education

Department of Education
FREE STATE PROVINCE

PREPARATORY EXAMINATION

GRADE 12

ACCOUNTING P1

SEPTEMBER 2024

MARKS: 150

TIME: 2 HOURS

This question paper consists of 11 pages, a formula sheet and a 9-page answer book.

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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 questions.
3. Show ALL workings 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. 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 the 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	Statement of Financial Position	60	50
2	Cash Flow Statement and Financial Indicators	40	35
3	GAAP principles, Financial Indicators and Interpretation of Financial Information	35	25
4	Corporate Governance	15	10
TOTAL		150	120

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QUESTION 1: STATEMENT OF FINANCIAL POSITION (60 marks; 50 minutes)

GARLAND LTD

The information relates to Garland Limited, and the financial year ended on 29 February 2024.

REQUIRED:

1.1 Prepare the Ordinary Share Capital note on 29 February 2024.
See information B(i). (7)

1.2 Calculate the total dividends for the year. (6)

1.3 Calculate the value of the closing stock using the weighted-average method.
See information B(iii). (5)

1.4 Prepare the Statement of Financial Position on 29 February 2024 after taking all the adjustments and additional information into account. (42)

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INFORMATION:

A. Extract from the Pre-adjustment Trial Balance on 28/29 February:

BALANCE SHEET ACCOUNTS SECTION	2024 (R)	2023 (R)
Ordinary Share Capital	?	4 850 000
Retained income	360 000	255 000
Mortgage loan: Umgeni Bank	?	800 000
Fixed assets (carrying value)	6 963 500	
Fixed deposit: Uptown Bank (9% interest p.a.)	340 000	
Trading stock	?	
Debtors' control	152 400	
Provision for bad debts	?	7 800
Bank overdraft (Balancing figure)	?	
Petty cash	6 000	
Creditor's control	196 500	
SARS: Income tax (provisional payments)	220 000	
Nominal accounts section		
Insurance	136 200	
Rent income	274 540	
Interest on fixed deposit	25 500	
Audit fees	90 000	
Stationery	24 520	
Depreciation	187 500	
Interest on loan (capitalised)	156 000	

B. Adjustments not considered yet:

(i) **Shares and dividends:**

- Authorised share capital consists of 2 000 000 shares.
- 1 300 000 of the shares were in issue at the beginning of the year.
- 200 000 shares were issued on 1 June 2023 at a price of R5,75.
- 90 000 shares were repurchased from a shareholder at an agreed price of R6,00 per share.
- Dividends of R150 000 were declared on the last day of the financial year.

(ii) **Mortgage loan:**

Interest according to the statement received from Umgeni Bank amounted to R156 000 and is capitalised. The monthly repayment on the loan, including interest, was R17 000. The company will repay R200 000 on the loan during the following financial year.

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(iii) **Inventory:**

The company uses the weighted-average method to value the stock. The following information was taken from the accounting records for the year ended 29 February 2024:

Details	Number van units	Total (R)
Opening stock	300	54 000
Purchases + Carriage on purchases	4 939	993 800
Units sold	4 044	

(iv) Income tax is calculated at 30% of the net profit before income tax. Net profit after tax of R567 000 was correctly calculated AFTER taking into account the following information:

- A creditor with a debit balance of R3 600 must be transferred to his account in the debtors' ledger.
- Provision for bad debts must be adjusted to 4% of the outstanding trade debtors.
- Rent was received up to 30 April 2024. Consider that the rent was increased by 12% on the 1st of October 2023.
- Insurance includes a twelve-month contract for R31 800. This amount was paid for the year ending 30 September 2024.
- The total expenses for audit fees amounted to R120 000. Only R90 000 has been paid.
- Make provision for the outstanding interest on the fixed deposit. Take into account that R50 000 was invested on 1 December 2023 for 12 months. The transaction was recorded. Interest on fixed deposits is not capitalised.
- Stationery used during the financial year amounted to R21 580.

60

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QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS
(40 marks; 35 minutes)

FREE STATE SUPPLIERS LIMITED

You are provided with information relating to Free State Suppliers Ltd for the financial year ended 29 February 2024.

REQUIRED:

2.1 Calculate the following for the financial year ended 29 February 2024:

(i) The acid-test ratio (5)
(ii) The debt-equity ratio (3)
(iii) The % return on average shareholders' equity (5)
(iv) The nett asset value per share (3)

2.2 Refer to the Note for Fixed assets **(Information B)**:

(i) Calculate the amount of land and buildings purchased (2)
(ii) Calculate the proceeds from fixed assets sold (4)
(iii) Calculate the depreciation on vehicles (5)

2.3 Calculate the following amounts for the Cash Flow Statement. Your answers must indicate the correct use of brackets.

(i) Income tax paid (5)
(ii) The amount invested during the year (2)
(iii) Repayment of the loan (2)
(iv) The net change in cash and cash equivalents (4)

INFORMATION:

A. Extract from Statement of Comprehensive Income for the year ended 29 February 2024:

	R
Interest on loan	176 750
Net profit before income tax	1 340 000
Income tax (30% of net profit)	?

B.

FIXED ASSETS	Land and buildings R	Equipment R	Vehicles R
Carrying value 28/02/2023	1 820 000	300 500	918 500
Cost	1 820 000	421 100	1 686 000
Accumulated depreciation	-	(120 600)	(767 500)
Movements			
Addition at cost	(i)	125 000	140 000
Disposal at carrying value		(ii)	-
Depreciation			(iii)
Carrying value 29/02/2024	2 049 700	321 500	853 800
Cost	2 049 700	405 500	

ADDITIONAL INFORMATION:

- Extensions to land and buildings were made during the year.
- Equipment with a cost price of R? and accumulated depreciation of R66 650 on the last day of the financial year was sold at carrying value. On the same day, new equipment with a value of R125 000 was purchased.
- The new vehicle was bought on 1 June 2023.
- No vehicle was sold during the financial year.
- Depreciation on vehicles is provided at 20% p.j. on the diminishing-balance method.

C. Extract from Statement of Financial Position on the last day of the financial year:

	2024	2023
Fixed assets (carrying value)	3 225 000	3 039 000
Fixed deposit	1 610 000	1 450 000
Inventory	1 566 510	1 255 840
Trade and other receivables	534 330	578 562
SARS: Income tax (not included in Trade and other receivables)	125 000 (dt)	-
Cash and cash equivalents	427 685	25 000
Shareholders' equity	**4 969 750**	**3 661 750**
Ordinary share capital	3 550 000	2 700 000
Retained income	1 419 750	961 750
Mortgage loan: Puma Bank	2 194 750	2 450 000
Trade and other payables	324 000	126 652
SARS: Income tax (not included in Trade and other payables)	-	110 000 (cr)
Bank overdraft	-	124 500

D. Additional information:

- On 29 February 2024 1 700 000 shares were in issue.

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QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION

(35 marks; 25 minutes)

3.1 Choose an example from COLUMN B that matches the concept in COLUMN A. Write only the letter (A–E) next to the question numbers (3.1.1 to 3.1.5) in the ANSWER BOOK.

3.1.1	Going-concern concept	A	Even though the market value of land and buildings is R10m, it is recorded at the original purchase price of R6,2m.
3.1.2	Materiality	B	Money lost due to theft of stock is written off, even though there is a possibility that it may be recovered in future.
3.1.3	Historical cost concept	C	The directors' fees must be reflected separately from salaries and wages.
3.1.4	Matching	D	Although the cost prices of the stock items fluctuate, the stock is recorded at cost, assuming it will be sold sometime in the future.
3.1.5	Prudence	E	The tenant has paid R39 000, which includes rent for one month of the following year. Only R36 000 is recorded in the Statement of Comprehensive Income.

(5 x 1) (5)

3.2 **CHEETAHS LTD AND STORMERS LTD**

The information relates to two companies.

BACKGROUND INFORMATION:

- Both companies operate in the sports equipment industry. The financial year ends on the last day of February each year.
- Sophie Mona owns shares in both companies.

Where financial indicators are required to support your answer, name the financial indicator, the actual figure/ratio/percentage and trends.

3.2.1 **Profitability:**

The directors of both companies tried to cut back on their expenses. Were they successful in their efforts? Quote TWO financial indicators for each company. (8)

3.2.2 **Liquidity:**

Compare the liquidity of the two companies to state which company is managing its liquidity better. Quote TWO ratios/indicators. (7)

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3.2.3 **Dividend payout policy:**

Comment on the dividend pay-out policy of Stormers Ltd. Why do you think the directors changed the pay-out policy? (2)

3.2.4 **Financial Gearing:**

Comment on the financial gearing of Cheetahs Ltd. (3)

3.2.5 **Financing Strategies:**

The directors of Cheetahs Ltd have taken deliberate decisions that are reflected in the Cash Flow Statements.

Explain the decision taken by the directors of Cheetahs Ltd that affected the risk of the business. Quote ONE financial indicator. (4)

3.2.6 **Shareholding of Sophie Mona in both companies:**

- Calculate the price per share paid for the shares repurchased by Stormers Ltd. (3)
- Explain the effect of the share repurchase on the % shareholding of Sophie Mona in Stormers Ltd. (3)

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INFORMATION:

A. Extracts from the accounting records at the end of the year:

	CHEETAHS LTD		STORMERS LTD	
	2024	**2023**	**2024**	**2023**
Number of shares in issue	2 600 000	2 300 000	1 020 000	1 300 000
Funds used to repurchase shares			R4 060 000	
Fixed assets purchased			R2 140 000	
Increase (decrease) in loan	R3 800 000		(R700 000)	

B. Financial indicators and interest rates:

	CHEETAHS LTD		STORMERS LTD	
	2024	**2023**	**2024**	**2023**
% operating expenses on sales	18,7%	14,9%	12,6%	17,5%
% operating profit on sales	16,8%	21,9%	24,7%	21,6%
% net profit on sales	8,9%	11,8%	15,9%	13,3%
Current ratio	2,2:1	2,4:1	4,5:1	5,0:1
Acid-test ratio	1,4:1	1,2:1	1,5:1	1,8:1
Debtors' average collection period	29 days	32 days	41 days	38 days
Creditors' average payment period	61 days	55 days	28 days	32 days
Debt-equity ratio	1,2:1	0,3:1	0,4:1	0,7:1
% Return on average capital employed	9,7%	12,5%	16,7%	13,2%
% Return on average shareholders' equity	6,7%	9,8%	15,2%	11,4%
Interest rate on loans	14%	12%	14%	12%
Interest rate on fixed deposits	9%	8%	9%	8%
Earnings per share	110 cents	140 cents	190 cents	160 cents
Dividend payout rate	108%	70%	65%	100%

C. Shareholding of Sophie Mona in both companies:

	CHEETAHS LTD		STORMERS LTD	
	2024	**2023**	**2024**	**2023**
Shares in each company	1 200 000	1 200 000	540 000	540 000
% shareholding in each company	46,2%	52,2%	?	41,5%

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

4.1 There are three types of independent auditor's reports. For each of the following wording, give the correct type of report the auditors will issue:

4.1.1 In our opinion, except for the effect of …, the annual financial statements represent fairly, in all material respects.

4.1.2 In our opinion, the annual financial statements present fairly, in all material respects, …

4.1.3 Because of the significance of the matter described …, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion. (3 x 1) (3)

4.2 Explain what is meant by *good corporate governance* and explain why it is important to shareholders. (3)

4.3 Consider the following scenarios which could arise in a business.

- For each scenario, state whether it is illegal or unethical.
- As a shareholder, how would you react in each case?
- What do you think will be the consequences for the guilty person?

4.3.1 **SCENARIO 1**

Ben Brink, the Chief Executive Officer (CEO) of a company that sells pharmaceutical products, learns before anyone else that the company will lose a large contract with the government. It will have a very big negative impact on the profits of the company. He decides to sell his shares before this news becomes public.

4.3.2 **SCENARIO 2**

Thomas Braidy, the CEO of a company, takes his whole family on vacation to Europe. He uses the company's funds to pay for the vacation and asks the internal auditor to record the expenses as marketing.

4.3.3 **SCENARIO 3**

As it was a tough financial year, the Chief Financial Officer (CFO) of a company decided to withhold all yearend bonuses to their workers to increase the profit of the company.

(3 x 3) (9)

15

TOTAL: 150

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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	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$ (See Note 1 below)	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$ (See Note 2 below)
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (See Note 3 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: 1. Trading stock at the end of a financial year may be used if required in a question. 2. Credit purchases may be used instead of cost of sales (figures will be the same if stock is constant). 3. 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.	

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