education

Department:
Education
North West Provincial Government
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING P1

SEPTEMBER 2024

MARKS: 150

TIME: 2 hours

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

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. A Financial Indicator Formula Sheet is attached at the end of this question paper.
4. Show ALL workings to earn part-marks.
5. You may use a non-programmable calculator.
6. You may use a dark pencil or black/blue ink to answer the questions.
7. Where applicable, show ALL calculations to ONE decimal point.
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	GAAP and Statement of Comprehensive Income	55	45
2	Cash Flow Statement and Financial Indicators	35	30
3	Interpretation of Financial Statements	45	35
4	Corporate Governance	15	10
TOTAL		**150**	**120**

QUESTION 1: GAAP AND STATEMENT OF COMPREHENSIVE INCOME

(55 marks; 45 minutes)

1.1 GAAP CONCEPTS

Choose the concept from the list below that matches each of the following statements. Write only the concept next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

matching; historical cost; going concern; prudence

1.1.1 When making decisions on how to value assets in the Statement of Financial Position, it is assumed that the business will continue operating in the future.

1.1.2 The accountant must ensure that assets are not overstated and liabilities are not understated.

1.1.3 Income and expenses are recorded when they take place and not when they are paid for. (3 x 1) (3)

1.2 IVORY COSMETICS LTD

The information relates to Ivory Cosmetics Ltd for the financial year ended on 29 February 2024. The business sells cosmetics and provides treatments for their customers for which they charge fees.

REQUIRED:

1.2.1 **Refer to adjustment (vii).**

Calculate the profit/loss on disposal of fixed asset. (5)

1.2.2 Prepare the Statement of Comprehensive Income for the year ended 29 February 2024. (47)

NOTE: Some figures have been entered in the answer book for you.

INFORMATION:

A. Extract: Figures from the Trial Balance on 29 February 2024

	R
Fixed deposit: SOS Bank (8% p.a.)	450 000
Shares in Manzi Ltd (R10 each)	600 000
Vehicles	740 000
Accumulated depreciation on vehicles	268 000
Equipment	560 000
Accumulated depreciation on equipment	310 000
Trading stock (1 March 2023: R450 000)	550 000
Consumable stores on hand on 1 March 2023 (Packing material)	15 000
Mortgage Loan: SOS Bank (12% p.a.)	740 000
SARS (Income tax) **Dr**	238 000
Provision for bad debts	12 000
Sales	**?**
Cost of sales	**?**
Fee income: Treatments	1 620 000
Treatment expenses	330 000
Salaries and wages	1 030 000
Directors' fees	1 100 000
Audit fees	120 000
Bank charges	35 000
Telephone and electricity	48 000
Rent income	132 000
Interest on fixed deposit	36 000
Interest on mortgage loan	84 000
Repairs and maintenance	110 000
Packing material	20 000
Sundry expenses	[redacted]
Dividend from Manzi Ltd **Cr**	150 000
Dividends on ordinary shares	368 000

B. Financial indicator

- Stock turnover rate 3,17 times
- The mark-up on the goods was 60% on cost

C. The following adjustments were not taken into account by the bookkeeper:

(i) The auditors are owed a further ⅓ in respect of their fees.

(ii) The following entries appeared on the February Bank Statement, but have not yet been processed in the books of the company:

- Bank charges for February 2024, R1 500
- Direct deposit by a client for treatments, R18 000 (half of these treatments will be done in March)

(iii) The rent income was increased by 5% on 1 November 2023. The tenant has not yet increased his debit order as off 1 November to accommodate the increase of 5%. He has not paid his rent for February 2024. He agreed to pay the full outstanding amount on 1 March 2024.

(vi) No entry was made for certain cosmetics taken from stock for use in providing treatments to customers. The marked selling price was R12 000.

(v) Consumable stores on hand comprise packing materials. The bookkeeper neglected to process the reversal at the beginning of the financial year. Packing materials on hand as per a physical count at the end of the current year were valued at R10 000.

(vi) An amount of R90 000 was paid to Rio Builders during the year. This was for construction of a storeroom and repairs to the paving (R10 000). The entire amount has been debited to the Repairs and maintenance account in error.

(vii) A vehicle was sold on credit for R72 000 on 31 December 2023. The debtor will pay in March 2024. No entries have been made as yet to record the disposal of this vehicle.
The details from the Fixed Assets Register were:
- Cost price R150 000
- Accumulated depreciation at beginning of year R60 000
- Depreciation rate: 20% p.a. on cost

(viii) Provide for depreciation at the following rates:
- Vehicles at 20% p.a. on cost
- Equipment at 10% p.a. on the diminishing balance method

NOTE: New equipment was bought for R50 000 half-way through the year. This purchase has been correctly recorded.

(ix) Certain cosmetics is no longer in demand by customers. An agreement was made with a flea market operator to sell these to him at below cost next month.
The relevant details from the stock sheets are:
- Number of items: 800 tubes of face cream
- Selling price: R120 per tube
- Cost price: R70 per tube
- Price offer to flea market operator: R40 per tube

D. Interest and Tax

- Dividends are received from Manzi Ltd on the shares which Ivory Cosmetics Ltd owns in that company. These dividends are treated as interest income in the financial statements. A further dividend pay-out of R75 000 has been made on 29 February 2023.
- Interest on the mortgage loan is capitalised. The interest for February 2024 has not yet been entered.
- Provide for Income tax at 28% of net income.

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

WILLOW LTD

The information relates to Willow Ltd for the financial year ended 30 June 2024. The company is listed on the JSE with an authorised share capital of 5 000 000 shares.

REQUIRED:

2.1 **Refer to Information F**.

Calculate the average share price at the time of the repurchase of the shares. (5)

2.2 Prepare the Retained Income note to the Statement of Financial Position on 30 June 2024. (5)

2.3 Calculate the following amounts for the 2024 Cash Flow Statement:

2.3.1 Income tax paid (5)

2.3.2 Changes in working capital (6)

2.4 Prepare the Cash flow from investing activities. (7)

2.5 Calculate the following financial indicators on 30 June 2024:

2.5.1 Dividend pay-out rate (3)

2.5.2 % Return on total capital employed (ROTCE)

NOTE: The average capital employed is R47 562 500 (4)

INFORMATION:

A. Extracts from the Statement of Financial Position as at 30 June:

	2024 (R)	**2023 (R)**
Ordinary share capital	**?** (4 650 000 shares)	30 000 000 (4 000 000 shares)
Retained income	3 402 500	1 650 000
Fixed assets (at carrying value)	1 467 500	1 550 000
Loan: Bali Bank (9% p.a.)	12 500 000	12 000 000
Debtors control	8 520 000	7 320 000
Creditors control	12 900 000	14 600 000
SARS (Income tax)	290 000 **(Cr)**	350 000 **(Cr)**
SARS (PAYE)	90 000	70 000
Income received in advance	450 000	300 000
Shareholders for dividends	2 325 000 (50c per share)	1 800 000 (45c per share)

B. Profit
- The Statement of Comprehensive Income for the year ended 30 Junie 2024 revealed that the net profit after taxation was R5 915 000.
- The company tax rate is 30%.

C. Fixed Assets
- Depreciation on assets for the year is R232 500.
- During the year the company sold old equipment at its book value of R150 000.

D. Loans and Interest
- Interest on the loan is capitalised.
- An additional loan of R2 000 000 was taken out in the second half of the year.
- The total repayments for the loan as well as the interest amounted to R2 625 000 for the year.

E. Stock
- The movement of stock resulted in a generation of cash of R8 000 000.

F. Shares
- In January 2024 the company sold another 800 000 shares for a total of R6 720 000.
- In May 2024 the company bought back 150 000 shares at R8,70 each from the estate of a deceased shareholder.

G. Dividends
- All outstanding dividends from the previous year were paid before the interim dividend was declared and paid during the year.

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

3.1 CONCEPTS

Complete the following sentences by choosing a word in COLUMN B that matches the sentence in COLUMN A. Write only the letters (A–E) next to the question numbers (3.1.1 to 3.1.5) in the ANSWER BOOK.

COLUMN A		COLUMN B	
3.1.1	The percentage net income on equity indicates the … earned by shareholders	A	solvent
3.1.2	A company that is able to settle its immediate debts is …	B	return
3.1.3	A company with total assets exceeding total liabilities is …	C	risk
3.1.4	A company that controls its income and expenses properly will be ...	D	profitable
3.1.5	A company that relies heavily on loans will have high ...	E	liquid

(5 x 1) (5)

3.2 PERFECT SOLAR LTD

Xavier Stratton bought shares in a solar inverter company, Perfect Solar Ltd, a few years ago and he has just received their financial results for the past year. He is not happy with some of the decisions taken by the board of directors and asked you for your financial opinion and advise on some of the aspects of the company.

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

REQUIRED:

3.2.1 **Liquidity:**

Xavier Stratton is of opinion that the company has shown a positive improvement in their liquidity situation because the current ratio has increased significantly to 5 **:** 1. Explain whether he is correct or not by quoting THREE other financial indicators, with figures and trends, to support your answer. (9)

3.2.2 **Returns, earnings and market price on the JSE:**

- Xavier Stratton is concerned about the return on his investment, earnings and dividends. Explain why you do not agree with him, quote THREE financial indicators. (8)

- Xavier is questioning the difference in the dividend pay-out rate. Explain this decision by the directors. (3)

- Xavier Stratton is satisfied with the current market price of his shares. Explain by quoting financial indicators with figures and identify a factor that would have affected the market price of the shares. (4)

3.2.3 **Risk and gearing:**

Explain to Xavier Stratton whether the business is making good use of this loan or not or whether they should pay it back. Quote TWO financial indicators with figures to support your opinion. (8)

3.2.4 **Decision in purchasing shares:**

Xavier Stratton inherited R800 000. He had the opportunity to buy an extra 40 000 shares at R20 per share in Perfect Solar Ltd when the company issued new shares on 1 December 2023. However, he decided to spend the money on all sorts of things (not investments).

- Explain why Xavier Stratton made the wrong decision. Comment on his % shareholding and provide THREE other points, with figures or calculations. (8)

INFORMATION:

A. Financial indicators and other information:

Financial indicators:	**2024**	**2023**
% return on average shareholders' equity	25,3%	15,2%
% return on total capital employed	37,6%	8,6%
Acid-test ratio	3,1 : 1	0,8 : 1
Average debtors' collection period	60 days	24 days
Current ratio	5 : 1	1,8 : 1
Debt-equity ratio	0,2 : 1	1,5 : 1
Dividends per share	275c	190c
Earnings per share	510c	200c
Net asset value per share	1 800c	1 500c
Dividend pay-out rate	53,9%	95%
Stock holding period	180 days	39 days
Other information:		
% interest rate on loans	12%	12%
% interest rate on fixed deposits	8,9%	8,9%
Market price per share on JSE at current year-end	2 400c	2 000c
Number of shares issued by Perfect Solar Ltd	450 000	400 000
Total number of shares owned by Xavier Stratton	192 000	192 000

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

You are a shareholder of Mountain Ltd. You were not able to be at the AGM but you noticed an article in the newspaper that is presented on the next page.

REQUIRED:

4.1 **Refer to paragraph 1.**

Why would the shareholders of any company be concerned about the sustainability of the company? Explain by providing ONE reason. (2)

4.2 **Refer to paragraph 2.**

- Explain the serious nature of a 'qualified audit report' (2)
- What are the consequences for the company? (2)

4.3 **Refer to paragraph 3**

How does the sale of the 30% of the property affect the company's sustainability? (2)

4.4 **Refer to paragraph 4.**

You remembered that you read something in the newspaper last year that there was a court case in which the company was fined R2 000 000 for disposal of effluent in the nearby Molopo River. Do you agree with the Directors Report on this matter? Is it an essential or a non-essential expenditure? Give ONE reason why, you feel this way. (4)

4.5 You are unhappy with the way in which the directors have managed the company. Give a reason why the shareholders are to be blamed? Provide a suggestion for the future. (3)

INFORMATION:

SHAREHOLDERS OF MOUNTAIN LTD UNHAPPY WITH DIRECTORS	
Paragraph 1	Shareholders of Mountain Ltd held their directors accountable for unwise decisions that had threatened the sustainability of the company. This emerged at the AGM of the company in Mafikeng yesterday. The meeting was attended by 48 of the company's 3 000 shareholders.
Paragraph 2	To add to the company's woes, the company received a qualified audit report stating that the Statement of Financial Position included out-dated trading stock and that they could not verify commission of R500 000 that was reflected under receivables.
Paragraph 3	Shareholders accused the CEO of authorising the sale of 30% of the company's land and buildings. "Although these premises were sold at a considerable profit, the deal has severely affected the sustainability of the company," said angry shareholders. There were allegations that the CEO had authorised the deal in order to turn an operating loss of R2 000 000 into a bottom-line net profit after tax of R1 000 000.
Paragraph 4	The Directors report reflects that profits of the company could have been even higher had it not been for R1 500 000 expenditure in repairing its waste disposal units. In this report, the board noted that this "was the right thing to do and the company should be applauded for doing so."

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

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.