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GRADE 12

ACCOUNTING P1

NOVEMBER 2021

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 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	Statement of Financial Position	55	45
2	Share Capital, Financial Indicators and Cash Flow Statement	35	25
3	Interpretation of Company Financial Information	40	30
4	Corporate Governance	20	20
TOTAL		150	120

QUESTION 1: STATEMENT OF FINANCIAL POSITION (55 marks; 45 minutes)

JIMO LIMITED

The information relates to the financial year ended 30 June 2021. The business sells formal clothing for men and women.

REQUIRED:

1.1 Refer to Information B.

Calculate the value of the closing stock of formal suits that was omitted from the stock sheets on 30 June 2021. (5)

1.2 Refer to Information C.

Use the table provided to calculate the correct **net profit after tax** for the year ended 30 June 2021. Indicate '+' for increase and '-' for decrease. (12)

1.3 Refer to Information A–H.

Complete the following on 30 June 2021:

- Retained Income Note (5)
- Statement of Financial Position (Balance Sheet) (33)

NOTE:

- Adjustments from Information C also affect the Statement of Financial Position (Balance Sheet).
- Show workings. Certain figures are provided in the ANSWER BOOK.
- Figures are NOT required in the shaded areas.

INFORMATION:**A. List of balances, before taking into account all adjustments below:**

	30 June 2021 (R)	30 June 2020 (R)
Ordinary share capital	?	?
Retained income	3 240 000	
Mortgage loan: Best Bank	3 755 000	4 175 000
Trading stock	4 198 500	
SARS: Income tax (provisional tax)	1 200 000	
Net trade debtors	3 668 810	
Bank overdraft	?	
Petty cash and cash float	?	
Creditors' control	1 253 000	
Accrued income/Income receivable	8 000	
Shareholders for dividends	1 170 000	821 700

B. The accountant omitted the closing stock figure of formal suits in the trading stock balance provided in Information A.**NOTE:**

- The first-in-first-out (FIFO) method is used to value the stock of the formal suits.
- All other relevant entries have been recorded correctly.

The information relating to the stock of formal suits is as follows:

Balances:	QUANTITY	UNIT PRICE	TOTAL VALUE
1 July 2020	110	R1 900	R209 000
30 June 2021	240	?	?
Purchases:	760		R1 943 500
14 Nov. 2020	360	R2 350	R846 000
10 Feb. 2021	170	R2 600	R442 000
18 May 2021	230	R2 850	R655 500
Returns:			
25 May 2021	24	R2 850	R68 400

C. The net profit before tax, R4 918 950, was calculated before taking into account/ correcting the following:

- (i) Audit fees include R123 600 which was paid in advance for the next financial year.
- (ii) The repayments on the loan are fixed at R35 000 per month (including capitalised interest).

The balances as per loan statement were:

- 1 July 2020, R4 175 000
- 30 June 2021, R4 028 000

Provide for interest on loan.

(iii) Rent income:

Rent of R74 000 was received from a tenant for the period 1 July 2020 to 31 August 2021. This has been recorded. This amount takes into account a reduction of R750 per month from 1 May 2021. The year-end adjustment has not yet been made.

(iv) After taking into account the corrections above, it was determined that an additional R85 250 is still owed to SARS in respect of income tax for the year.

D. Shares and dividends:

- 26 000 shares were repurchased on 1 July 2020 at R3,00 above the average share price.
- The business did not pay interim dividends during the 2021 financial year.
- A final dividend of 65 cents per share was declared on 30 June 2021.
- 1 800 000 shares were in issue on 30 June 2021.

E. Debtors with credit balances totaling R11 000 must be transferred to the Creditors' Ledger.

F. On 30 June 2021, Jimo Ltd returned 10 ladies' coats to the supplier, Bargain Wholesalers. The selling price was R1 750 each. The mark-up was 25% on cost. No entry has been made.

G. A fixed monthly instalment of R35 000 (to cover loan repayments and interest) has to be paid over the full period of the loan. Interest will decline over the life of the loan. The interest on the loan budgeted for the next financial year is R234 000.

H. The following financial indicators were calculated on 30 June 2021:

Acid-test ratio	1,2 : 1
Net asset value per share (NAV)	540 cents

QUESTION 2: SHARE CAPITAL, FINANCIAL INDICATORS AND CASH FLOW STATEMENT
(35 marks; 25 minutes)

The information relates to Brewer Ltd for the financial year ended 28 February 2021.

REQUIRED:

- 2.1 Prepare the Ordinary Share Capital Note on 28 February 2021. (6)
- 2.2 Calculate the following financial indicators on 28 February 2021:
- % operating expenses on sales (2)
 - Dividend per share (4)
 - % return on average shareholders' equity (5)
- 2.3 Complete the Cash Flow Statement for the year ended 28 February 2021. Certain figures are provided in the ANSWER BOOK. (18)

INFORMATION:**A. Shares and dividends:**

DATE	DETAILS OF SHARES
1 March 2020	800 000 in issue
30 June 2020	100 000 new shares issued
1 January 2021	30 000 shares repurchased at R1,20 more than the average share price
28 February 2021	? shares in issue

- Interim dividend of R162 000 was paid on 30 September 2020.
- A final dividend of 22 cents per share was declared on 28 February 2021.

B. Extract from the Statement of Comprehensive Income (Income Statement) for the year ended 28 February 2021:

Sales	R7 293 000
Cost of sales	4 862 000
Operating expenses	1 458 600
Net profit before tax	1 350 000
Net profit after tax	985 500

C. Extract from the Statement of Financial Position (Balance Sheet) on:

	28 Feb. 2021 R	29 Feb. 2020 R
Petty cash and cash float	?	20 000
Ordinary shareholders' equity	8 038 100	6 450 000
Ordinary share capital	7 395 000	6 400 000
Retained income	643 100	50 000
Loan: Sharks Bank	1 650 000	2 200 000
SARS: Income tax	29 100 Dr	35 900 Cr
Shareholders for dividends	191 400	115 300
Bank overdraft	0	95 200



QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION**(40 marks; 30 minutes)**

- 3.1 Choose a category of indicators from COLUMN B that matches the description in COLUMN A. Write only the letter (A–D) next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

COLUMN A		COLUMN B	
3.1.1	The benefit that shareholders receive for investing in a company	A	liquidity
3.1.2	The ability of a business to pay off its short-term debts	B	gearing
3.1.3	The extent to which a company is financed on borrowed capital (loans)	C	solvency
3.1.4	The ability of a business to settle all its debts using existing assets	D	return on equity

(4 x 1) (4)

3.2 **FLEXI LTD AND BROOM LTD**

The information relates to two companies.

BACKGROUND INFORMATION:

- Both companies operate in the fashion clothing industry. The financial year ends on the last day of February each year.
- Bob Yates owns shares in both companies. On 1 November 2020, he convinced the board of directors of Flexi Ltd to repurchase 150 000 of his shares. He used the money received to purchase additional shares in Broom Ltd.

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

REQUIRED:3.2.1 **Profitability:**

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

(4)

3.2.2 **Dividends, earnings and returns:**

- Comment on the dividend pay-out policy of **Flexi Ltd**. Explain why this is an irresponsible change in policy. Provide TWO points. (4)
- Comment on the % return on shareholders' equity of EACH company. (4)
- A shareholder feels that earnings per share (EPS) in **Broom Ltd** are better than that in **Flexi Ltd**. Explain why you agree with him. (4)

3.2.3 Shareholding of Bob Yates in both companies:

- Comment on the price paid for the shares repurchased by **Flexi Ltd**. Provide TWO points. (4)
- Calculate the number of shares that Bob purchased in **Broom Ltd** with the money he received from the share buyback at **Flexi Ltd**. (2)
- Explain the effect of the share repurchase on the % shareholding of Bob Yates in EACH company. (4)

3.2.4 Financing strategies and gearing:

The directors of each company have taken deliberate decisions that are reflected in their Cash Flow Statements.

- Explain the decisions taken by the directors of **Broom Ltd** and how these will benefit the company. (4)
- Explain how the decisions taken by **Flexi Ltd** affected the risk and gearing of the business. Quote TWO financial indicators. (6)

INFORMATION:**A. Extracts from the accounting records at the end of each year:**

	FLEXI LTD		BROOM LTD	
	Feb. 2021	Feb. 2020	Feb. 2021	Feb. 2020
Number of shares in issue	700 000	850 000	1 500 000	1 100 000
Funds used to repurchase shares	R1 980 000			
Repurchase price	R13,20			
Increase in share capital	0		R2 640 000	
Issue price of additional shares			R6,60	
Fixed assets purchased	R1 000 000		R2 200 000	
Increase (decrease) in loan	R4 500 000		(R400 000)	

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

	FLEXI LTD		BROOM LTD	
	Feb. 2021	Feb. 2020	Feb. 2021	Feb. 2020
% operating expenses on sales	17,5%	14,6%	13,6%	17,0%
% operating profit on sales	18,2%	21,9%	24,2%	20,5%
% net profit on sales	13,8%	18,0%	19,6%	16,0%
Debt-equity ratio	1,1 : 1	0,4 : 1	0,2 : 1	0,4 : 1
% return on capital employed	10,2%	16,1%	17,2%	14,7%
% return on shareholders' equity	7,6%	12,2%	14,1%	10,7%
Net asset value per share	1 081 cents	1 128 cents	632 cents	609 cents
Market price of shares	990 cents	1 130 cents	660 cents	615 cents
Interest rate on loans	13%	13%	13%	13%
Earnings per share	80 cents	138 cents	72 cents	65 cents
Dividends per share	92 cents	82 cents	48 cents	70 cents
Dividend pay-out rate	115%	59%	67%	108%

C. Shareholding of Bob Yates in both companies

	FLEXI LTD		BROOM LTD	
	2021	2020	2021	2020
Shares in each company	283 500	433 500	?	460 000
% shareholding in each company	?	51,0%	?	41,8%

QUESTION 4: CORPORATE GOVERNANCE

(20 marks; 20 minutes)

- 4.1 Explain why a disclaimer audit report would be bad for a company's reputation. Provide TWO points. (4)
- 4.2 One of the most important decisions that shareholders have to make at the annual general meeting (AGM) is to appoint directors to serve on the board.
- Explain why the shareholders have been given this responsibility. (2)
 - If you were a shareholder, what factors or characteristics would you want to find out about the directors who would get your vote? Explain TWO points and give a reason for EACH. (6)
- 4.3 A recent news report stated that a major company, Baxco Ltd, had been awarded a tender to supply equipment worth R20 m to a chain of private hospitals. The report accuses the CFO (chief financial officer) of that company of paying R2 m in cash to the CEO of the hospital group.
- As a shareholder, explain what you would say at the AGM. Provide TWO points. (4)
- 4.4 A major South African company has stated the following on its website and in its Directors' Report.
- We have set up ways for employees and external stakeholders to report unethical conduct and incidents of individuals not complying with the company's ethical policies.*

We have set up a tip-off phone line (call centre) controlled by an independent service provider.

All information will be treated confidentially. Whistle-blowers (informants) who submit genuine information will be protected and will remain anonymous.
- In your opinion, explain why this major company found it necessary to implement this policy. Provide TWO points. (4)

20

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