GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

GAUTENG DEPARTMENT OF EDUCATION

PREPARATORY EXAMINATION

2020

10711

ACCOUNTING
PAPER 1

TIME: 2 hours

MARKS: 150

12 pages + formula sheet

P.T.O.

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. Show ALL workings in order 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 the questions.
6. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.

8. Use the information in the table as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 50 marks; 40 minutes	
Topic:	**This question integrates:**
Concepts and Financial Statements	**Financial accounting** Concepts Income Statement, Notes and Balance sheet.

QUESTION 2: 50 marks; 40 minutes	
Topic:	**This question integrates:**
Cash Flow Statement	**Financial accounting** Concepts Notes to balance sheet Calculations to the cash flow statement Cash flow statement

QUESTION 3: 50 marks; 40 minutes	
Topic:	**This question integrates:**
Interpretation of Information and audit report	**Financial Accounting** Financial indicators Analysis of interpretation and audit report **Managing resources** Internal control

QUESTION 1: CONCEPTS AND FINANCIAL STATEMENTS (50 marks: 40 minutes)

1.1 Choose the correct word from COLUMN B to match the description in COLUMN A. Write only the letter (A – E) next to the question number (1.1.1 to 1.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.1.1	Guidelines for the preparation of financial statements to ensure consistency.	A	Memorandum of Incorporation
1.1.2	Sets out the rights, duties and responsibilities of shareholders and directors.	B	IFRS
1.1.3	The total number of shares that a company can issue.	C	Matching concept
1.1.4	Revenue generated during an accounting period should be matched to expenses during the same period.	D	Authorised share capital
		E	Going concern concept

(4)

1.2 **TWO-WAY LIMITED**

You are provided with the information relating to Two-Way Ltd, for the year ended 29 February 2020.

REQUIRED:

1.2.1 Refer to **INFORMATION E** and calculate the correct net profit after tax. (12)

1.2.2 Prepare the following note to the balance sheet for the financial year ended 29 February 2020.

- Trade and other receivables (9)

1.2.3 Prepare the Balance Sheet (Statement of Financial Position) of Two-Way Ltd as at 29 February 2020.
(Where notes are not required, show your workings in brackets in order to earn part marks) (25)

INFORMATION:

A. The following figures were extracted from the accounting records at the end of the financial year on 29 February 2020.

Ordinary share capital	?
Retained income (29 February 2020)	805 140
Fixed assets (at carrying value on 29 February 2020)	5 180 652
Loan: Canara Bank (29 February 2020)	622 800
Fixed deposit: Fargo Bank (1 March 2019)	504 000
Bank (Dr)	?
Creditors' control	?
Debtors' control	64 800
Inventory	757 800
Provision for bad debts	3 420
SARS: Income tax (Provisional tax payments)	524 520

B. Share Capital

- The company has an authorised share capital of 1 000 000 shares.
- 60% of the authorised share capital was issued at the beginning of the financial year.
- On 31 March 2019, the directors issued an additional 200 000 shares.
- On 31 December 2019, the directors decided to buy back 100 000 shares from the estate of the deceased shareholder.
- The Net Asset value per share on 29 February 2020 is 8,80 cents.

C. Dividends

- An interim dividend of 45 cents per share was declared and paid on 1 August 2019. The new shareholders qualified for the interim dividend.
- A final dividend of 81 cents per share was declared on 29 February 2020. The shareholder whose shares were bought back are not entitled to the final dividend.

D. The loan statement received from Canara bank showed the following:

Opening balance (01/03/19)	R 846 000
Repayment during the year (interest included)	223 200
Closing balance (29/02/20)	709 200

- Provide for interest on loan.
- The capital repayment of the loan will remain the same as the previous financial year.

E. The net profit was R1 810 404 **before the following adjustments were taken into consideration.**

- Interest on fixed deposit is earned at 10% per annum and is not capitalised. No interest has been received. 40% of the fixed deposit will mature on 30 June 2020.
- Interest on the loan was also not taken into consideration. Interest on the loan is capitalised.
- Provision for bad debts must be adjusted to 5% of the outstanding debtors.
- Rent income received amounted to R94 608. It included the rent for March and April 2020. The rent was increased by 15% on 1 January 2020.
- Trading stock, R25 200 was damaged by a storm during the year. The insurance company accepted the claim and will cover 70% of the claim. The insurance claim will be processed during May 2020.
- Insurance included an annual policy of R15 120 paid on 1 August 2020.
- Directors fees of R9 000 were still outstanding on 29 February 2020.
- Income tax for the year amounted to R483 120.

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QUESTION 2: CASH FLOW STATEMENT **(50 marks; 40 minutes)**

2.1 Indicate whether the following statements are TRUE or FALSE. Write only 'true' or 'false' next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK. (3)

2.1.1 If the loan amount increases from the previous year it is an outflow of cash

2.1.2 Repurchase of shares amount decreases Cash Flow from financing activities.

2.1.3 Increase in debtors does not form part of changes in working capital.

2.2 **UHLAZO LTD**

The information relates to UHLAZO Ltd for financial year ended on 30 April 2020.

REQUIRED:

2.2.1 Prepare the following notes to the Balance Sheet:
- Ordinary Share Capital (11)
- Retained Income (13)

2.2.2 Calculate the following figures for the Cash Flow Statement on 30 April 2020:
- Taxation paid (4)
- Dividends paid (3)
- Loan repayment amount (2)
- Net change in cash and cash equivalents (5)

2.2.3 Prepare the CASH FLOW OF INVESTING ACTIVITIES section of the Cash Flow Statement on 30 April 2020. (9)

INFORMATION:

A. Information extracted from the Income Statement on 30 April 2020:

Interest expenses	45 900
Depreciation	26 900
Income tax (30% of Net Profit)	360 000

B. Information extracted from the Balance Sheet on 30 April:

	30 April 2020	**30 April 2019**
Fixed assets (carrying value)	5 890 000	5 328 000
Fixed Deposit	210 000	**?**
Cash and cash equivalents	91 400	22 000
Shareholders' equity	**2 739 000**	**2 106 000**
Ordinary share capital	1 815 000	1 500 000
Retained income	924 000	606 000
Loan: Ivory Bank	135 000	246 000
Bank overdraft	0	35 600
SARS: Income tax	12 800 (Cr)	22 600 (Cr)
Shareholders for dividends	**?**	220 500

C. Share capital information:

Authorized share capital of 1 200 000 ordinary shares

Issued share capital

- On 1 May 2019, there were 480 000 shares in issue.
- On 30 July 2019, additional shares were issued.
- On 31 January 2020, 50 000 shares were repurchased and an amount of R220 000 was paid.

D. An interim dividend of 21 cents per share was paid on 31 December 2019. The new shareholders were entitled to the interim dividends.

A final dividend of 62 cents per share was declared on 30 April 2020. Only the shareholders registered on 30 April 2020 qualified for the final dividend.

E. Net asset value per share after the above has been taken into account is 498 cents.

F. Additional fixed assets were purchased during the financial year.
An old vehicle was sold at book value during the financial year.

G. One third of the fixed deposit matured on the 31 December 2019.

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QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS AND AUDIT REPORT (50 marks; 40 minutes)

3.1 **AVIEE LTD**

Information was extracted from the financial records of Aviee Limited. The company is listed on the stock exchange.

REQUIRED:

3.1.1 Calculate the following financial indicators on 31 August 2020.

- Acid-test ratio (4)
- Debt-equity ratio (3)
- Return on average shareholders' equity (5)

3.1.2 Comment on the dividend policy for 2020. Provide a calculation to support your answer. (5)

3.1.3 The directors decided to change the dividend policy in 2020. Give TWO reasons for this change. (4)

3.1.4 Comment on the gearing and degree of risk for 2020. Quote TWO relevant indicators in your comment. (6)

3.1.5 The shareholders are dissatisfied with the repurchase price of shares. Using the relevant indicators and figures, explain why they are dissatisfied. (3)

INFORMATION:

Extract from the financial statements on 31 August 2019 and 2020:

	2020 R	2019 R
Fixed deposit: Sierra Bank	200 000	480 000
Loan: Max Bank	3 000 000	1 200 000
Current assets (including inventories)	2 273 400	2 492 800
Inventories	942 200	1 435 100
Current liabilities	1 024 000	1 511 000
Cash and cash equivalents	72 800	4 800
Bank overdraft	0	224 000
Shareholders' equity	13 686 600	11 653 000
Shareholders for dividends	264 000	352 000
Net profit before tax	1 908 000	
Income Tax	30%	

Financial indicators on 31 August:

	2020	2019
Current ratio	2,2 : 1	1,6 : 1
Acid-test ratio	?	0,7 : 1
Debt-equity ratio	?	0,1 : 1
Earnings per share	77 cents	87 cents
Dividends per share	40 cents	80 cents
Return on average shareholders' equity (ROSHE)	?	11,9%
Return on capital employed (ROTCE)	16,4%	15,3%
Net asset value	778 cents	728 cents
Interest rate on loans	13%	12%
Market value on JSE	780 cents	725 cents
Interest rate on fixed deposit	11%	11%
Number of shares	880 000	?
Price at which shares were repurchased	800 cents	

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3.2 **AUDIT REPORT**

You are provided with an extract from the audit report of the independent auditors of Ivory Limited.

REQUIRED:

3.2.1 Briefly explain the role of an independent auditor. (2)

3.2.2 What type of report did Ivory Limited receive? Explain your answer. (3)

3.2.3 To whom is this audit report addressed? (1)

3.2.4 State TWO possible consequences for the independent auditor if he had NOT mentioned the donation in his report. (2)

3.2.5 State ONE consequence that this report could have on the company. (2)

3.2.6 How will this report affect the price of shares? (2)

3.2.7 Explain why the independent auditors mentioned IFRS in the audit report. (2)

3.2.8 The director cites the donation to the school as a Corporate Social Investment (CSI) initiative.

(a) Explain the need for corporate social investment. (2)

(b) What do you understand by the *triple bottom line*? (2)

(c) Which component of the annually published financial statements should contain details of the donation to the Covid-19 Food Parcel Relief? (2)

INFORMATION:

EXTRACT FROM THE REPORT OF IVORY LIMITED

Independent Auditors' Responsibility
We have examined the annual financial statements set out on pages 31 to 53.

Basis for Qualification of Opinion
The donation of inventory for R350 000 made to the local Covid-19 Food Parcel Relief could not be authenticated, as no documentation existed for this expense. Subsequently, the inventory note is overstated and operating expenses stated in the Statement of Comprehensive Income has been understated as well.

Audit Opinion
Because of the significance of the matters described above, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Ivory Ltd for the year ended 31 July 2020.

Seshohli & Chetty, Chartered Accountants (SA)

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TOTAL: 150

END

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