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Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ACCOUNTING P1

2021

MARKS: 150

TIME: 2 hours

**This question paper consists of 13 pages,
a formula sheet and a 9-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 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 this 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 | MINUTES |
|--------------|---|------------|------------|
| 1 | Transaction Analysis and Audit Report | 20 | 15 |
| 2 | Statement of Comprehensive Income and Retained Income Note | 50 | 40 |
| 3 | Financial Indicators and Cash Flow Statement | 35 | 30 |
| 4 | Interpretation of Financial Statements and Corporate Governance | 45 | 35 |
| TOTAL | | 150 | 120 |

QUESTION 1: TRANSACTION ANALYSIS AND AUDIT REPORT**(20 marks; 15 minutes)**

1.1 Choose the correct word from those given in brackets. Write only the word next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

1.1.1 The concept of (limited/unlimited) liability ensures that shareholders are not responsible for the debts of the business in the event of bankruptcy. (1)

1.1.2 When preparing financial statements, creditors will be reflected as trade and other (receivables/payables/equity). (1)

1.1.3 The separate disclosing of significant items, such as interest expenses, is an application of the (prudence/materiality) GAAP principle. (1)

1.2 **ROCK-STONE LTD**

REQUIRED:

Analyse the transactions below according to the headings on the table provided in the ANSWER BOOK.

- Indicate *account debited* and *account credited* in the General Ledger and the effect on the accounting equation. Indicate an increase as +, a decrease as – and no effect as 0. Refer to the example provided.
- Assume a favourable bank balance at all times.

Example: Bought stationery on credit, R3 200.

| NO. | ACCOUNT DEBITED | ACCOUNT CREDITED | AMOUNT | A | O | L |
|------|-----------------|--------------------|--------|---|---|---|
| e.g. | Stationery | Creditors' Control | 3 200 | 0 | – | + |

TRANSACTIONS:

1.2.1 Electronic funds transfers (EFT) totalling R136 000 were made to shareholders, being the amount owing to them at the end of the previous financial year.

1.2.2 The company received R450 000 for the issue of new shares.

1.2.3 The income tax assessment for the year was received. The income tax amount, R338 200, exceeded the provisional tax payments made. (9)

1.3 Independent audit report:

You are provided with an extract of the audit report for Rock-Stone Ltd for the financial year ended 28 February 2021.

REQUIRED:

- 1.3.1 Identify the type of audit report that the company received. Give a reason for your answer. (2)
- 1.3.2 Explain why the auditor referred to: (2)
- Pages 8 to 23 (2)
 - International Financial Reporting Standards and the Companies Act of South Africa (2)
- 1.3.3 Name any TWO items of audit evidence that the auditors may have used. (2)

INFORMATION:

Extract of the audit report:

To Shareholders**Basis of Opinion**

We conducted our audit in accordance with international standards on auditing.

We are independent of the company, as applicable to performing audits, and with other ethical requirements as per the professional code of conduct. The audit evidence we obtained was sufficient and appropriate.

Opinion

We have audited the financial statements, as set out on pages 8 to 23. These comprise the Statement of Comprehensive Income, Statement of Financial Position and the Cash Flow Statement for the year ended 28 February 2021.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the business as at the year then ended, its financial performance and cash flows, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Perun and Balan
Registered Auditors

30 May 2021

**QUESTION 2: STATEMENT OF COMPREHENSIVE INCOME AND RETAINED
INCOME NOTE (50 marks; 40 minutes)**

PEYPER LIMITED

You are provided with information for the financial year ended 28 February 2021.

REQUIRED:

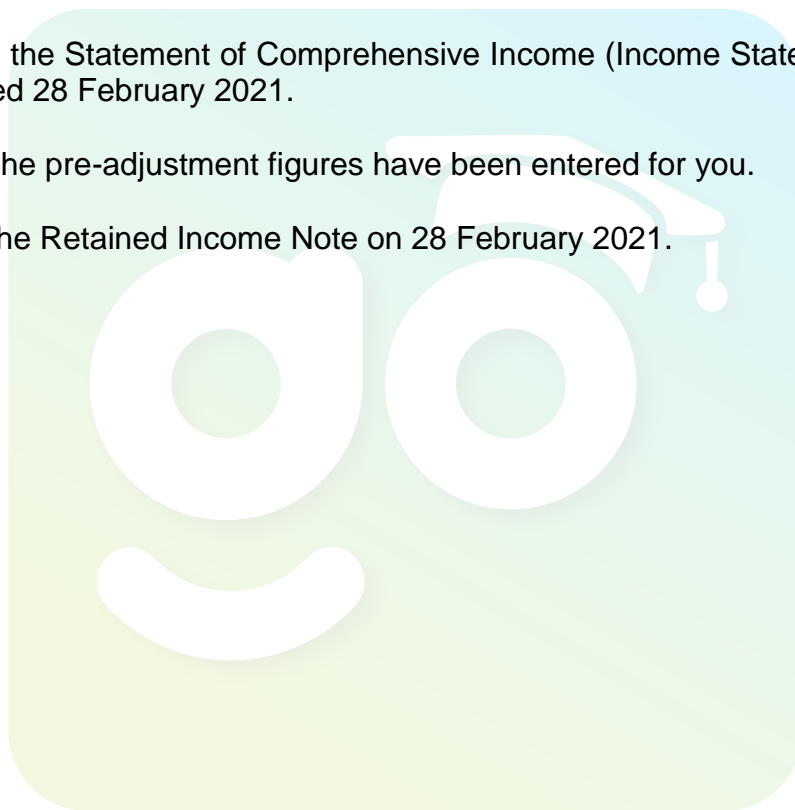
2.1 Refer to Additional Information B(f).

Calculate the value of the closing stock on 28 February 2021 using the weighted-average method. (5)

2.2 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2021.

Some of the pre-adjustment figures have been entered for you. (37)

2.3 Prepare the Retained Income Note on 28 February 2021. (8)



INFORMATION:

A. Extract from the Pre-adjustment Trial Balance on:

| Balance Sheet accounts section | 28 Feb. 2021 R | 29 Feb. 2020 R |
|---------------------------------------|-------------------|-------------------|
| Ordinary share capital | 13 650 000 | 14 650 000 |
| Retained income | ? | 2 978 000 |
| Loan: Wonder Bank | 1 439 600 | 2 150 000 |
| Vehicles | ? | 1 546 000 |
| Equipment | ? | 722 000 |
| Accumulated depreciation on vehicles | ? | 858 000 |
| Accumulated depreciation on equipment | ? | 269 500 |
| Trading stock | 2 000 000 | |
| Debtors' control | 382 000 | |
| Provision for bad debts | ? | 9 800 |
| SARS (Income tax) | 520 000 | |
| Nominal accounts section | | |
| Sales | ? | |
| Cost of sales | ? | |
| Directors' fees | 4 836 000 | |
| Audit fees | 497 200 | |
| Advertising | 342 400 | |
| Sundry expenses | 88 000 | |
| Trading stock deficit | ? | |
| Bad debts recovered | 5 800 | |
| Rent income | 208 250 | |
| Interest income (on fixed deposit) | ? | |
| Salaries and wages | 6 425 000 | |
| Depreciation (on vehicle sold) | 41 250 | |
| Packing material | 45 800 | |
| Profit on sale of vehicle | ? | |
| Bad debts | 28 800 | |
| Ordinary share dividends | 672 000 | |

B. Additional information:

- The mark-up achieved is 160% on cost. The correct gross profit is R14 881 600.
- Packing materials used during the financial year was R39 700.
- Received and recorded R9 750 from the insolvent estate of a debtor which paid out 65 cents in the rand. The remaining amount must be written off.
- Adjust the provision for bad debts to R9 350.

- (e) One of the employees was on sick leave and was omitted from the Salaries Journal for February 2021. Her salary details are as follows:

| GROSS SALARY | DEDUCTIONS | NET SALARY | EMPLOYERS' CONTRIBUTION |
|--------------|---------------------|------------|-------------------------|
| ? | 30% of gross salary | R23 800 | R4 500* |

*Employers' contributions are debited to the Salaries and Wages Account.

- (f) **Stock valuation:**

The business sells sunglasses. The accountant has incorrectly calculated the closing stock amount which is reflected on the Trial Balance. The weighted-average method should have been used. This must be corrected.

The following details are applicable:

• **Stock of sunglasses:**

| DATE | UNITS | TOTAL VALUE |
|------------------|-------|-------------|
| 1 March 2020 | 4 000 | R2 433 000 |
| 28 February 2021 | 2 400 | ? |

• **Purchases of sunglasses during the financial year:**

| DATE | UNITS | COST PRICE PER UNIT R | TOTAL PURCHASES R |
|------------------|---------------|-----------------------------|-------------------------|
| 31 May 2020 | 4 200 | 650 | 2 730 000 |
| 15 October 2020 | 4 800 | 790 | 3 792 000 |
| 11 February 2021 | 2 500 | 820 | 2 050 000 |
| TOTAL | 11 500 | | 8 572 000 |

- (g) The premises have been rented for the past five years. The rent for March 2021 has been received and recorded. Due to the lockdown, the rent was decreased by 25% per month for only three months from April to June 2020.

- (h) **Loan: Wonder Bank**

- Fixed monthly repayments of R59 200 have been made and recorded for the financial year ended 28 February 2021.
- The loan statement reflected a balance of R1 652 000.
- Provide for interest on loan capitalised.

- (i) An old delivery vehicle was sold for R88 400 cash on 31 December 2020. This has been correctly recorded.

Details of the delivery vehicle sold:

| | |
|--|----------|
| Cost price | R198 000 |
| Accumulated depreciation on date of sale | R115 500 |

Provide for depreciation as follows:

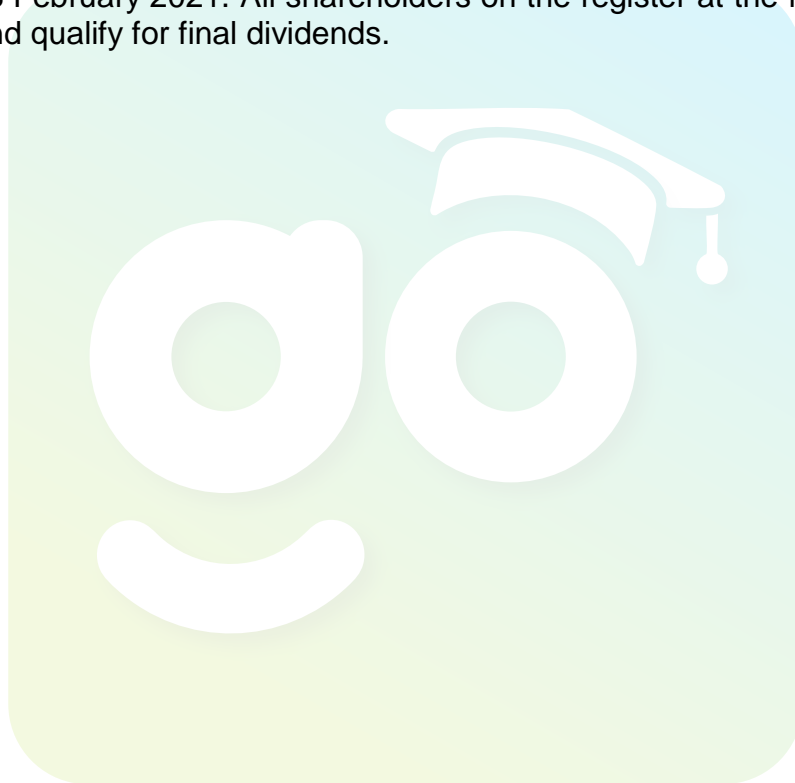
- On vehicles at 25% p.a. on cost
- On equipment: R90 500

- (j) The correct net profit after tax after all adjustments is R1 342 080. The income tax rate is 28% of the net profit before tax. Interest income is the balancing figure.

(k) **Shares and final dividends:**

NOTE: The relevant entries have been made.

- 250 000 shares were repurchased at R4,25 per share on 30 November 2020.
- On 28 February 2021, the ordinary share capital comprised 3 412 500 shares.
- A final dividend of 36 cents per share was declared on 28 February 2021. All shareholders on the register at the financial year-end qualify for final dividends.



QUESTION 3: FINANCIAL INDICATORS AND CASH FLOW STATEMENT
(35 marks; 30 minutes)

The information relates to Digital Giants Ltd. The financial year ends on 31 March.

REQUIRED:

- 3.1 Calculate the following financial indicators for the financial year ended 31 March 2021:
- 3.1.1 Debt-equity ratio (3)
 - 3.1.2 Net asset value per share (3)
 - 3.1.3 Dividend pay-out rate (4)
 - 3.1.4 Return on average shareholders' equity (ROSHE) (4)
- 3.2 Complete the table in the ANSWER BOOK for the following items for the 2021 Cash Flow Statement. Indicate in EACH case whether it is an *inflow* or an *outflow* of cash.
- 3.2.1 Change in receivables (3)
 - 3.2.2 Change in payables (3)
- 3.3 Calculate the following figures for the 2021 Cash Flow Statement:
- 3.3.1 Taxation paid (4)
 - 3.3.2 Dividends paid (4)
 - 3.3.3 Proceeds from sale of fixed assets (5)
 - 3.3.4 Funds used for the repurchase of shares (2)

INFORMATION:

- A. Extract from the Statement of Comprehensive Income for the year ended 31 March 2021:

| | |
|-----------------------|-----------|
| Depreciation: | R 785 000 |
| On vehicles | 475 000 |
| On equipment | 310 000 |
| Net profit before tax | 3 955 000 |
| Income tax | 1 085 000 |
| Net profit after tax | 2 870 000 |

B. Extract from the Statement of Financial Position:

| | 31 March 2021 R | 31 March 2020 R |
|--------------------------------|--------------------|--------------------|
| Fixed assets at carrying value | 8 865 000 | 8 878 000 |
| Inventories | 585 700 | 391 200 |
| Debtors' control | 418 000 | 390 000 |
| Creditors' control | 520 000 | 359 200 |
| Income received in advance | 16 000 | 0 |
| SARS: Income tax | 354 000 (Cr) | 124 000 (Dr) |
| Ordinary shareholders' equity | 10 387 600 | 6 910 000 |
| Ordinary share capital | 7 280 000 | 5 950 000 |
| Retained income | 3 107 600 | 960 000 |
| Mortgage loan | 2 450 000 | 2 800 000 |
| Shareholders for dividends | 262 400 | 210 000 |

C. Shares:

- 700 000 shares were in issue on 31 March 2020.
- 120 000 new shares were issued at R12,60 per share on 1 April 2020.
- 20 000 shares were repurchased on 31 March 2021 for 50% more than the average issue price of R9,10 per share. These shares qualified for final dividends.

D. Dividends paid/declared were as follows for the financial year:

| | DATE | DIVIDEND PER SHARE | AMOUNT |
|---------|----------------|--------------------|----------|
| Interim | 15 August 2020 | 45 cents | R? |
| Final | 31 March 2021 | 32 cents | R262 400 |

E. Fixed assets:

- Extensions to the buildings were completed at a cost of R1 360 000 during the financial year.
- Equipment was sold at carrying value during the financial year.
- No other fixed assets were purchased or sold.

F. Extract: Financial indicators:

| | 31 March 2021 | 31 March 2020 |
|--------------------------|---------------|---------------|
| Debt-equity ratio | ? | 0,4 : 1 |
| Earnings per share (EPS) | 350 cents | 314 cents |
| Current ratio | 2,7 : 1 | 1,8 : 1 |

QUESTION 4: INTERPRETATION OF FINANCIAL STATEMENTS AND CORPORATE GOVERNANCE (45 marks; 35 minutes)

- 4.1 Choose a description from COLUMN B that matches the type of director in COLUMN A. Write only the letter (A–C) next to the question numbers (4.1.1 to 4.1.3) in the ANSWER BOOK, e.g. 4.1.4 D.

| COLUMN A | COLUMN B |
|------------------------------|--|
| 4.1.1 Executive director | A member of the board but not responsible for daily management functions |
| 4.1.2 Delinquent director | B member of board who also has management responsibilities |
| 4.1.3 Non-executive director | C found guilty of serious misconduct |

(3 x 1) (3)

4.2 **LIBRA LIMITED**

The business trades in computer hardware and software from international companies. The information relates to the past two financial years, ended 30 April.

Anton Buys is the CEO and there are five other directors in the company.

REQUIRED:4.2.1 **Refer to Information A.**

The current ratio and acid-test ratio show that the company's liquidity position has deteriorated over the past two financial years.

Identify TWO other liquidity indicators which also show that the company is likely to have serious liquidity concerns in future. Explain ONE point in EACH case (with figures).

(4)

4.2.2 **Refer to Information A and B.**

The company increased the loan to finance the purchase of additional property in a new suburb. They hoped that this would improve the demand for their products.

- Comment on how the increase in the loan affected the risk and gearing in 2021. Quote TWO financial indicators. State ONE point in EACH case (with figures).

(6)

- Explain whether the decision to purchase additional property had the desired effect on demand for this product (with figures).

(3)

- 4.2.3 Explain why the public was not interested in buying the new shares issued at R6,00 per share. Quote THREE financial indicators (excluding indicators stated in QUESTION 4.2.2). State ONE point in EACH case (with figures).

(9)

4.2.4 Refer to Information A and D.

At the AGM, many shareholders complained that the Remunerations Committee had been negligent in their duties and that Anton Buys did not deserve the fees that he was paid as CEO. State TWO different points to justify their opinion. Quote figures or financial indicators.

(4)

4.2.5 Refer to Information A, B and C.

- Explain why the other directors were unhappy with the price paid for the shares repurchased from Anton Buys. State TWO points. Quote financial indicators or figures to support EACH point. (4)
- Give a calculation to show whether the repurchase of these shares affected Anton Buys' status as majority shareholder, or not. (3)

4.2.6 Refer to Information E.

- Explain what is meant by *good corporate governance* and explain why it is important to the shareholders. (3)
- Explain a possible reason why Anton Buys says he will vote against the proposal by Excellence Ltd. (2)
- The other directors feel that Anton Buys is abusing his position as CEO and majority shareholder.
 - Explain why you agree with them. (2)
 - Give the directors advice on how they should handle this. (2)

INFORMATION:**A. Financial indicators on 30 April:**

| | 2021 | 2020 |
|--|-------------|-------------|
| Mark-up % achieved | 60% | 75% |
| % operating expenses on sales | 44,1% | 32% |
| Solvency ratio | 1,8 : 1 | 2,1 : 1 |
| Debt-equity ratio | 0,7 : 1 | 0,2 : 1 |
| Current ratio | 0,6 : 1 | 1,1 : 1 |
| Acid-test ratio | 0,3 : 1 | 0,8 : 1 |
| Stockholding period | 78 days | 43 days |
| Average debtors' collection period | 58,9 days | 32,6 days |
| Average creditors' payment period | 75,6 days | 63,6 days |
| Earnings per share | 54 cents | 102 cents |
| Dividends per share | 25 cents | 90 cents |
| Net asset value per share | 732 cents | 711 cents |
| Return on average shareholders' equity | 4,9% | 5,3% |
| Return on average capital employed | 6,4% | 9,1% |

B. Additional information:

| | 2021 | 2020 |
|--|------------|-------------|
| Sales | R8 976 000 | R11 550 000 |
| Market price of shares on stock exchange | 580 cents | 610 cents |
| Interest rate on loans | 12% | 12% |
| Interest rate on fixed deposit | 8% | 8% |

C. Share capital and shareholding of Anton Buys:

| | 2021 | 2020 |
|---|------------------|-----------|
| Number of authorised shares | 5 000 000 shares | |
| Number of shares in issue | 2 450 000 | 2 400 000 |
| Number of shares owned by shareholder, Anton Buys | 1 240 000 | 1 270 000 |

- On 30 April 2020, the company had 2 400 000 shares in issue.
- At the directors' meeting on 1 May 2020, it was decided to repurchase 30 000 shares from the CEO, Anton Buys, at R12,00 per share. None of the other five directors supported this decision.
- A further 80 000 shares were issued on 30 June 2020. The listed issue price of the purchase was originally R6,00 per share. Due to a poor response from the public at this price, the directors agreed to sell these shares at R4,80 per share.

D. Directors' fees:

| | 2021 | 2020 |
|--------------------------------------|------------|------------|
| Director's fees paid to CEO | R2 900 000 | R2 000 000 |
| Total fees paid to 5 other directors | R3 000 000 | R3 000 000 |

E. Proposal to purchase the unissued shares:

- Excellence 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 this company at a price which is considerably more than the current market value.
- Anton Buys 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.

| 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. | |