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Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ACCOUNTING P1

2022

MARKS: 150

TIME: 2 hours

**This question paper consists of 14 pages,
a formula sheet and a 10-page answer book.**

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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 (Balance Sheet) and Notes	45	35
2	Fixed Assets, Cash Flow Statement and Financial Indicators	45	35
3	Interpretation of Financial Information	45	35
4	Corporate Governance	15	15
TOTAL		150	120

QUESTION 1: STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AND NOTES
(45 marks; 35 minutes)

- 1.1 Complete each of the following statements by choosing a word(s) from the list below. Write only the word(s) next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

external auditors; directors; shareholders; internal auditors

1.1.1 The ... are employed by the company to set up and monitor control processes.

1.1.2 ... are appointed to give an unbiased opinion on the financial statements.

1.1.3 ... are appointed by the owners of the company to perform key management functions. (3 x 1)

(3)

1.2 PRUDENCE LTD

The information relates to the financial year ended 28 February 2022.

REQUIRED:

- 1.2.1 Complete the following Notes to the Statement of Financial Position (Balance Sheet):

- Ordinary share capital
- Retained Income

(7)

(7)

- 1.2.2 Prepare the Statement of Financial Position (Balance Sheet) on 28 February 2022.

(28)

INFORMATION:**A. Extract from the accounting records on 28 February:**

Balance Sheet Accounts	2022 R	2021 R
Fixed deposit	489 000	?
Ordinary share capital	7 954 000	?
Retained income	1 196 000	?
Loan: XY Loans	?	?
SARS: Income tax (provisional tax)	450 000	
Creditors' control	617 450	
Shareholders for dividends	213 400	162 000
Debtors' control	875 000	
Provision for bad debts	?	23 640
Trading stock (balancing figure)	?	
Petty cash	5 000	5 000
Bank overdraft (balancing figure)	?	
Nominal accounts		
Audit fees	48 000	
Rent income	102 400	

B. Share capital and dividends:

DATE	DETAILS
1 March 2021	75% of the authorised share capital of 1 200 000 ordinary shares were in issue.
30 August 2021	80 000 shares were repurchased from a retired shareholder. He was paid 20% (R136 000) above the average share price and would no longer qualify for dividends.
31 August 2021	An interim dividend of 28 cents per share was paid.
1 December 2021	An additional 150 000 shares were issued.
28 February 2022	A final dividend was declared.

- C.** Income tax for the year, after taking into account all adjustments, amounted to R438 000. This is 30% of the net profit.
- D.** The following adjustments are relevant to complete the Statement of Financial Position:
- The provision for bad debts must be increased by R2 610.
 - Only half the audit fees were paid. The balance will be paid in March 2022.
 - The tenant occupies part of the premises from 1 May 2021. He has not paid the rent for January and February 2022.
- E.** R240 000 of the fixed deposit will mature on 1 April 2022.
- F.** A debit balance of R17 950 from the Debtors' Ledger must be transferred to the Creditors' Ledger.
- G.** The following financial indicators were calculated on 28 February 2022, after all adjustments were processed:
- | | |
|-------------------|---------|
| Current ratio | 1,6 : 1 |
| Debt-equity ratio | 0,4 : 1 |
- H.** The loan from XY Loans will be reduced by a capital portion of R228 000 in the 2023 financial year.

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QUESTION 2: FIXED ASSETS, CASH FLOW STATEMENT AND FINANCIAL INDICATORS
(45 marks; 35 minutes)

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

2.1.1 Unused consumable stores at the end of the financial year are classified as a (current asset/financial asset).

2.1.2 Interest on loans is regarded as a/an (operating activity/financing activity).

2.1.3 The (directors' report/audit report) reflects a verbal explanation of the company's activities and future plans. (3 x 1) (3)

2.2 JANTJES LIMITED

The information relates to the financial year ended 28 February 2022.

REQUIRED:**2.2.1 Refer to Information A.**

Calculate the missing figures indicated by (i) to (iii) on the Fixed Asset Note. (11)

2.2.2 Calculate the following amounts for the 2022 Cash Flow Statement:

- Fixed assets purchased (6)
- Dividends paid (4)
- Decrease in loan (3)

2.2.3 Complete the NET CHANGE IN CASH AND CASH EQUIVALENTS section of the Cash Flow Statement. (4)

2.2.4 Calculate the following financial indicators on 28 February 2022:

- % mark-up achieved (3)
- Acid-test ratio (4)
- Net asset value per share (NAV) (3)
- % return on average shareholders' equity (ROSHE) (4)

INFORMATION:**A. Fixed Asset Note to the Statement of Financial Position (Balance Sheet):**

FIXED ASSETS	BUILDINGS R	VEHICLES R	EQUIPMENT R
Carrying value (1 Mar. 2021)		(i)	28 000
Cost	6 450 000	2 350 000	640 000
Accumulated depreciation	0	(840 000)	(612 000)
Movements			
Additions	?	0	195 000
Disposals	0	(iii)	0
Depreciation	0	(298 000)	(ii)
Carrying value (28 Feb. 2022)			
Cost			
Accumulated depreciation			

- Extensions to the buildings were completed during the financial year.
- Additional equipment was purchased on 1 October 2021.
- Equipment is depreciated at 10% on cost.
- An old vehicle was sold at carrying value on 30 November 2021. The cost price of this vehicle was R252 000 and its accumulated depreciation on 1 March 2021 was R172 000.
- Vehicles are depreciated at 20% p.a. on carrying value.

B. Extract from the Statement of Comprehensive Income for the year ended 28 February 2022:

Sales	R12 600 000
Gross profit	5 400 000
Income tax	295 800
Net profit after tax	609 200

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

	28 Feb. 2022 R	28 Feb. 2021 R
Fixed assets (carrying value)	8 746 500	7 988 000
Shareholders' equity	8 840 700	7 600 000
Ordinary share capital	8 648 000	7 404 000
Loan: CBC Bank	?	2 057 600
Inventory	514 500	456 000
Petty cash	5 000	5 000
Bank	125 000 (Cr)	129 000 (Dr)
SARS: Income tax	22 500 (Cr)	13 800 (Dr)
Shareholders for dividends	264 500	180 000
Total current assets	1 323 000	1 232 000
Total current liabilities	735 000	592 500

D. Share capital:

- There were 1 000 000 shares in issue on 1 March 2021.
- 200 000 shares were issued on 1 May 2021.
- 50 000 shares were repurchased on 1 December 2021.

E. Dividends:

- An interim dividend was paid on 31 August 2021.
- A final dividend was declared on 28 February 2022.
- Total dividends for the financial year amounted to R552 500.

F. Loan: CBC Bank

The loan statement received on 28 February 2022 reflected:

- Repayments: R38 000 per month (including interest)
- Total interest capitalised: R216 000

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QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION**(45 marks; 35 minutes)**

You are provided with information relating to two furniture companies, Vrede Ltd and Nigel Ltd, for the financial year ended 30 April 2022.

The directors of both companies have been trying to improve their results after tough trading times in 2020/2021, but they are using different strategies in the 2022 financial year:

- The directors of Vrede Ltd decided to persist with a conservative approach.
- The directors of Nigel Ltd decided to change to a more aggressive approach.

REQUIRED:

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

3.1 Profitability/Operating efficiency:**Refer to Information A.**

Identify and explain which company has been more efficient in controlling its operating activities. Quote TWO financial indicators.

(5)

3.2 Liquidity:**Refer to Information A.**

- Identify and explain which company has better liquidity financial indicators. Quote TWO financial indicators.
- Explain ONE concern you have about the liquidity of the other company. Quote ONE financial indicator.

(3)

(2)

3.3 Dividends:**Refer to Information A.**

Comment on the difference between the dividend pay-out policies implemented by the directors of the two companies and explain ONE possible reason for EACH of their decisions in their respective companies. Quote figures or indicators.

(6)

3.4 Gearing, risk, financing and investing activities:**Refer to Information A, B and C.**

- Explain the specific decisions taken by the directors of EACH company that have affected gearing and risk. Quote rand amounts.
- Comment on the gearing and risk of Nigel Ltd. Quote TWO financial indicators.
- At the Nigel Ltd AGM, an angry shareholder said that the directors' aggressive strategies would probably lead to the failure of the company in future. Explain TWO points why the shareholder might feel this way.

(4)

(4)

(5)

3.5 Shareholders' assessment of market prices of shares:**Refer to Information A and B.**

Shareholders of Vrede Ltd are not satisfied with the market price of their shares, whereas the shareholders of Nigel Ltd are satisfied. Explain by quoting figures or indicators and, for EACH company, identify a factor that would have affected the market price of the shares.

(6)

3.6 Shareholding of Jay Sonto in Vrede Ltd and Nigel Ltd:**Refer to Information B and D.**

Jay invested a total of R10,2 m in the companies in 2019. He is unsure whether changes in his shareholding and share prices have benefited him. Jay wants to sell 19 000 of his Nigel Ltd shares on the JSE.

- Provide calculations to show the change in Jay's % shareholding in Nigel Ltd over the financial year. Comment on his % shareholding in EACH company. (4)
- Calculate the total profit or loss he is currently making on his shares in EACH company. Advise if it is wise to sell 19 000 shares in Nigel Ltd, or not. (6)

INFORMATION:**A. FINANCIAL INDICATORS**

	VREDE LTD		NIGEL LTD	
	2022	2021	2022	2021
% operating expenses on sales	23,9%		23,0%	
% operating profit on sales	13,6%		19,9%	
% net profit on sales	7,0%		9,2%	
Current ratio	1,8 : 1		1,2 : 1	
Acid-test ratio	0,7 : 1		0,5 : 1	
Stock turnover rate	11 times	12 times	23 times	12 times
Debt-equity ratio	0,3 : 1	0,5 : 1	1,3 : 1	0,6 : 1
Net asset value per share	R32,95		R23,08	
Earnings per share	R2,54		R4,10	
Dividends per share	R1,90	R1,40	R4,40	R2,80
Dividend pay-out rate	74,8%		107,4%	
% return on shareholders' equity	7,8%	11,2%	16,8%	10,4%
% return on total capital employed	10,5%		16,2%	

B. SHARE PRICES, EQUITY, LOANS AND INTEREST

	VREDE LTD 2022	NIGEL LTD 2022
Average issue price	R31,00	R24,00
Market price on stock exchange (date)	R24,00	R32,00
Repurchase price per share	R0,00	R29,00
Interest rate on loans	12,0%	12,0%
Interest expense	R900 000	R2 100 000
Loans at year-end	R7 500 000	R17 500 000
Shareholders' equity at year-end	R29 654 000	R13 846 000

C. EXTRACT FROM CASH FLOW STATEMENT

	VREDE LTD 2022	NIGEL LTD 2022
Financing activities	R7 400 000	R(4 540 000)
300 000 new shares issued	9 900 000	0
260 000 shares repurchased	0	(7 540 000)
Change in loan	(2 500 000)	3 000 000
Investing activities	(3 300 000)	880 000
Change in fixed assets	(3 100 000)	730 000
Change in investments	(200 000)	150 000

D. SHAREHOLDING OF JAY SONTA IN EACH COMPANY

	VREDE LTD	NIGEL LTD
Shares owned by Jay Sonta since 2019:	200 000 shares	320 000 shares
% shareholding on: 1 May 2021	33,3%	37,2%
30 April 2022	22,2%	?
Price paid per share on: 1 May 2019	R27,00	R15,00
Total shares in issue on: 1 May 2021	600 000 shares	860 000 shares
30 April 2022	900 000 shares	600 000 shares

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

Corporate social responsibility (CSR) is an important part of corporate governance.

Definition of CSR

CSR is the continuing commitment to behave ethically and contribute to economic/financial development while improving the quality of life of the workforce and their families as well as the country and society at large.

[Source: unido.org]

REQUIRED:

- 4.1 A wealthy CEO said that it is unfair to place CSR responsibilities on companies because the government should be accountable for attending to these issues.

Explain how you would respond to the CEO's statement. State TWO points. (4)

- 4.2 **Refer to the information regarding Franco Ltd.**

- State whether Franco Ltd is a public or private company. (1)
- Explain why employees and investors (shareholders) were distressed by this incident. (4)
- Explain what went wrong in the company to allow for this fraud to occur. State THREE different/separate points. (6)

INFORMATION:**FRANCO LIMITED***

One of the biggest accounting fraud incidents in the history of South Africa occurred several years ago in this furniture company which is listed on the JSE and the European* Stock Exchange.

An investigation identified fictitious or irregular transactions over 12 years, amounting to more than R100 billion. The share price then collapsed by 90% immediately after the news broke. Former Franco Ltd executives and individuals from outside the company, including a 'senior management executive', were accused of fraudulently overstating the company's profit and asset values.

* Based on true articles; names changed

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 & 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.	