KWAZULU-NATAL PROVINCE

EDUCATION
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1

PREPARATORY EXAMINATION

SEPTEMBER 2024

MARKS: 150

TIME: 2 HOURS

This question paper consists of 11 pages including a formula sheet and an Answer Book of 9 pages.

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 paper. Try NOT to deviate from it.

QUESTION	TOPIC	MARKS	MINUTES
1	Statement of Comprehensive Income and Equity and Liabilities section of Statement of Financial Position	65	50
2	Cash Flow Statement and Financial Indicators	40	30
3	Interpretation of Financial Statements	30	30
4	Corporate Governance and Audit Report	15	10
TOTAL		**150**	**120**

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QUESTION 1: COMPANY FINANCIAL STATEMENTS (65 Marks; 50 Minutes)

The information relates to Old Mill Ltd for the financial year ended 29 February 2024.

REQUIRED:

1.1 Refer to information B calculate the following:

1.1.1 The missing amounts denoted by (a) to (d) on the fixed asset note. (13)

1.1.2 Profit/loss on the sale of vehicle. (3)

1.2 Complete the following for the year ended 29 February 2024:

1.2.1 Statement of Comprehensive Income. (33)

1.2.2 Equity and Liabilities section of the Statement of Financial Position. (16)

Note: Some information and figures are provided in the ANSWER BOOK.

INFORMATION:

A.

EXTRACT FROM THE PRE-ADJUSTMENT TRIAL BALANCES ON:		
Balance sheet accounts	**29 FEB. 2024 R**	**28 FEB. 2023 R**
Ordinary share capital	?	1 021 000
Retained Income	785 000	555 000
Loan: Triumph Bank	2 356 000	2 821 000
Land and buildings at cost	1 900 000	1 100 000
Vehicles at cost	?	937 500
Equipment at cost	300 000	?
Accumulated depreciation on vehicles	?	537 500
Accumulated depreciation on equipment	?	81 000
Fixed deposit: Ekuvukeni Bank	160 000	100 000
Creditors control	70 000	
Debtors control	80 000	
Provision for bad debt	?	6 136
SARS: Income tax (provisional tax payments)	480 000	
Bank overdraft (missing figure)	?	
Nominal accounts		
Sales	?	
Cost of sales	6 000 000	
Rent income	116 000	
Bad debts	81 000	
Directors fees	950 000	
Audit fees	61 000	
Salaries and wages	1 120 000	
Insurance	29 000	
Stationery	35 000	
Sundry expenses (missing figure)	?	
Interest on loan	64 000	
Interest on fixed deposit	11 150	
Dividends (interim)	250 000	

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B. Fixed assets:

- **Extract from the fixed asset note:**

	Land and buildings	Vehicles	Equipment
Cost	1 100 000	937 500	**(d)**
Accumulated depreciation	-	(537 500)	81 000
Carrying value at the beginning	**1 100 000**		
Movements			
Additions	**(a)**	350 000	120 000
Disposal at carrying value		**(c)**	
Depreciation	-	**(b)**	(19 350)
Carrying value at the end	**1 900 000**		
Cost	1 900 000		300 000
Accumulated depreciation	-		

- Extensions to the buildings were done during the financial year.
- The following details appeared in the fixed asset register:

	Vehicle 1	Vehicle 2	Vehicle 3
Cost price	500 000	437 500	350 000
Accumulated depreciation on 28 February 2023	(450 000)	(87 500)	-
Date of purchase	1 Sept. 2018	1 March 2022	1 Dec. 2023

- Vehicle 2 was sold at R320 000 cash on 1 September 2023.
- Vehicles are depreciated at 20% p.a. on cost.
- Depreciation on equipment for the financial year was R19 350.

C.

- The company maintains a mark-up of 70% on cost at all times.
- A credit invoice for R36 720 (after deducting a 10% trade discount) issued on 29 February 2024 to L Nguni, our debtor, was not recorded.

D. Debtor P Shane was declared insolvent. His estate paid R2 000, which was 20% of his amount owed. This was received and recorded. The remaining amount must be written off.

E. The provision for bad debts must be adjusted by 5% of trade debtors.

F. Rent income for March and April 2024 has already been received. The monthly rent was increased by 10% on 1 December 2023.

G. Stationery to the value of R28 000 was used during the financial period.

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H. The fixed deposit at Ekuvukeni Bank was increased by R60 000 on 1 June 2023 at a new interest rate of 9% p.a. The interest on old fixed deposit was calculated at 8% p.a. Interest is not capitalised. Make provision for the outstanding interest on fixed deposit.

I. Loan: Triumph Bank

- All transactions with respect to the loan were correctly recorded.
- Interest of R64 000 on the loan is capitalised.
- A fixed monthly instalment (including interest) was paid in full.
- The capital portion of the repayment will decrease by 20% during the next financial year.

J. Dividends:

- Total dividends for the financial year (interim and final) amounted to R560 000.

K. After taking into account all adjustments the following were calculated:

- Additional of R60 000 is still owed to SARS in respect of income tax for the year.
- Current assets amounted to R1 890 000
- Total assets amounted to R 5 100 000
- Current ratio was 2.1 : 1

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QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS

(40 marks; 30 minutes)

You are provided with information related to Doonside Ltd, a public company, for the financial year ended 29 February 2024.

REQUIRED:

2.1 Prepare the Retained Income note on 29 February 2024. (9)

2.2 Calculate the following as it would appear in the Cash Flow Statement:

2.2.1 Dividends paid (3)

2.2.2 Taxation paid (4)

2.3 Complete the following sections of the Cash Flow Statement:

2.3.1 Cash flow from investing activities (7)

2.3.2 Net change in cash and cash equivalent (4)

2.4 Calculate the following financial indicators for the year ended 29 February 2024:

2.4.1 Dividend per share (3)

2.4.2 Debt/equity ratio (3)

2.4.3 % return on average capital employed (ROTCE) (7)

INFORMATION:

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

Depreciation	33 500
Interest on loan	164 450
Net profit before tax	846 540
Income tax	253 290

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B. Extract from the Statement of Financial Position on:

	29 FEB. 2024 R	28 FEB. 2023 R
Ordinary shareholders' equity	?	1 443 000
Ordinary share capital	2 354 355	1 056 960
Retained Income	?	386 040
Non-current liabilities	300 000	1 525 000
Investment in fixed deposit	30 000	50 000
Cash and cash equivalent	1 250	45 000
Bank overdraft	47 500	-
Fixed/Tangible assets at carrying value	3 440 885	2 967 500
SARS (Income tax)	**Dr** 7 500	**Cr** 7 750
Shareholders for dividends	133 344	52 525

C. Share capital

?	Shares in issue on 1 March 2023
200 000	Additional shares were issued on1 April 2023
3 500	Shares were repurchased on 1 December 2023. EFT payments, R22 400, were processed in favour of the relevant shareholders.
416 700	Shares were in issue on 29 February 2024

D. Fixed assets:

- Fixed assets were sold for R100 000 cash at carrying value.
- Land and buildings were purchased during the financial year.

E. Dividends:

- Interim dividend of 40 cents per share was declared and paid on all shares in issue on 1 September 2023.

- Final dividends was declared on all shares in issue on 29 February 2024.

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QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS

(30 marks; 25 minutes)

You are presented with financial information of TWO companies (**Umzinyathi LTD** & **Ilembe LTD)** operating in the same industry and of similar size, for the year ended 29 February 2024.

REQUIRED:

NOTE: Provide figures, trends, financial indicators or calculations in EACH case to support your comments and explanations.

3.1 **Profitability:**

Quote and explain TWO financial indicators to show which company is managing its expenses more efficiently and is thereby more profitable. (4)

3.2 **Earnings and returns:**

3.2.1 Comment on the % return on shareholders' equity of each company (4)

3.2.2 A shareholder feels that earnings per share (EPS) in Umzinyathi Ltd are better than that in Ilembe Ltd. Explain by quoting one financial indicator or calculation why you agree with him. (2)

3.3 **Risk and gearing:**

Comment on the degree of risk and gearing of both companies. (8)

3.4 **Share capital and % shareholding:**

Refer to information C.

3.4.1 Comment on the price paid for the shares repurchased by Umzinyathi Ltd. Provide TWO points. (4)

3.4.2 Calculate the number of shares that Happiness purchased in Ilembe Ltd with the money he received from Umzinyathi Ltd.
NOTE: She used R51 800 to pay for her son's school fees. (4)

3.4.3 Explain the effect of the shares repurchased and the new shares purchased on the % shareholding of Happiness in each company. Provide relevant calculations to substantiate. (4)

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INFORMATION:

A Financial Indicators calculated on 28 February:

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	Umzinyathi LTD		Ilembe LTD	
	29 FEB. 2024	**28 FEB. 2023**	**29 FEB. 2024**	**28 FEB. 2023**
% operating expenses on sales	15.6%	13.4%	14.9%	18.2%
% Operating profit on sales	17.8%	19.8	24%	22%
% Net profit on sales	12.1%	18.5%	21%	19.6%
Debt-equity ratio	1.2 : 1	0.3 : 1	0.4 : 1	0.2 : 1
% return on average capital employed	11.1%	15%	22%	17.8%
Return on average shareholders' equity	9.4%	13.4%	15%	13%
Current ratio	2.4 : 1	1.9 : 1	1.4 : 1	2.1 :1
Earnings per share	138 cents	80 cents	72 cents	65 cents
Net asset value per share	1081 cents	1128 cents	632 cents	609 cents

B. Additional information on February:

	Umzinyathi LTD		Ilembe LTD	
	29 FEB. 2024	**28 FEB. 2023**	**29 FEB. 2024**	**28 FEB. 2023**
Market price of shares on stock exchange	1200 cents	1500 cents	1400 cents	1200 cents
Interest on loan	15%	14.5%	15%	14.5%
Interest on alternative investment	10%	9.9%	10%	9.9%

C. Issued shares, repurchases of shares and shareholding of Happiness in both companies:

	Umzinyathi LTD		Ilembe LTD	
	29 FEB. 2024	**28 FEB. 2023**	**29 FEB. 2024**	**28 FEB. 2023**
Total number of shares in issue	750 000	900 000	1 040 000	850 000
Shareholding of Happiness:				
Shares owned by Happiness	309 000	459 000	?	357 000
Additional shares bought by Happiness during the financial year			?	
Additional shares issue price per share			R14.00	
Funds used to repurchase shares of Happiness.	R2 625 000			
Repurchase price per share	R17.50			
% shareholding of Happiness	?	51%	?	42%

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QUESTION 4 CORPORATE GOVERNANCE (15 Marks; 10 Minutes)

4.1 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 (4.1.1 to 4.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
4.1.1	Guidelines for the preparation of financial statements to ensure consistency.	A	Memorandum of Incorporation
4.1.2	Sets out the rights, duties and responsibilities of shareholders and directors.	B	International Financing Reporting Standards (IFRS)
4.1.3	The total number of shares that a company can issue.	C	Prudence concept
4.1.4	Financial matters must be reported conservatively	D	Authorised share capital
		E	Going concern concept

4 x 1 (4)

4.2 **LUTHULI LIMITED**

The information relates to the financial year ended on 29 February 2024. Msizi Khumalo is the CEO and the director of the company, and is the majority shareholder. There are two other directors.

REQUIRED:

4.2.1 Refer to information B.

- What is meant by *good corporate governance.* (3)
- Why it is important to the shareholders. Provide ONE point. (2)

4.2.2 Explain a possible reason why Msizi Khumalo says he will vote against the proposal by White Ltd. (2)

4.2.3 The other directors feel that Msizi Khumalo is abusing his position as CEO and majority shareholder.

- Explain why you agree with them. Provide ONE point. (2)
- Give the directors advice on how they should handle this. Provide ONE point. (2)

INFORMATION:

A.. Luthuli Limited has recorded declining profits in the past few years. The cash flow has deteriorated and the company has relied heavily on securing loans at very high interest rates to manage its daily operations.

B. White Limited is a respected company with a reputation for **good corporate governance**. They have made an offer to purchase the remaining 2 550 000 shares in Luthuli Limited at a price which is considerably more than the current market value.

C. Msizi Khumalo says that he will **vote against this proposal**. The other directors feel strongly that this offer is very generous. They are in favour of accepting the offer.

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TOTAL MARKS: 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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