GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

PREPARATORY EXAMINATION

2023

10711

ACCOUNTING

(PAPER 1)

TIME: 2 hours

MARKS: 150

14 pages + 1 formula sheet and an 11-page answer book

ACCOUNTING P1

10711E

X05

INSTRUCTIONS AND INFORMATION

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 questions.
6. Where applicable, show ALL calculations to ONE decimal point.
7. If you choose to do so, you may use the Financial Indicator Formula Sheet attached at the end of this question paper. The use of this formula sheet is NOT compulsory.
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	Retained Income Note and Statement of Financial Position	55	45
2	Cash Flow Statement and Financial Indicators	45	35
3	Interpretation of Financial Statements	35	30
4	Corporate Governance	15	10
TOTAL		**150**	**120**

QUESTION 1: RETAINED INCOME NOTE AND STATEMENT OF FINANCIAL POSITION (55 marks; 45 minutes)

TSATSI LTD

Tsatsi Ltd supplies and installs different types of solar panels at a fixed price. You are provided with information for the financial year ending 30 June 2023.

REQUIRED:

1.1 **Refer to Information B (i).**

Calculate the value of the closing stock of solar panels. (5)

1.2 Use Information B (ii) and (iii), to calculate the missing figures denoted by **(i – iii)** in the Fixed/Tangible Asset Note. (12)

1.3 Complete the Retained Income Note. (10)

1.4 Complete the Statement of Financial Position (Balance Sheet) on 30 June 2023. Where notes are not required, workings must be shown. (28)

INFORMATION:

A. Balances/Totals on 30 June 2023:

	2023
Ordinary share capital	1 755 000
Retained income	1 045 000
Loan: Shiloh Bank	609 840
Fixed assets at carrying value	?
Fixed deposit: BNP Bank	582 000
Inventory	?
Net trade debtors	209 100
Bank (favourable)	?
Deposit: Water and electricity	11 000
SARS: Income tax (Provisional payments)	359 000
Trade creditors	763 860
Shareholders for dividends	260 000
Rent expense	91 280
Directors' fees	1 824 000

B. ADDITIONAL INFORMATION

(i)
- Tsatsi Ltd sells the solar panels at a standard rate of R10 500 per unit.
- A mark-up of 25% on cost is applied.
- The specific identification method is used to value the solar panels.
- The information relating to the solar panels is as follows:

	UNITS	UNIT PRICE	TOTAL R
Opening stock: 1 July 2022	78		
Purchases during the year	631		
Closing stock: 30 June 2023	?		**?**
Units sold	602	10 500	6 321 000

(ii) **Note to the Balance Sheet on 30 June 2023:**

FIXED/TANGIBLE ASSETS	EQUIPMENT	VEHICLES
Carrying value – 1 July 2022	**50 000**	**519 200**
Cost price	561 000	814 000
Accumulated depreciation	(511 000)	**(i)**
Movements		
Additions at cost price	55 000	0
Disposal at carrying value	0	**(iii)**
Depreciation	**(ii)**	(98 890)
Carrying value – 30 June 2023		
Cost price	616 000	649 000
Accumulated depreciation		

(iii) **Details of fixed assets:**

Land and Buildings:
- The company also owns property.

Equipment:
- New equipment was purchased on 31 December 2022. This transaction has been correctly recorded.
- Depreciation is calculated at 10% p.a. on cost.

Vehicles:

A vehicle was sold for cash on 31 March 2023. It was recorded correctly in the records of the business.

The details of the disposal of the vehicle according to the Fixed Asset Register, is as follows:

Cost price	?
Accumulated depreciation on 1 July 2022	R66 000
Depreciation on diminishing balance method	20% p.a.
Profit on sale of vehicles	R3 350

NOTE: Depreciation on all vehicles was accurately calculated at R98 890 for the financial year.

(iv) A creditor's credit balance of R1 500 in the Creditors' Ledger must still be transferred to his account in the Debtors' Ledger.

(v) A storeroom was rented from 1 October 2022 at R11 200 per month. Rent increased by 7,5% per month on 1 April 2023. Provide for the outstanding rent.

(vi) **Loan: Shiloh Bank**

The loan statement from Shiloh Bank revealed the following:

- Total repayments (including interest) R225 400
- Interest capitalised R 83 160
- Balance at the end (30 June 2023) ?

NOTE: 20% of the loan will be settled during the next financial year.

(vii) The company has three directors who earn the same fee. One director was paid two months in advance.

(viii) **Share capital and dividends:**

Authorised share capital: 3 000 000 ordinary shares

DATE	DETAILS
1 July 2022	1 500 000 shares were in issue.
31 December 2022	An interim dividend of 12 cents per share was declared and paid.
1 March 2023	Shares were repurchased at R1,50. The average share price, accurately calculated on that day, was R1,35.
30 June 2023	A final dividend was declared.

NOTE: No additional shares were issued during the year.

(ix) **Income tax for 2023:**

Income tax for the financial year was accurately calculated at R309 000. Income tax is calculated at 30% of the net profit.

(x) **Financial indicator:**

After taking into account all adjustments, the current ratio was correctly calculated as **1,2 : 1**.

55

QUESTION 2: CASH FLOW AND FINANCIAL INDICATORS

(45 marks; 35 minutes)

2.1 Choose the correct term to complete each of the following statements. Write only the term next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.

current asset; outflow of cash; non-current asset; non-current liability; inflow of cash

2.1.1 A mortgage bond to finance the purchase of new property is a/an …

2.1.2 An increase in debtors will indicate a/an …

2.1.3 Packing material not used at the end of the financial year is a/an …

(3 x 1) (3)

2.2 **RANGA LTD**

The information below was taken from the accounting records of Ranga Ltd.
The financial year ends on 28 February 2023.

REQUIRED:

2.2.1 Calculate the following amounts for the Cash Flow Statement and Notes:

- Inventory amount on 28 February 2023 (2)
- Income tax paid (4)
- Dividends paid (3)
- Purchase of fixed assets (5)

2.2.2 Prepare the Cash Effects of the Financing Activities section of the Cash Flow Statement for the year ended 28 February 2023. (8)

2.2.3 Complete the section of Cash and Cash Equivalents in the Cash Flow Statement. (6)

2.2.4 Calculate the following financial indicators on 28 February 2023:

- % net profit before tax on sales (3)
- Current ratio (3)
- Dividends per share (4)
- % returns on shareholders' equity (4)

INFORMATION:

A. Information from the Statement of Comprehensive Income on 28 February 2023:

Sales	8 240 000
Depreciation	113 125
Profit before interest expense	1 066 340
Interest expense	128 460
Income tax	358 440
Net profit after tax	836 360

B. Extract from the Statement of Financial Position on 28 February 2023:

	28 February 2023 (R)	**28 February 2022 (R)**
Current assets	**1 430 000**	**2 521 000**
Inventories	?	1 450 000
Trade and other receivables	?	689 000
Cash and cash equivalents	0	382 000
Shareholders' equity	**13 941 500**	**10 312 350**
Ordinary share capital	13 440 000	9 700 000
Retained income	501 500	612 350
Long term loan: CZ Bank	2 850 400	4 500 500
Current Liabilities	**650 000**	**900 000**
Trade and other payables		
Shareholders for dividends	315 000	65 000
SARS (income tax)	72 000	102 000
Bank overdraft	?	0

C. Items identified from the Cash Flow Statement and Notes on 28 February 2023:

	Amount	**Change**
Inventory	390 000	*outflow*
Cash flow from operating activities	862 700	*inflow*
Cash flow from investing activities	3 132 600	*outflow*

D. FIXED ASSETS:

- A new delivery vehicle was purchased halfway during the year. The depreciation on the vehicle purchased was R44 175.
- Depreciation on vehicles is calculated at 15% on cost.
- Equipment purchased during the year amounts to R62 000.
- Ranga Ltd sold part of its building to one of the directors.

E. ORDINARY SHARE CAPITAL:

- On 1 March 2022, the beginning of the financial year, the company had 2 500 000 ordinary shares in issue.
- On 15 May 2022 a further 1 000 000 ordinary shares were issued by the directors.
- Ordinary shares were repurchased on 31 January 2023 by the directors at R1 500 000.
- On 28 February 2023, the end of the financial year, there were 3 200 000 ordinary shares in issue.

F. DIVIDENDS:

- The directors paid interim dividends of 5 cents per share on 30 September 2022.
- A final dividend was declared to all shareholders on 28 February 2023 (including the repurchased shares).
- Total dividends paid and declared amounted to R490 000.

45

QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS

(35 marks; 30 minutes)

3.1 QUALITY ELECTRONICS LTD

The company trades in electrical equipment. The information relates to the past two financial years, ended 28 February 2023.

C. Cruz is the CEO and there are three other directors in the company.

REQUIRED:

NOTE: Provide figures, financial indicators or calculations in EACH case to support your answer

3.1.1 LIQUIDITY:

Cruz has been concerned about the company's working capital over the years. He proposed a new approach to the directors of converting assets into cash quickly. Quote TWO financial indicators and explain why his concern is justified. (4)

3.1.2 RISK AND GEARING:

A shareholder has proposed that Cruz acquires a loan from his wife, who is a bank consultant. Cruz did not agree with this proposal. Explain why you agree with Cruz. Quote TWO financial indicators. (6)

3.1.3 DIVIDENDS:

The directors decided to decrease the dividend pay-out rate due to low profitability and a slow growth rate. Provide a calculation which validates their decision. Give ONE reason why they took this decision. (6)

3.1.4 EARNINGS, RETURNS AND SHARE PRICE ON THE JSE:

(a) Comment on the % returns and earnings per share of the company. Quote TWO financial indicators with figures. (4)

(b) Comment on the share price on the JSE and how the % returns and earnings per share have affected the share price. Quote figures. (2)

3.1.5 SHAREHOLDING:

Refer to Information A and C.

(a) At the AGM, many shareholders complained that the Remunerations Committee had been negligent in their duties and that Cruz did not deserve the fees that he was paid as CEO. State TWO different points to justify their concern. Quote figures and financial indicators. (4)

Refer to Information A, B and C.

(b) Explain why the other directors were unhappy with the price paid for the shares repurchased from Cruz. State TWO points. Quote financial indicators and figures to support EACH point. (4)

(c) Provide a calculation and comment on whether the repurchase of these shares affected Cruz's status as majority shareholder or not. (3)

(d) Explain why the public was not interested in buying the new shares issued at R7,90 per share. Quote ONE financial indicator with a trend (excluding EPS and ROSHE). (2)

INFORMATION:

A.

	2023	2022
Debt/Equity ratio	0,5 : 1	0,4 : 1
Acid-test ratio	0,7 : 1	0,9 : 1
Stock turnover rate	5,2 times	8 times
Trading stock deficit as % of cost of sales	6%	2%
% returns on total capital employed	13%	20%
% returns on shareholders' equity (ROSHE)	5%	9,2%
Earnings per share	81 cents	93 cents
Dividends per share	57 cents	90 cents
Net asset value per share	785	820
Market price of shares on JSE	760	840
Interest rate on investments	7%	6%
Interest rate on loan	14%	14%

B. Share capital and shareholding of CEO:

Total number of shares:

	2023	2022
Number of authorised shares	6 000 000 shares	
Number of shares in issue on 28 February	3 240 000	3 200 000
Number of shares owned by C. Cruz	1 795 000	1 830 000

- At the directors' meeting on 1 March 2022, it was decided to repurchase 35 000 shares from the CEO, C. Cruz, at R13,00 per share. None of the other directors supported this decision.

- A further 75 000 shares were issued on 30 April 2022. The listed issue price of the purchase was originally R7,90 per share. Due to a poor response from the public at this price, the directors agreed to sell these shares at R6,70 per share.

C. Directors' fees:

	2023	2022
Director's fees paid to CEO	R2 500 000	R2 000 000
Total fees paid to the 3 other directors	R3 000 000	R3 000 000

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

An article below was extracted from a local newspaper. Read the extract carefully and answer the questions that follow. Use your general knowledge of companies and corporate governance to support your answers, if necessary.

REQUIRED:

4.1 **The Human Resources Division**

Refer to paragraph 1.

- Provide TWO key functions for which the Human Resources Division may be responsible. (2)
- List TWO qualities that they may consider in a prospective candidate for a management position. (2)
- Explain the role of a CEO in a company. (2)
- What impact would the image of the company have on the market price of shares? Explain ONE point. (2)

4.2 **Good corporate governance and concerns of stakeholders**

Refer to paragraph 2.

- Provide TWO possible questions that a concerned stakeholder may have raised with the Human Resources Division at the meeting. (2)
- Explain ONE strategy that Mangray Ltd can use to involve its employees in collective decision-making. Provide a reason for your answer. (3)
- "Good corporate governance helps companies to thrive and compete." Provide TWO points to show why you agree with this statement. (2)

INFORMATION:

FUMBLE RECOVERY! HOW GOOD LEADERS CAN FIX BAD DECISIONS THAT AFFECT OTHER STAKEHOLDERS.
Paragraph 1 The decline of Mangray Ltd's market price, after the media shared the secret conversation of the CEO not engaging staff correctly, was a front-page story. The Human Resource Committee did its investigations and discovered that the CEO used inappropriate language when dealing with staff. It was found that some junior staff members knew of certain decisions before they were discussed by the board, and this hampered objective inputs of other directors.
Paragraph 2 Upon engaging with all parties, it was evident that there was a lack of communication between the CEO and stakeholders. The Human Resource Committee held a meeting with staff and emphasised the KING report which speaks of a dialogue, which can enhance or restore stakeholder confidence, remove tensions, relieve pressure on the company's reputation and offer opportunities to align expectations, ideas and opinions on issues.
Paragraph 3 The CEO of Mangray Ltd has reflected on how he has been taking decisions in order to build relationships with stakeholders and to accelerate the company's results. He has learnt not to operate in the shadow of the past, making decisions that disappoint stakeholders, overlooking other stakeholders' inputs and allowing processes to bring about change.

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

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.