KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1

PREPARATORY EXAMINATION

SEPTEMBER 2022

MARKS: 150

TIME: 2 HOURS

This question paper consists of 10 pages, a formula sheet and a 10-page Answer Book.

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 workings in order to achieve 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 this formula sheet is NOT compulsory.
8. Write neatly and legibly.
9. Use the information and table below as a guide when answering the question. Try NOT to deviate from it.

QUESTION	TOPIC	MARKS	MINUTES
1	Tangible/ fixed asset note and Statement of Comprehensive Income	60	50
2	Notes to the Financial Statements, Cash Flow Statement and Financial Indicators	40	30
3	Interpretation of Financial Statements	35	30
4	Corporate Governance and Audit report	15	10
TOTAL		**150**	**120**

Copyright reserved

QUESTION 1: TANGIBLE ASSETS NOTE AND STATEMENT OF COMPREHENSIVE INCOME
(60 Marks; 50 Minutes)

1.1 CONCEPTS
Choose the correct term 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 1.1.3) in the ANSWER BOOK.

COLUMN A		COLUMN B	
1.1.1	Sets out the rights, duties and responsibilities of shareholders and directors.	A	Matching concept
1.1.2	The total number of shares that a company can issue.	B	International Financial Reporting Standards (IFRS)
1.1.3	Revenue generated during an accounting period should be in line with the expenses during the same period.	C	Memorandum of Incorporation (MOI)
		D	Authorised share capital

3 x 1 (3)

1.2 DUNDEE LTD

The information relates to the financial year ended 28 February 2022.

REQUIRED:

1.2.1 Refer to Information B (i)
Calculate the missing amounts denoted by (**a**) to (**d**) on the Fixed Asset Note. (19)

1.2.2 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2022.
Certain figures are provided in the ANSWER BOOK. (38)

Copyright reserved

INFORMATION:

A.

EXTRACT FROM THE PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2022	
Balance sheet accounts	
Loan: Triumph Bank	630 000
Fixed deposit: Wayde Bank	1 000 000
Debtors control	186 000
Trading stock	?
SARS (Income tax) (Dr)	500 000
Provision for bad debts (1 March 2021)	4 830
Consumables on hand (1 March 2021)	820
Nominal accounts	
Sales	7 816 150
Cost of sales	?
Service fee income	350 000
Directors fees	550 000
Audit fees	88 410
Salaries and wages	681 600
Rent income	87 465
Interest on fixed deposit	80 000
Insurance	44 700
Bad debts	6 730
Packing material	4 600
Sundry Expenses	?

B. Additional information and adjustments:

(i) FIXED/TANGIBLE ASSETS:

	Buildings	Vehicles	Equipment
Carrying value at beginning of year	1 516 400	330 000	61 100
Cost price	1 516 400	900 000	615 000
Accumulated depreciation	-	(570 000)	(553 900)
Movements			
Additions	**(a)**	411 000	**(d)**
Disposal	-	**(b)**	-
Depreciation	-	**(c)**	66 099
Carrying value at end of year	2 946 400		
Cost price			
Accumulated depreciation			

- A vehicle, cost R180 000, was sold on 31 December 2021 for R70 000 cash. Accumulated depreciation on the vehicle sold was R62 400 on 1 March 2021.
- The new vehicle was purchased on 31 December 2021.
- Vehicles are depreciated at 20% p.a. on diminishing balance.
- New equipment was bought on 1 January 2022.
- Equipment is depreciated at 10% p.a. on cost.

Copyright reserved

(ii) A credit note for R35 700 issued to a debtor for goods returned on 27 February 2022, was recorded as an invoice, in error.

(iii) The business prices its goods at a mark-up of 70% on cost. Note that trade discount totaling R360 000 was allowed on invoices to certain customers.

(iv) Packing Material on hand on 28 February 2022 amounted to R560. The consumable stores on hand on 1 March 2021 were not reversed.

(v) No entries were made for stock stolen at the beginning of January 2022. The insurance company deposited R32 000 into the business bank account in respect of the insurance claim. Dundee Ltd must bear the stock loss of 20%. This must still be recorded.

(vi) A debtor, B Zulu, with an outstanding balance of R2 000, has left the country. His account must be written off as irrecoverable.

(vii) The provision for bad debts must be adjusted to R3 630.

(viii) Rent income of R8 500 per month was decreased by R850 per month with effect from 1 June 2021, due to the poor condition of the premises. The premises were upgraded, and the rent was thereafter increased by 10% p.a. effective from 1 January 2022. The tenant has not paid the rent for February 2022

(ix) An employee, S Zwane, who commenced work on 1 February 2022, was omitted from the salaries journal. Details of his salary for February 2022 is as following:

Deductions	Net salary	Contributions
3 405	10 095	?

Note:

Business contribute 13% of the gross salary
All contributions are recorded as part of salaries and wages.

(x) An insurance premium of R27 000 for company vehicles was paid on 31 May 2021 for the period of 1 June 2021 to 31 May 2022.

(xii) The loan statement from Tholeni bank on 28 February 2022 reflected the following:

Balance at the Beginning of the financial year	R1 470 000
Repayments during the year	R840 000
Interest capitalized	?
Balance at the end of financial year	R750 000

(xiii) Income tax for the financial year was calculated as R540 000. This is 30% of the net profit before tax.

60

Copyright reserved

QUESTION 2: NOTES TO FINANCIAL STATEMENTS, CASH FLOW STATEMENT AND FINANCIAL INDICATORS (40 marks; 30 minutes)

You are provided with information relating to Ladysmith Limited, for the financial year ended 28 February 2022.

REQUIRED:

2.1 Prepare the following notes to the Financial Statements on 28 February 2022:

2.1.1 Ordinary share capital (5)

2.1.2 Retained income (9)

2.2 Complete the Cash Flow Statement for the year ended 28 February 2022. Certain figures are provided in the ANSWER BOOK. (18)

2.3 Calculate the following financial indicators for the year ended 28 February 2022:

2.3.1 % operating profit on sales (2)

2.3.2 Net asset value per share (NAV) (3)

2.3.3 Debt-equity ratio (3)

Copyright reserved

INFORMATION:

A Extract from the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2022:

Sales	R2 660 000
Cost of sales	R1 330 000
Depreciation	232 300
Interest expense	128 000
Operating profit	691 600
Net profit before tax	747 000
Income tax	224 100

B Extract from the Statement of Financial Position (Balance Sheet) on 28 February:

	2022	**2021**
Ordinary shareholders' equity	2 870 900	?
Ordinary share capital	2 710 000	1 770 000
Retained Income	190 900	?
Non-current liabilities (15% p.a.)	892 000	1 180 000
Investment in fixed deposit	?	330 000
Cash and cash equivalent	321 500	5 000
Bank overdraft	-	92 000
Fixed/Tangible assets carrying value	3 372 300	2 937 600
SARS (Income tax)	45 000 **Dr**	17 500 **Cr**
Shareholders for dividends	271 000	192 000

C Share capital

The business is registered with an authorised share capital of 800 000 ordinary shares.

1 March 2021	The issued share capital consisted of 480 000 ordinary shares.
1 March 2021	200 000 ordinary shares were issued.
1 January 2022	2 500 ordinary shares were repurchased from a retired shareholder at a total cost of R12 500. This transaction was recorded

D Dividends

The 2022 financial records reflected R348 500 paid for dividends.

E Fixed assets

- Part of the building was sold during the financial year, R583 000.
- Equipment was purchased during the financial year.

Copyright reserved

QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS (35 marks; 30 minutes)

KHOMBINDLELA LIMITED AND THANDUYISE LIMITED

You are provided with information relating to two companies which operate in the same industry. Njabulo Khumalo own shares in both companies.

NOTE: Where comments or explanations are required, quote financial indicators, figures and trends to support your answer.

REQUIRED:

3.1 Liquidity:

Identify the company that is managing its liquidity more efficiently. Quote THREE financial indicators, with figures, to support your choice. (6)

3.2 Returns, earnings and dividends:

- Explain whether the shareholders of Khombindlela Ltd should be satisfied with their returns on investment. Quote figures. (2)

The directors of Thanduyise Ltd changed their dividend pay-out policy.

- Explain this change. Quote figures. (3)
- Explain why you consider this change to be either a responsible or an irresponsible decision. Provide TWO point. (4)
- Njabulo feels that the dividends he received in Thanduyise Ltd is better than that of Khombindlela Ltd. Explain why you agree with him. Quote figures. (4)

3.3 Risk and gearing:

Compare the risk and gearing of each company and explain which company is managing debt more effectively. Quote TWO financial indicators, with figures. (6)

3.4 Shares and share holding:

3.4.1 Njabulo, the majority shareholder of Thanduyise Ltd, was not aware that directors issued additional shares during the financial year.
Explain why he wants to maintain his position as the majority shareholder. Provide ONE point. (2)

3.4.2 Calculate the number of shares that he must purchase to achieve this objective, and the amount he will require to purchase these shares. (4)

3.4.3 What advice would you offer Njabulo about his shares in Khombindlela Ltd? Provide TWO points. Quote figures. (4)

Copyright reserved

INFORMATION:

A. Financial indicators, interest rate and market price of shares:

	Khombindlela Ltd		Thanduyise Ltd	
	2022	2021	2022	2021
Debt / equity ratio	0,5 : 1	0,2 : 1	0,2 : 1	0,6 : 1
Current ratio	2,4 : 1	2,1 : 1	1,8 : 1	1,9 : 1
Acid-test ratio	0,7 : 1	0,8 : 1	1,1 : 1	0,9 : 1
Stock turnover rate	5,6 times	7,4 times	9,9 times	9,5 times
Debtors' average collection period	42 days	38 days	34 days	32 days
Earnings per share (cents)	99 cents	112 cents	83 cents	64 cents
Dividends per share (cents)	85 cents	95 cents	79 cents	33 cents
Dividend pay-out rate	86 %	85 %	95 %	51 %
% Return on average equity	8,3%	9,2%	9,4%	6,8%
% Return on average capital employed	11,9%	13,4%	13,4%	9,8%
Net asset value per share (cents)	1195 cents	1192 cents	932 cents	943 cents

B. Additional Information:

Market price on stock exchange	1177 cents	1186 cents	945 cents	940 cents
Interest rate on loans	12,5%	12,5%	12,5%	12,5%
Interest rate on fixed deposits	8,5%	8,5%	8,5%	8,5%

C. Shares and shareholding of Njabulo Khumalo:

	Khombindlela Ltd		Thanduyise Ltd	
	2022	2021	2022	2021
Total number of shares in issue in each company	900 000	900 000	1 040 000	850 000
Shares owned by Njabulo	225 000	225 000	460 000	460 000
% shareholding in each company	25%	25%	?	54,1%

Copyright reserved

QUESTION 4 CORPORATE GOVERNANCE AND AUDIT REPORT

(15 Marks; 10 Minutes)

4.1 CORPORATE GOVERNANCE

REQUIRED:

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

4.1.2 Provide ONE possible reason why Freedom Book says he will vote against the proposal by Mngoma Ltd. (2)

4.1.3 Provide TWO points of advice on how the other directors should handle this matter. (4)

INFORMATION

LUTHULI LIMITED:

This information relates to the financial year ended on 28 February 2022. Freedom Book is the CEO of the company, there are two other executive directors.

Mngoma Ltd, a respected company with a reputation for **good corporate governance,** has made an offer to purchase the remaining 2 550 000 of the 6 000 000 shares in Luthuli Limited at a price which is considerably more than the current market value. One company director has been suspected by media houses of irregular activities/ decisions in the past.

Whilst other directors feels that this is a very generous offer and are in favour of accepting it, Freedom indicated that as a majority shareholder, he would use his status to vote against this proposal and succeed.

4.2 AUDIT REPORT

REQUIRED:

4.2.1 Choose the correct word from those given in brackets. Give a reason.
Zululand Ltd received a /an (qualified/unqualified/disclaimer) audit report. (2)

4.2.2 Explain TWO consequences of this audit report for the company and/or the CEO. (4)

EXTRACT FROM REPORT OF THE INDEPENDENT AUDITORS

Basis for our opinion

The company's procurement policy states that purchases over R250 000 must be approved by the board of directors and supported by three quotations from independent suppliers.

During the year under review the company purchased two vehicles at a cost of R900 000. This was approved by the CEO without reference to the Board. Only one quotation was received.

Audit opinion

Because of the significance of this matter, we have not been able to obtain sufficient audit evidence to provide a basis for an opinion. Accordingly, we do not express an opinion on the financial statements of Zululand Ltd for the year ended 30 June 2022.

Zibani & Myeza Associates. CA (SA)

15

TOTAL MARKS: 150

Copyright reserved

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	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income after tax + Interest on loans}}{\text{Average Shareholders' equity + Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit – Variable costs per unit}}$	
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.	

Copyright reserved