I. Share capital

- Authorised share capital consists of 1 000 000 ordinary shares.
- 600 000 shares were issued on 1 March 2020.
- 200 000 new ordinary shares were issued on 1 September 2020.
- 100 000 ordinary shares were repurchased on 1 February 2021 at R1,40 above the average issue price R4,52.(The transaction was properly recorded).

J. Dividends

- Interim dividends of 30 cents per share was paid on 30 August 2020
- Final dividends of 40 cents per share was declared on 28 February 2021. Shares bought back on 1 February 2021 also qualify for the final dividends.

K. Operating profit is 15% on turnover

L. Income tax for the financial year was calculated as R360 000. This is 30% of the net profit before tax.

50

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QUESTION 2: CASH FLOW STATEMENT (20 marks; 18 minutes)

2.1 CONCEPTS: MATCHING

Choose a description from Column B that matches the concept in Column A. Write only the letter (A – F) next to the numbers (4.1.1 – 4.1.5) in the ANSWER BOOK. (4)

COLUMN A		COLUMN B	
2.1.1	Income Statement	A	This is an annual document which explains the performance of the company and the major decisions that were taken.
2.1.2	Balance Sheet	B	This reflects the funds which have come into a company (or have been utilised by it) through its operating, investing or financing activities.
2.1.3	Directors' Report	C	This reflects the profit or loss earned as a result of the operations of the company for a year.
2.1.4	Independent Auditors' Report	D	This is an opinion issued on whether or not the financial statements can be relied upon.
		E	This reflects the assets, liabilities and net worth (equity) of the company.

2.2 DURBAN LTD

The information relates to the financial year ended 28 February 2021.

REQUIRED:

2.2.1 Calculate the following amounts as it would appear in the Cash Flow Statement:

- Income tax paid (4)
- Dividends paid (4)
- Fixed assets purchased (5)

2.2.3 Calculate the net change in cash and cash equivalents. (3)

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INFORMATION:

A. **Extract from the Balance Sheet and notes on 28 February :**

	2021	2020
Fixed assets (carrying value)	R1 437 200	R1 120 400
Current assets		
Inventories	123 800	163 300
Trade and other receivables:	168 300	149 100
Trade debtors	155 600	134 700
SARS: Income tax	12 700	0
Expenses prepaid	0	14 400
Cash and cash equivalent	76 750	15 500
Current liabilities		
Trade creditors	122 900	162 600
SARS: Income tax	0	27 200
Shareholders for dividends	142 400	111 000
Income received in advance	11 100	0
Bank overdraft	0	124 300

B. **Additional Information:**

(i) Net profit before income tax, R988 700;
Net profit after income tax, R692 100.

(ii) Old equipment was sold at carrying value of R283 500. Some equipment were purchased during the financial year to upgrade the facilities.

(iii) Depreciation for the year, R221 400.

(iv) Total dividends (paid and recommended) as per the Retained Income note, R317 400.

20

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QUESTION 3 (30 Marks; 27 Minutes)

3.1 Choose an accounting concept from **Column B** that best matches the analysis questions in **Column A.** Write only the letter (A – D) next to the number (3.1.1 – 3.1.3) in the ANSWER BOOK. (3)

	COLUMN A	COLUMN B	
3.1.1	To what extent does the business rely on borrowed funds?	A.	Liquidity
3.1.2	Can the business pay off all its debts?	B.	Solvency
3.1.3	Is the business able to pay its short-term debts in the next financial year?	C.	Profitability
		D.	Risk and gearing

3.2 PALM LTD: ANALYSIS AND INTERPRETATION

The information relates to the financial year ended 28 February 2018.

REQUIRED:

3.2.1 Calculate the following financial indicators on 28 February 2018:
- Net asset value per share (3)
- Return on shareholders' equity (5)

3.2.2 Quote TWO financial indicators (with figures and trends) that indicate an improvement in the liquidity position of the business. (4)

3.2.3 The company repaid a large portion of the loan. Explain why this was a good decision. Quote TWO financial indicators (with figures). (6)

3.2.4 Comment on the dividend pay-out policy over the past two years. Provide a possible reason for the policy adopted. Quote figures. (5)

3.2.5 Explain whether the price paid for the share buy-back was fair. Quote TWO financial indicators (with figures) in your explanation. (4)

INFORMATION:

A. **Extract from the Income Statement on 28 February:**

	2021 R	2020 R
Interest on loan	77 400	211 700
Net profit before tax	859 000	620 000
Net profit after tax	545 600	494 000

B. **Extract from the Balance Sheet on 28 February:**

	2021 R	2020 R
Shareholders' Equity	4 488 000	3 724 000
Ordinary share capital	4 291 500	3 648 000
Retained income	196 500	76 000
Loan: Royal Bank	692 000	1 920 000

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C. **Share Capital:**

- On 1 March 2020, the company had 760 000 shares in issue.
- On 1 June 2020, 30 000 shares were repurchased at R5, 10 per share.
- On 31 October 2020, a further 150 000 shares were issued.

D. **Financial indicators on 28 February:**

	2021	**2020**
Current ratio	1,9 : 1	1,4 : 1
Acid test ratio	0,7 : 1	0,8 : 1
Average debtors collection period	30 days	57 days
Average creditors payment period	25 days	63 days
Debt/equity ratio	0,2 : 1	0,5 : 1
Earnings per share	62 cents	65 cents
Dividends per share	31 cents	52 cents
Return on shareholders' equity	**?**	13,7%
Return on capital employed	20,8%	22,3%
Net asset value	**?**	490 cents
Interest rate	11%	10%
Market price on JSE	515 cents	485 cents

30

TOTAL MARKS: 100

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		$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$
(Trade and other receivables + Cash and cash equivalents) : Current liabilities		
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$		$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
Long-term liabilities : Shareholders' equity	$\frac{\text{Net profit after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$	
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$		
$\frac{\text{Net income after tax + Interest on loans}}{\text{Average Shareholders' equity + Average Long-term liabilities}} \times \frac{100}{1}$		
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$

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Basic Education

KwaZulu-Natal Department of Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

ANSWER BOOK

APRIL 2021

COMMON TEST

NATIONAL SENIOR CERTIFICATE

GRADE 12

Name:_____ _____ **Grade:**_____

QUESTION	MARKS	MOD. 1	MOD. 2
1			
2			
3			
TOTAL			

N.B. This answer book consists of 6 pages

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QUESTION 1

1.1 Statement of Comprehensive Income for the year ended 28 February 2021.

Sales (8 800 000	
Gross profit	
Other operating income	
Gross income	
Operating expenses	
Salaries and wages (681 600	
Advertising (60 000	
Bad debts (6 730	
Packing material (15 000	
Operating profit	

1.2 RETAINED INCOME

		10

1.3.1 **To whom is the Audit Report addressed?**

	1

1.3.2 **Other than the shareholders list TWO other parties that will be interested in the audit report of the company. Briefly explain why each would be interested.**

PARTY	REASON	
		2

TOTAL MARKS
50

QUESTION 2

2.1

2.1.1	
2.1.2	
2.1.3	
2.1.4	

4

2.2.1

CACULATION	ANSWER
INCOME TAX PAID	
DIVIDENDS PAID	
FIXED ASSETS PURCHASED	

4
4
5

2.2.3

Net change in cash and cash equivalent	
Cash and cash equivalent at the beginning	
Cash and cash equivalent at the end	

3

TOTAL MARKS
20

QUESTION 3

3.1

3.1.1		
3.1.2		**3**
3.1.3		

3.2

3.2.1 Net asset value per share

3

Return on shareholders' equity

5

3.2.2 Quote TWO financial indicators (with figures and trends) that indicate an improvement in the liquidity position of the business.

4

3.2.3 The company repaid a large portion of the loan. Explain why this was a good decision. Quote TWO financial indicators (with figures).

6

3.2.4 Comment on the dividend pay-out policy over the past two years. Provide a possible reason for the policy adopted. Quote figures.

5

3.2.5 Explain whether the price paid for the share buy-back was fair. Quote TWO financial indicators (with figures) in your explanation.

4

TOTAL MARKS
30

Basic Education

KwaZulu-Natal Department of Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

MEMORANDUM

APRIL 2021

NATIONAL SENIOR CERTIFICATE

GRADE 12

MARKS: 100

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item. No double penalty applied.
2. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect.
3. Where penalties are applied, the marks for that section of the question cannot be a final negative.
4. Codes: f=foreign item; p=placement

This memorandum consists of 6 pages.

QUESTION 1

1.1 Statement of Comprehensive Income for the year ended 28 February 2021.

	Sales (8 800 000 – 19 200✓ – 99 200✓) Operation one part correct		8 681 600	☑
	Cost of sales (8 681 600 + 360 000)100/160 Two or nothing		(5 651 000)	✓✓
	Gross profit Operation		3 030 600	☑
	Other operating income Operation one part correct		71 500	☑
	Rent income		70 500	✓
10	Provision for bad debts adjustment (3 240 – 2 240) Two or nothing		1000	✓✓
	Gross income		3 102 100	
	Operating expenses Operation		(1 799 860)	☑
	Salaries and wages (681 600 – 20 000✓ – 4 000✓) Operation one part correct		657 600	☑
	Advertising (60 000 – 2 880✓)		57 120	✓
	Bad debts (6 730 + 42 000✓)		48 730	✓
	Packing material (15 000 + 820✓ – 6 020✓) Operation one part correct		9 800	☑
	Directors fees		550 000	✓
	Audit fees		188 410	✓
	Insurance		14 700	✓
	Trading stock deficit (1 050 300 + 62 000 – 1 002 000) Two or nothing		110 300	✓✓
	Depreciation (119 999 ✓+ 14 800 ✓) 4 500 + 10 300 Operation one part correct		134 799	☑
20	Sundry expenses Balancing figure		28 401	☑
	Operating profit **Candidate must use 15% on sales**		1 302 240	☑
	Interest income	1.	80 000	✓
	Operating profit before interest expenses Operation		1 382 240	☑
	Interest expense	2.	(182 240)	✓
	Net profit before taxation		1 200 000	✓
	Taxation		(360 000)	✓
7	Net profit after tax		840 000	✓

Foreign entry -1 max -2

37

1.2 RETAINED INCOME

balance at the beginning (1 480 000✓ + 140 000✓) Operation one part correct		1 620 000	☑
Buy back of shares (100 000 x 1.40) Two or nothing		(140 000)	✓✓
Net profit after tax		840 000	✓
Ordinary share dividends Operation one part correct		(500 000)	☑
Interim dividends (600 000 x 0.30)		180 000	✓
Final dividends (800 000 X 0.40)		320 000	✓
Balance at the end Operation one part correct		1 820 000	☑

10

1.3.1 To whom is the audit report addressed?

Shareholders ✓

1

1.3.2 Other than the shareholders list TWO other parties that will be interested in the audit report of the company. Briefly explain why each would be interested.

PARTY Party and a reason ✓	**REASON**
Potential new investors	To determine whether they can rely on the information in the financial statements when making investments.
Banks	To determine whether they can rely on the information in the statements when making decisions relating to lending the company money.
SARS	To determine whether they can rely on the information in the financial statements when assessing the company's tax.
Competitors	To determine whether they can rely on the information in the financial statements when comparing their results with those of the company.

2

TOTAL MARKS
50

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QUESTION 2

2.1

2.1.1	**C** ✓	
2.1.2	**E** ✓	
2.1.3	**A** ✓	
2.1.4	**D** ✓	**4**

2.2.1

CACULATION	ANSWER	
INCOME TAX PAID 296 600 ✓ + 12 700 ✓ + 27 200 ✓ **Award operation if one part correct, final answer must have brackets.**	(336 500) ☑	**4**
DIVIDENDS PAID 111 000 ✓+ 317 400 ✓ – 142 400 ✓ **Or** 111 000 + 175 000 **Award operation if one parts correct, final answer must have brackets.**	(286 000) ☑	**4**
FIXED ASSETS PURCHASED 1 437 200 ✓+ 221 400 ✓+ 283 500 ✓– 1 120 400 ✓ **Or** 1 120 400 – 1 437 200 – 221 400 – 283 500 **Award operation if one parts correct, final answer must have brackets.**	(821 700) ☑	**5**

2.2.3

Net change in cash and cash equivalent	185 550✓	
Cash and cash equivalent at the beginning (15 500 – 124 300)	(108 800) ✓	
Cash and cash equivalent at the end	76 750✓	**3**

TOTAL MARKS
20

QUESTION 3

3.1

3.1.1	D ✓
3.1.2	B ✓
3.1.3	A ✓

3

3.2

3.2.1 Net asset value per share

4 488 000 ✓ x 100
880 000 ✓

510 cents ☑ Operation one part correct

3

Return on shareholders' equity

545 600 ✓ x 100
½ ✓ (4 488 000 ✓ + 3 724 000 ✓) 1

545 600 x 100
4 106 000 1

Three marks

13.28% or 13.3% ☑ Operation one part correct

5

3.2.2 Quote TWO financial indicators (with figures and trends) that indicate an improvement in the liquidity position of the business.

Indicator ✓ ✓ trend ✓ ✓
Current ratio improved from 1.4 : 1 to 1.9 : 1 by 0.5
Average debtors collection period improved from 57 days to 30 days by 27 days

Do not accept acid test ratio and average creditors' payments period.

4

3.2.3 The company paid back a large portion of the loan. Explain why this was a good decision. Quote TWO financial indicators (with figures).

Indicator, trend ✓ ✓ ✓ ✓ Explanation ✓ ✓

Debt/equity ratio decreased/improved from 0.5 : 1 to 0.2 : 1 by 0.3
This indicate a low risk

ROTCE is 20.8% above the interest rate of 11%, by 9.8%
This indicate a positive gearing

6

3.2.4 Comment on the dividend pay-out policy over the past two years. Provide a possible reason for the policy adopted. Quote figures.

Comment on EPS and DPS for 2020 (with figures): ✓✓

The company paid 52 cents of 65 cents earned, the company distributed (80%).
OR Only 20% of the net profit was retained.

Comment on EPS and DPS for 2021 (with figures): ✓✓

The company paid 31 cents of 62 cents earned, the company distributed (50%).
OR 50% of the net profit was retained.

Reason for change ✓
Bigger % was retained for future expansion/growth.
Efforts being made to increase profitability or to address cash flow problems.

5

3.2.5 Explain whether the price paid for the share buy-back was fair. Quote TWO financial indicators (with figures) in your explanation.

Indicator and trend ✓✓ ✓ ✓
The buy- back price was 510 cents per share equal to the NAV of 510 cents, the price was fair

Market price on JSE is 515 cents per share while shares have been bought back at 510 cents per share.

4

TOTAL MARKS
30

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