GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

JUNE EXAMINATION
GRADE 12

2023

ACCOUNTING

(PAPER 1)

TIME: 2 hours

MARKS: 150

13 pages + 1 formula sheet

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 achieve 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 table below as a guide when answering the question paper. Try NOT to deviate from it.

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

QUESTION 1: FINANCIAL STATEMENTS (65 marks; 52 minutes)

1.1 Choose ONE concept for each of the following descriptions. Write only the words next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

Net salary; Operating efficiency; Non-current asset; Gross salary; Current asset; Risk and gearing

1.1.1 Consumable stores on hand are a …

1.1.2 An employee was omitted from the salary journal. His … salary must be credited to the Trade and other payables in the Statement of Financial Position.

1.1.3 The way in which a company manages loans or borrowed capital (3)

1.2 **CASSIE LTD**

You are provided with information for the financial year ended 28 February 2023.

REQUIRED:

Complete the following for the year ended 28 February 2023:

1.2.1 Calculate the depreciation on vehicles. (4)

1.2.2 Calculate the profit/loss with the sale of asset. Indicate whether it is a profit or a loss. (4)

1.2.3 Statement of Comprehensive Income (Income Statement) (26)

1.2.4 Statement of Financial Position (Balance Sheet) (28)

INFORMATION:

A. Balances and totals extracted from the records on 28 February 2023

	DEBIT	CREDIT
Balance Sheet Accounts Section	**R**	**R**
Ordinary share capital **(1 200 000 shares)**		1 320 000
Retained income		?
Mortgage loan: Pride Bank		306 240
Land and buildings	1 810 000	
Vehicles @ carry value **(See information B)**	?	
Equipment	115 000	
Accumulated depreciation on equipment		17 250
Debtors' control	71 829	
Creditors' control		16 680
Trading stock	79 750	
Bank		90 040
Deposit on water and electricity	1 500	
SARS (Income tax)	350 145	
Provision for bad debts		3 100
Shareholders for dividends		44 500
Nominal Accounts Section		
Stationery	17 630	
Discount received		2 090
Depreciation	17 250	
Bad debts	1 350	
Bad debts recovered		550
Insurance	22 800	
Bank charges	5 770	
Rent income		165 600
Salaries and wages	164 430	
Audit fees	131 470	
Directors' fees	768 000	
Interest on bank overdraft	1 300	
Ordinary share dividends	109 500	

B. Vehicles:

- The business has two vehicles. The following details appeared in the Fixed Assets Register on 1 March 2022:

	Vehicle 1	Vehicle 2
Cost Price	240 000	312 000
Accumulated depreciation	(225 000)	(62 400)
Carrying value	15 000	249 600

- Vehicle 2 was sold on 1 July 2022 for R210 000 cash.

Equipment:

- Cassie Ltd. bought new equipment on 1 March 2022 for R115 000. This transaction was properly recorded. The depreciation for the year of R17 250, was accurately calculated and recorded.

The business provides for depreciation on its fixed assets as follows:

- On vehicles at 25% p.a. on cost price
- On equipment at 15% p.a. on the diminishing value method

C. A physical stocktaking on 28 February 2023 revealed the value of stock on hand as R79 900.

D. The rent received from the tenant included the rent for March and April 2023. The rent was increased by 10% per month from 1 January 2023.

E. A debtor, Z. Bendor, whose debt had previously been written off, paid R150. The bookkeeper incorrectly credited the amount to the Debtors' Control Account.

F. Provision for bad debt must be adjusted to R3 500.

G. An annual insurance premium of R15 600, was paid on 1 October 2022.

H. The bank statement was received after the above balances and totals were recorded. The following still needs to be taken into account:

- Bank charges R140

I. A debtor, V. Madrik, has a credit balance of R1 350 in the Debtor's ledger. It must be transferred to his account in the Creditor's ledger.

J. The company has three directors, earning the same monthly fees. One director was only appointed on 1 June 2022, and he still needs to be paid for February 2023.

K. Interest is capitalised on the mortgage loan. The annual loan statement from Pride Bank reflected the following:

PRIDE BANK LOAN STATEMENT ON 28 FEBRUARY 2023	
Balance on 1 March 2022	422 400
Interest capitalised	?
Repayments, including interest	116 160
Balance on 28 February 2023	369 600

- The accountant did not take the interest into account when submitting the balances/totals.
- The total amount for the repayment of the loan will remain the same over the next financial year.

L. A final dividend was declared by the directors and the amount was accurately recorded by the accountant.

M. Income tax for the year is calculated at 30% of the net profit. The net profit after tax is R1 050 455 after adjustments.

N. The Net Asset Value (NAV) on 28 February 2023 is 120 cents per share.

65

QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS

(40 marks; 32 minutes)

2.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question number (2.1.1 to 2.1.3).

2.1.1	The internal auditors are responsible for preparing the financial statements of a company.
2.1.2	The external auditor prepares relevant control measures for accounting procedures and ensures that they are followed.
2.1.3	Depreciation is added back into the Cash Flow Statement, as it is regarded as a 'non-cash' expense.

(3)

2.2 **BENFORCE LTD.**

The information below relates to Benforce Ltd.

REQUIRED:

2.2.1 Prepare the Ordinary Share Capital Note on 28 February 2023. (7)
(See information C)

2.2.2 Calculate the following figures that will appear on the Cash Flow Statement:

- Income tax paid (4)
- Net change in cash and cash equivalents. Indicate whether this is a net inflow or net outflow of cash. (5)

2.2.3 Complete the section of the Cash Flow Statement for cash effects of investing activities. (8)

2.2.4 Calculate the following for the financial year ended 28 February 2023:

- Percentage operating profit on sales (3)
- Current ratio (3)
- Stock turnover rate (3)

INFORMATION:

A. Extract from the Income Statement for the year ended 28 February 2023

Sales	R2 790 000
Cost of sales	1 860 000
Depreciation	420 100
Operating profit	450 000
Interest expense	160 000
Net profit before tax	1 900 000
Net profit after tax	1 330 000

B. Figures from the Balance Sheet and notes:

	28 FEBRUARY 2023	**28 FEBRUARY 2022**
Fixed assets (carrying value)	R4 010 500	R2 690 000
Financial assets (fixed deposit)	550 000	700 000
CURRENT ASSETS	**584 440**	**598 200**
Inventory	322 000	345 000
Trade and other receivables	245 000	228 000
SARS: Income tax	8 400	9 200
Cash and cash equivalents	9 040	16 000
SHAREHOLDERS' EQUITY	?	?
Ordinary share capital	5 292 000	?
Retained income	?	147 370
NON-CURRENT LIABILITIES	**1 200 000**	**500 000**
CURRENT LIABILITIES	**620 500**	**555 800**
Trade and other payables	323 000	**555 800**
Shareholders for dividends	187 500	108 000
Bank overdraft	110 000	–

C. Share capital and dividends

- The authorised share capital comprises 1 200 000 ordinary shares.
- On 1 March 2022, 900 000 ordinary shares were issued.
- The company issued 150 000 ordinary shares at R6,30 per share on 1 May 2022.
- On 30 August 2022, 70 000 ordinary shares were repurchased from shareholders. EFT payments for R437 500 were authorised for these shares.

D. Fixed assets:

- Additional property was purchased for R1 400 000. No other fixed assets were purchased.
- One of the vehicles was sold at carrying value.

2.3 **PETER LTD.**

You are presented with the Cash Flow Statement of Peter Ltd. for the year ended 30 April 2023.

REQUIRED:

List the TWO most significant decisions that the directors made during the year. Quote figures from the Cash Flow Statement in each case. (4)

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 APRIL 2023	
	738 000
Cash generated from operations	1 370 000
Interest paid	(210 000)
Income tax paid	(132 000)
Dividends paid	(290 000)
	(4 348 000)
Fixed assets purchased	(4 858 000)
Fixed assets sold for cash	370 000
	140 000
	3 580 000
Proceeds of issued shares	980 000
Loans raised	2 600 000
Net change in cash and cash equivalents for the year	(30 000)
Cash and cash resources at the beginning of the year	50 000
Cash and cash resources at the end of the year	20 000

40

QUESTION 3: INTERPRETATION OF COMPANY INFORMATION AND AUDIT REPORTS (35 marks; 28 minutes)

Your friend, Mary Brown, owns shares in a company called Dobi Ltd. She wants to invest more money in shares. She asks you for advice and presents you with the following financial indicators of Dobi Ltd. and another company, Lemi Ltd. The two companies are of similar size, and they have issued the same number of shares.

INFORMATION:

A.

	Dobi Ltd.	Lemi Ltd.
Market price per share on the JSE	905 cents	740 cents
Net asset value per share	755 cents	775 cents
Earnings per share	720 cents	179 cents
Dividends per share	650 cents	182 cents
% return on shareholders' equity	9,5%	5,5%
% return on total capital employed (before tax)	13,6%	9,4%
Debt/Equity ratio	0,3 : 1	2,1 : 1
Current ratio	5,7: 1	1,9 : 1
Acid-test ratio	3,5 : 1	0,9 : 1
Period for which enough stock is on hand	120 days	60 days
Debtors' average collection period	59 days	26 days

B.

Interest rate on Fixed Deposit: HD Bank	6,80 %
Interest rate on loan: Vivi Bank	10,50 %

REQUIRED:

3.1 Explain your answer to each of the following questions. In each case compare the two companies and quote financial indicators (figures, ratios or percentages) to support your answer.

3.1.1 **LIQUIDITY:**
Explain why the liquidity of Lemi Ltd. is better than that of Dobi Ltd. Quote THREE financial indicators to support your answer. (9)

3.1.2 **RISK AND GEARING:**
Which company uses more loans? **In each case, quote a financial indicator to support your answer.**

Explain whether this is a good idea or not. **Quote a financial indicator to support your answer.** (6)

3.1.3 **SHARE PRICE:**
The market price of the shares of Dobi Ltd. is doing much better than that of Lemi Ltd. Explain, quoting TWO financial indicators to support this opinion. (4)

3.1.4 **RETURNS, EARNINGS AND DIVIDENDS:**
Dobi Ltd. has a better percentage of returns, earnings, and dividends than Lemi Ltd. Explain by quoting THREE financial indicators to support this opinion. (9)

3.2 **AUDIT REPORTS**

You are provided with extracts from the independent audit reports of Dobi Ltd. and Lemi Ltd.

Extract from audit report of Dobi Ltd:

In our opinion, the financial statements fairly present, in all material respects, the financial position of this company on 28 February 2023 and the results of their operations and cash flow for the year ended in accordance with International Financial Reporting Standards, and according to the requirements of the Companies Act of South Africa.

Extract from audit report of Lemi Ltd:

We found that internal control procedures were not adhered to and that documentation did not exist for a significant portion of the transactions tested.

Because of the significance of the matter described in the previous paragraph we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements for the year ended 28 February 2023.

REQUIRED:

Comment on the audit reports of Dobi Ltd. and Lemi Ltd. In each case, explain how the report will affect Mary's decision concerning the shares that she wishes to purchase in the company. (4)

3.3 **NUMBER OF SHARES**

Shareholding of Mary Brown in Dobi Ltd:

	DOBI LTD.
Number of shares bought in 2020	605 000 shares
Total shares issued by Dobi Ltd.	1 250 000 shares
Mary's % shareholding before buying additional shares	48,4%

After taking all information into account, Mary decided to rather buy extra shares in Dobi Ltd. Calculate the number of shares that she must buy to become the majority shareholder of Dobi Ltd. (3)

35

QUESTION 4: CORPORATE GOVERNANCE (10 marks; 8 minutes)

"Corporate governance is the system of rules, practices and processes by which a company is directed and controlled."

Former Wall Street Journal reporter, R. Foster Winans was found guilty of securities fraud for using his knowledge of what would appear in the business-oriented newspaper, to his advantage, to make money on the stock market.

Loose lips indeed sink ships and in the case of R. Foster Winans, they engulfed him in an insider trading scandal. In his own words, Winans explained what happened.

"In the early 1980s when I was a stock market columnist at The Wall Street Journal, I stupidly agreed to tell a stockbroker what I was writing about that was scheduled to appear in the next day's edition.

He made more than $700 000 of which I received $31 000, for trading in advance of the short-term effect that the column in the newspaper had on the prices of stocks mentioned."

Winans served nine months in prison for his role in the fraud.

[Article extracted from *The Washington Post*]

REQUIRED:

Study the extract above and answer the following questions on corporate governance.

4.1 What is *insider trading*? Explain in your own words. (2)

4.2 How does good corporate governance benefit the company? (2)

4.3 What are the roles and responsibilities of the remunerations committee? Explain briefly. (2)

4.4 There are seven primary characteristics of good governance. Name any TWO characteristics. (2)

4.5 Corporates are managed by a board of directors and the directors are divided into executive and non-executive directors.
Briefly explain why it is important for a company to include non-executive as well as executive directors on the board of directors. (2)

10

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 and other receivables + Cash and 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)
$\frac{\text{Net income before tax + interest on loans}}{\text{Average shareholders' equity + Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends of the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	

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.