education

Department:
Education
PROVINCE OF KWAZULU-NATAL

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING

MARCH 2019

COMMON TEST

MARKS: 100

TIME : 1 hour

This question paper consist of 9 pages and an answer book of 6 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 9 pages.
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: 47 Marks, 28 Minutes	
The topic of this question is:	**Content:**
Financial Statement and audit report	• Income Statement • Internal Control • Audit report
Question 2: 19 Marks, 11 Minutes	
The topic of this question is:	**Content:**
Cash Flow Statement	• Calculation of amounts for Cash Flow Statement • Problem Solving
Question 3: 34 Marks, 21 Minutes	
The topic of this question is:	**Content:**
Ratio's and analysis and interpretation	• Stock turnover rate • Net asset value per share • Interpretation

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QUESTION 1 (47 Marks; 28 Minutes)

INCOME STATEMENT AND AUDIT REPORT

NQUTU LTD

The information relates to Nqutu Limited for the financial year ended 28 February 2019.

REQUIRED:

1.1 Prepare the Income Statement (Statement of Comprehensive Income) for the year ended 28 February 2019. **(40)**

1.2 Explain Two internal control measures which must be used by management to avoid the problems associated with Trading stock. **(2)**

INFORMATION:

A.

EXTRACT FROM THE PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2019	
Balance sheet accounts	
Loan: Qhudeni Bank	600 000
Fixed assets at carrying value	950 000
Fixed deposit: Isandlwana Bank	1 186 000
Creditors control	97 500
Debtors control	186 000
Trading stock	1 050 300
Bank Dr	42 500
SARS (Income tax) (Dr)	500 000
Provision for bad debts	12 050
Consumables on hand (Packing material – 1 March 2018)	820
Nominal accounts	
Sales	8 750 500
Cost of sales	?
Debtors allowance	20 500
Directors fees	551 000
Audit fees	188 400
Salaries and contributions	481 600
Rent income	67 800
Interest on fixed deposit	80 000
Insurance	14 700
Bad debts	6 700
Packing material	4 400
Depreciation	?
Ordinary share dividends	340 000

B. The business prices its goods at a mark-up of 50% on cost. Trade discounts of R360 000 was allowed on invoices to certain customers.

C. Goods sold on credit for R75 000 was not recorded.

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D. A debtor, B Zulu, with an outstanding balance of R42 000, has left the country. His account must be written off.

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

F. The rent income was increased by 10% from 1 November 2018. The tenant has not paid the rent for February 2019.

G. No entries have been made for stock stolen at the beginning of January 2019. The insurance company has informed Nqutu LTD that they have transferred R32 000 into the business bank account in respect of the insurance claim. Nqutu Ltd has to bear the stock loss of 20%.

H. The loan statement received from Qhudeni Bank on 28 February 2019 revealed the following:

Balance on 1 March 2018	R725 000
Repayments of R10 000 per month, including interest	R120 000
Interest capitalized	?
Balance on 28 February 2019	R648 000

I. The auditors are owed a further R19 600 for audit fees for this financial year

J. The company had two directors on equal pay from 1 March 2018. A third director was appointed on 1 September 2018 on the same fee structure. This director's fee for February 2019 was not yet paid.

K. An employee was omitted from the Salaries Journal for February 2019. His details are as follows:

Gross salary	?
Deductions:	
PAYE	3 060
Pension fund	1 000
Medical aid fund	840
Net salary	65% of the gross salary
Employers contribution:	
Pension fund	R2 for every R1 deducted
Medical aid fund	Rand for Rand basis

L. The bookkeeper forgot to reverse the packing material at the beginning of the financial period.

M. After taking all adjustments into account, the correct net profit after tax is R980 000. The income tax rate is 30% of the net profit before tax.

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1.3 AUDIT REPORT

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

REQUIRED:

1.3.1 Why is the auditor's report addressed to the shareholders of Dundee Limited? **(1)**

1.3.2 Did Dundee Limited receive a/an qualified/unqualified/disclaimer of opinion audit report? Explain. Quote relevant information from the audit report to motivate your answer. **(2)**

1.3.3 State TWO possible consequences that the independent auditors could face should they be negligent in performing their duties. **(2)**

EXTRACT FROM THE AUDIT REPORT

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Dundee Ltd as at 28 February 2019, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

MGM
Chartered Accountants (SA)
Registered Accountants and Auditors

47

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QUESTION 2 (19 Marks; 11 Minutes)

CASH FLOW STATEMENT

BABANANGO LTD

You are provided with information relating to Babanango Ltd. for the financial year ended 28 February 2019.

REQUIRED:

2.1 Calculate the following amounts that will appear in the Cash Flow Statement on 28 February 2019:

2.1.1 Disposal at carrying value **(5)**

2.1.2 Dividends paid **(3)**

2.1.3 Tax paid **(4)**

2.1.4 Re-payment of loan **(4)**

2.2 What do you think the matured Fixed Deposit was used for? Mention one fact and quote figures to support your answer **(3)**

INFORMATION:

A. INFORMATION EXTRACTED FROM THE INCOME STATEMENT ON 28 FEBRUARY 2019

Income tax	1 393 200
Depreciation	270 000
Interest expense	45 000

B. EXTRACT FROM THE BALANCE SHEET ON 28 FEBRUARY:

Assets	**2019**	**2018**
Non-current assets		
Fixed assets	1 689 600	1 600 000
Fixed deposit	1 000 000	1 800 000
Current Assets		
Trade debtors	297 200	446 900
Accrued income	0	2 400
SARS (Income tax)	0	300 000
Cash and cash equivalents	?	642 100
Equity & Liabilities		
Shareholders' equity	2 700 000	2 500 000
Share capital	1 900 000	1 800 000
Retained income	800 000	700 000
Non-current liabilities		
Mortgage loan	?	1 000 000
Current liabilities		
SARS (Income tax)	200 000	0
Shareholders for dividends	1 100 000	870 000

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C. Fixed assets:

- Extensions to the warehouse were completed at a cost of R800 000.
- Some asset were sold at carrying value during the financial period

D. Dividends:

Interim dividends of R960 000 was paid during the financial period.

E. Financial indicators:

	2019	2018
Debt/equity ratio	0.3:1	0.4:1
Current ratio	2:1	1.5:1

19

QUESTION 3 (34 Marks; 21 Minutes)

NOTES, RATIO'S AND ANALYSIS AND INTERPRETATION

BLOOD RIVER

Information for the financial year ended 28 February 2019 is provided.

REQUIRED:

3.1 Prepare the following notes to the Balance Sheet (Statement of Financial Position) for the year ended 28 February 2019:

3.1.1 Ordinary Share Capital **(8)**
3.1.2 Retained Income **(6)**

3.2 Calculate the following financial indicators on 28 February 2019:

3.2.1 Stock turnover rate **(4)**
3.2.2 Net asset value per share **(4)**

3.3 Provide calculations to show the change in the dividend pay-out policy and comment on its impact on retained earnings. **(4)**

3.4 Explain why the shareholders should be satisfied with the returns on their investment. Quote TWO financial indicators (with figures) to support your opinion. **(4)**

3.5 The directors decided to increase the loan during the current financial year. Quote TWO financial indicators (actual figures/ratios/percentages) that are relevant to their decision. Explain why this was a good or bad decision. **(4)**

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INFORMATION:

A. INFORMATION EXTRACTED FROM THE INCOME STATEMENT ON 28 FEBRUARY 2019

Sales	2 821 000
Net profit before tax	2 100 000
Net profit after tax	1 470 000

B. EXTRACT FROM THE BALANCE SHEET ON 28 FEBRUARY:

	2019	2018
Inventory	440 000	400 000
Ordinary share capital	24 700 000	18 000 000
Retained income	?	1 370 000

C. MARK-UP PERCENTAGE:

The business used a mark-up percentage of 30% on cost. This was maintained for the current financial period.

D. SHARES:

- The company is authorised to issue 5 000 000 shares.
- The average share price was R6.00 at the beginning of the financial year (1 March 2018).
- 1 000 000 shares was issued on 1 September 2018.
- 200 000 shares were repurchased from certain shareholders at R9.00 per share during January 2019. These shares do qualified for final dividends.

E. DIVIDENDS:

- An interim dividend of 15 cents per share was declared and paid on 31 August 2018.
- A final dividend of 30 cents per share was declared on 28 February 2019.

F. FINANCIAL INDICATORS ON 28 FEBRUARY 2019:

	2019	2018
Stock turnover rate	?	3 times
% return on total capital employed	27%	19.5%
% return on average shareholders	25%	13.2%
Debt/equity ratio	0.2 : 1	0.1 : 1
Net asset value per share	?	646 cents
Earnings per share	90 cents	70 cents
Dividends per share	81 cents	84 cents
Market price	750 cents	660 cents
Interest rate	16%	16%

34

TOTAL MARKS: **[100]**

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PROVINCE OF KWAZULU-NATAL

ACCOUNTING

ANSWER BOOK

MARCH 2019

COMMON TEST

NATIONAL SENIOR CERTIFICATE

GRADE 12

Name:_____ **Grade:**_____

Question	MARKS	MOD.
1		
2		
3		
TOTAL		

This answer book consists of 6 pages.

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QUESTION 1

1.1 INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019.

	Insurance	**14 700**

40

1.2 INTERNAL CONTROL

Explain Two internal control measures which must be used by management to avoid the problems associated with Trading stock.

2

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1.3 AUDIT REPORT

1.3.1 Why is the auditors' report addressed to the shareholders of Dundee Limited?

1

1.3.2 Did Dundee Limited received a/an qualified/unqualified/disclaimer of opinion audit report?

Explain. Quote relevant information from the auditors' report to motivate your answer.

2

1.3.3 State TWO possible consequences that the auditor could face should he be negligent when performing his duties.

2

TOTAL MARKS
47

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QUESTION 2

2.1 CALCULATION OF FIGURES FOR THE CASH FLOW STATEMENT

No.	Calculations	Answer	
2.1.1	Disposal at carrying value		
			5
2.1.2	Dividends paid		
			3
2.1.3	Tax paid		
			4
2.1.4	Re-payment of loan		
			4

2.2 What do you think the matured Fixed Deposit was used for? Comment on one activity and quote figures to support your answer.

3

TOTAL MARKS
19

QUESTION 3

3.1.1 Ordinary share capital

Authorised

5 000 000 shares

Issued shares

8

3.1.2 Retained income

Balance at the beginning	**R1 370 000**

6

3.2.1 Stock turnover rate

4

3.2.2 Net asset value per share

4

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3.3 **Provide calculations to show the change in the dividend pay-out policy and comment on its impact on retained earnings.**

4

3.4 **Explain why the shareholders should be satisfied with the returns on their investment. Quote TWO financial indicators (with figures) to support your opinion.**

4

3.5 **The directors decided to increase the loan during the current financial year. Quote TWO financial indicators (actual figures/ratios/percentages) that are relevant to their decision. Explain why this was a good or bad decision.**

4

TOTAL MARKS
34

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Department:
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PROVINCE OF KWAZULU-NATAL

ACCOUNTING

MEMORANDUM

MARCH 2019

NATIONAL SENIOR CERTIFICATE

GRADE 12

MARKS: 100

MARKING PRINCIPLES:

1. Unless otherwise stated in the marking guideline, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). Note: if figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer and at least one part must be correct before awarding the mark.
10. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
11. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
12. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a ☒.
13. Be aware of candidates who provide valid alternatives beyond the marking guideline.
14. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consist of 6 pages.

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QUESTION 1

1.1 INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2019.

	Sales (8 750 500✓ – 20 500 ✓+ 75 000✓)		8 805 000	✓
	Cost of sales (8 805 000☑ +360 000✓) 100/150 inspect by using calculator		(6 110 000)	☑
8	Gross profit Check operation sales –cost of sales		2 695 000	☑
	Other operating income Check operation		75 500	☑
	Rent income (67 800✓ + 6 600✓)		74 400	✓
	Provision for bad debts adjustment		1 100	✓✓
6	Gross income		2 770 500	
	Operating expenses Check operation		(1 407 500)	☑
	Insurance		**14 700**	
	Bad debts (6 700✓ + 42 000✓)		48 700	✓
	Loss of stock due to theft		8 000	✓✓
	Audit fees (188 400✓ + 19 600✓)		208 000	✓
	Directors fees (551 000✓ + 19 000✓)		570 000	✓
	Salaries (481 600✓ + (14 000 + 840 + 2000) ✓		498 440	☑
	Packing material (4 400✓ + 820✓)		5 220	✓
19	Depreciation Balancing figure		54 440	☑
	Operating profit Check operation		1 363 000	☑
	Interest income		80 000	✓
	Operating profit before interest expenses Check operation PBT + Interest		1 443 000	☑
	Interest expenses		(43 000)	✓
	Net profit before taxation Calculated using taxation amount		1 400 000	☑
	Taxation Calculated using profit after taxation		(420 000)	☑
7	Net profit after taxation		980 000	✓

Foreign items -1 max -2

40

40

1.2 Internal Control

Explain Two internal control measures which must be used by management to avoid the problems associated with Trading stock.

Two valid points ✓ ✓

- Do regular physical stock counts
- Place tracking devices on the products / security price tags
- Provide secure display cabinets for the stock
- Improve security at the gates / inspect items and check to sales slip/install cameras
- Division of duties (if staff is suspected)
- Buy in smaller quantities / more regularly

2

2

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1.3 AUDIT REPORT

1.3.1 **Why is the auditors' report addressed to the shareholders of Dundee Limited?**

The shareholders are the owners of the company. ✓ | 1 | 1

1.3.2 **Did Dundee Limited received a/an qualified/unqualified/disclaimer of opinion audit report?**

Unqualified opinion audit report✓

Explain. Quote relevant information from the auditors' report to motivate your answer.

The auditors could not find any mistakes from the sample audited. "The financial statements fairly presents" ✓ | 2 | 2

1.3.3 **State TWO possible consequences that the auditor could face should he be negligent when performing his duties.**

Any TWO separate and different consequences ✓ ✓

- They could be disciplined / fined/ suspended
- They could be arrested (for fraud).
- They could be deregistered / struck off the roll.
- They could be sued by the shareholders (held liable), if they are found to be negligent in performing their duties.

| 2 | 2 |

TOTAL MARKS
47

QUESTION 2

2.1 CALCULATION OF FIGURES FOR THE CASH FLOW STATEMENT

No.	Calculations	Answer	
2.1.1	**Disposal at carrying value**		
	1 689 600✓ + 270 000 ✓ – 800 000✓ – 1 600 000✓ OR 1 600 000 + 800 000 – 270 000 – 1 689 600 Operation one part correct	440 400 ☑	5 5
2.1.2	**Dividends paid**		
	870 000✓ + 960 000✓ Or 870 000 + (1100 000 + 960 000) – 1 100 000 Operation one part correct	(1 830 000)☑	3 3
2.1.3	**Tax paid**		
	1 393 200✓ – 300 000✓ – 200 000✓ Or 200 000 + 300 000 – 1 393 200 Operation one part correct	(893 200) ☑	4 4
2.1.4	**Re-payment of loan**		
	2 700 000 X 0.3 = 810 000✓ loan for 2019		4 4
	1 000 000✓ – 810 000 ✓ Operation one part correct	(190 000) ☑	

2.2 **What do you think the matured Fixed Deposit was used for? Comment on one activity and quote figures to support your answer.**

One activity ✓✓ Figure ✓

Extensions to the warehouse costing R800 000

Part payment of Mortgage loan R190 000

	3

TOTAL MARKS
19
19

QUESTION 3

3.1.1 Ordinary share capital

Authorised

5 000 000 shares

Issued shares

3 000 000 ✓	Shares @ R6		R18 000 000 ✓
1 000 000 ✓	Shares @ R8	Operation	R 8 000 000 ☑
(200 000) ✓	Buy-back shares @ R6.50		(R1 300 000) ✓
3 800 000 ☑	Shares @ R6.50		R24 700 000✓

Operation

8
8

3.1.2 Retained income

Balance at the beginning	**R1 370 000**
Net profit after tax	R1 470 000✓
Buy- back of shares (200 000 X 2.50)	(R500 000) ☑
Dividends Operation one part correct	(R1 650 000) ☑
Paid	R450 000 ✓
Final	R1 200 000 ✓
Balance at the end Operation one part correct	R690 000 ☑

6
6

3.2.1 Stock turnover rate

$$\frac{2\ 170\ 000\ \checkmark}{\frac{1}{2}\checkmark\ (440\ 000 + 400\ 000)\ \checkmark}$$

= 5.16 times☑ **accept 5.2 times** Operation one part correct

Award two marks for 840 000

4
4

3.2.2 Net asset value per share

$$\frac{24\ 700\ 000 + 690\ 000\ \checkmark}{3\ 800\ 000\checkmark} \times 100$$ see 3.1.2

668 cents ☑ Operation one part correct

4
4

3.3 Provide calculations to show the change in the dividend pay-out policy and comment on its impact on retained earnings.

Year	Calculation	Comment
2018	84/70 = 120% ✓	20% extra came from the retained income. ✓
2019	81/90 = 90%✓	Kept 10% for the retained income. ✓

4
4

3.4 Explain why the shareholders should be satisfied with the returns on their investment. Quote TWO financial indicators (with figures) to support your opinion.

Financial indicator ✓ ✓ Trends/comment & figures ✓ ✓

ROSHE increased from 13,2% in 2018 to 25% in 2019.

Earnings per share increased from 70 cents in 2018 to 90 cents in 2019. But DPS decreased to improve the future prospects of the business

4
4

3.5 The directors decided to increase the loan during the current financial year. Quote TWO financial indicators (actual figures/ratios/percentages) that are relevant to their decision. Explain why this was a good or bad decision.

Debt/equity ratio increased from 0,1:1 to 0,2:1✓
Return on capital employed is 27% exceeding the interest rate of 16% ✓

Do not accept any other financial indicators

Explanation must contain reasons **Part-marks for unclear /incomplete explanation**

Response for two marks:
There is positive gearing (ROTCE exceeds interest rate on loans) and it is low risk (not making extensive use of borrowed capital). ✓✓

Response for one mark:
- This is a good decision because of positive gearing
- This is a good decision because it is still low risk

4
4