



Province of the
EASTERN CAPE
EDUCATION



NATIONAL SENIOR CERTIFICATE

GRADE 12

JUNE 2023

ACCOUNTING P1

MARKS: 150

TIME: 2 hours

This question paper consists of 11 pages, a formula sheet and
a 12-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 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 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 the 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	TIME (minutes)
1	Statement of Comprehensive Income and Statement of Financial Position	60	45
2	Notes to Financial Statements, Cash flow Statement and Financial Indicators	40	30
3	Interpretation of Financial Statements	35	30
4	Corporate Governance	15	15
TOTAL		150	120

QUESTION 1: STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF FINANCIAL POSITION**(60 marks; 45 minutes)**

The information relates to Midros Ltd for the financial year ended on 28 February 2023.

REQUIRED:**1.1 Refer to Information B (i) and (ii).**

Calculate:

1.1.1 The profit/loss on the trade-in of the old vehicle (4)

1.1.2 The total depreciation for the year (4)

1.2 Complete the following for the year ended 28 February 2023:

1.2.1 Statement of Comprehensive Income (Income statement) (36)

1.2.2 Equity and Liabilities section of the Statement of Financial Position
(Balance sheet) (16)**NOTE:** Some amounts are provided in the ANSWER BOOK.

INFORMATION:**A. Extract: Balances and totals from the records on 28 February:**

	2023 (R)	2022 (R)
Vehicles	?	1 350 000
Accumulated depreciation on vehicles	?	855 000
Equipment	1 022 500	1 022 500
Accumulated depreciation on equipment	923 260	800 900
Fixed deposit: River Bank	1 500 000	
Provision for bad debts	?	15 950
SARS: Income tax (provisional tax payments)	196 040	
Mortgage loan: Somerville Bank	?	2 205 500
Ordinary share capital	?	
Retained income	970 750	
Creditors control	448 725	
Net sales	11 724 000	
Cost of sales	7 363 500	
Salaries and wages	982 290	
Employer's contributions	63 620	
Directors' fees	1 925 000	
Rent income	174 675	
Bad debts	15 090	
Sundry expenses (balancing figure)	?	

B. Adjustments and additional information:

- (i) The following transaction was not recorded:

An old vehicle, cost price R270 000, was traded-in on 28 February 2023 for a newer model which cost R616 500. The accumulated depreciation on the trade-in date was R111 240. The trade-in value for the old vehicle was R105 000.

Depreciation on vehicles is calculated at 20% p.a. on the diminishing balance.

- (ii) Depreciation for the year:
- Depreciation on equipment was brought into account.
 - Make provision for depreciation on vehicles.
- (iii) An invoice for R28 800 issued to a debtor for goods purchased on 26 February 2023 was incorrectly recorded as a credit note. The mark-up on these goods were 60%.
- (iv) An amount of R3 230 which was not received from the insolvent estate of a debtor, must be written-off as irrecoverable.
- (v) The provision for bad debts must be decreased by R2 000.

- (vi) Rent increased by 10% per month with effect from 1 September 2022, as per the lease agreement. Rent is received until March 2023.
- (vii) Extract from the salaries journal for February 2023:

Deductions	Net salary	Contributions
R15 600	R47 330	R7 550

The total for gross salaries was not posted to the general ledger. All the relevant payments for salaries were made.

- (viii) The company had five directors until one resigned on 30 June 2022. The one who resigned was only replaced on 1 October 2022. All directors are on the same fee structure. The fees for two directors for February 2023 are still outstanding.
- (ix) Income tax for the financial year was calculated as R242 040. This is 30% of the net profit before tax.
- (x) The Loan statement received from Somerville Bank reflects the following:

Balance at the beginning of the financial year	R2 205 500
Interest capitalised	?
Repayments including interest	1 260 000
Balance at the end of the financial year	1 125 000

The loan balance will be reduced by R625 000 in the next financial year.

- (xi) **Dividends:**
- Total dividends for the year amounted to R410 000, which includes an interim dividend of R160 000 paid on 31 August 2022.

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

2.1 Choose the correct word from those given in brackets. Write only the word next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.

2.1.1 An increase in inventory represents an (inflow/outflow) of cash.

2.1.2 A decrease in accounts payable represent an (inflow/outflow) of cash.

2.1.3 An adjustment for (depreciation / income tax) should be made when calculating the cash effects of operating activities.

(3 x 1) (3)

2.2 EAGLES LTD

The information relates to the financial year ended 28 February 2023.

REQUIRED:

2.2.1 Prepare the Retained Income note on 28 February 2023. (8)

2.2.2 Complete the Cash Flow Statement on 28 February 2023. (18)

NOTE: Some amounts are provided in the ANSWER BOOK.

2.2.3 Calculate the following financial indicators on 28 February 2023.

- Acid-test ratio (3)
- % Return on average shareholders' equity (ROSHE) (4)
- Dividends per share (4)

INFORMATION:

- A. **Extract: Statement of Comprehensive Income for the year ended 28 February 2022:**

Sales	R 2 450 000
Depreciation	567 490
Profit before interest expense	1 208 200
Net profit before tax	1 120 000
Net profit after tax	784 000

- B. **Income tax** was calculated at 30% for the current financial year.
- C. **Items extracted from Statement of Financial Position on 28 February:**

	2023	2022
Fixed deposit	144 450	277 550
Current assets	2 175 600	2 003 790
Current liabilities	753 065	719 800
Inventories	1 469 700	1 431 000
Trade debtors	603 400	557 340
Cash and cash equivalents	92 840	15 450
SARS: Income tax	9 660 Dr	20 020 Cr
Shareholders for dividends	207 070	150 000
Bank overdraft	0	28 480
Non-current liabilities	735 000	980 000
Ordinary share capital	?	9 520 000
Ordinary shareholders equity	11 887 820	9 814 000

- D. **Share capital and dividends:**

1 March 2022	1 190 000 shares were in issue.
30 June 2022	85 000 shares repurchased at R2 above the average share price. These shares do not qualify for dividends.
30 August 2022	Interim dividends of 12 cents per share paid.
1 November 2022	R2 479 500 received for additional shares issued.
28 February 2023	1 380 500 shares were in issue.
28 February 2023	A final dividend was declared.

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

- 3.1 Choose an explanation in COLUMN B that matches a term in COLUMN A. Write only the letters (A–D) next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK.

COLUMN A	COLUMN B
3.1.1 Return	A Total liabilities exceeding total assets
3.1.2 Current asset	B Vehicle used in operating the business
3.1.3 Insolvent	C The percentage net income on equity
	D Fixed deposit matures in the next financial year

(3 x 1) (3)

3.2 ROCK LTD and WILLS LTD.

The information relates to two companies which operate in the same industry. The financial year ends on 28 February each year.

REQUIRED:

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

- 3.2.1 Identify the company with the better profitability financial indicators. Quote TWO financial indicators. (3)
- 3.2.2 Identify and explain which company is managing its liquidity more efficiently. Quote TWO financial indicators. (6)
- 3.2.3 Comment on the dividend pay-out policy of each company. Provide a possible reason why each company decided on the policy adopted. Quote figures. (6)
- 3.2.4 The directors of Wills Ltd decided to increase the loan during the current financial year. Explain whether this was a good decision or not. Quote TWO financial indicators. (6)
- 3.2.5 The shareholders of Rock Ltd are satisfied with the market price of their shares, whereas the shareholders of Wills Ltd are not satisfied. Explain by quoting a financial indicator for EACH company. (6)
- 3.2.6 **Refer to Information C.**

Wills Ltd will issue a further 300 000 shares during the new financial year. The Mentoor family is interested to buy 180 000 of these shares.

- Calculate the % percentage shareholding of the Mentoor family if they buy these shares. (2)
- As a shareholder, why would you be concerned about the interest shown by the Mentoor family? Provide THREE points. (3)

INFORMATION:**A. Financial indicators calculated on 28 February 2023:**

	ROCK LTD	WILLS LTD
Mark-up % achieved	45%	52%
% Operating expenses on sales	25,5%	18,3%
% Operating profit on sales	7,4%	10,3%
Current ratio	1,5 : 1	4,2 : 1
Acid-test ratio	0,7 : 1	1,2 : 1
Average debtors' collection period	28 days	45 days
Debt/equity ratio	0,3 : 1	0,6 : 1
% return on average shareholders' equity	22,3%	14,2%
% return on average capital employed	15,9%	9,5%
Dividends per share	117 cents	190 cents
Earnings per share	390 cents	250 cents
Dividend pay-out rate	30%	76%
Net asset value per share	784 cents	652 cents

B. Additional information on 28 February 2023:

	ROCK LTD	WILLS LTD
Market price per share on stock exchange	838 cents	515 cents
Interest on fixed deposits	6%	6%
Interest on loans	11%	11%

C. Extracts from the accounting records on 28 February 2023:

	ROCK LTD	WILLS LTD
Number of shares in issue	2 000 000	1 600 000
% shareholding of the Mentoor family	23,9%	50,5%

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

4.1 The following extract represent a certain type of audit report.

In our opinion the financial statements present fairly, in all material respects, the financial position of the company as at 28 February 2023.

REQUIRED:

4.1.1 Identify the type of audit report in the extract above and give a reason for your answer. (2)

4.1.2 Explain the effect of this type of report for the image of the company. Provide ONE point. (2)

4.2 The following information was extracted from a local publication. It relates to a company listed on the JSE.

The JSE has imposed the maximum fine on former CEO (Chief Executive Officer) of Millo Ltd, as well as barring her from serving as a director on the board of any JSE listed company, for ten years. The JSE stated that it had imposed the above penalty for the following reasons:

- The release of financial statements that did not comply with listing requirements.
- The financial statements contained incorrect, false and misleading information.
- Fictitious source documents that falsely inflated income by millions of rands, were also discovered.

REQUIRED:

4.2.1 Provide TWO possible reasons why the CEO was fined, and not the company. (4)

4.2.2 Provide TWO points why the JSE took this action. (4)

4.2.3 Identify ONE other party (stakeholder) that could also be accountable for allowing this situation. Provide a reason. (3)

15**TOTAL: 150**

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