



Basic Education

KwaZulu-Natal Department of Basic Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

COMMON TEST

MARCH 2016

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

MARKS: 100

TIME : 1 hour

This question paper consists of 9 pages and a 6-page answer book.

INSTRUCTIONS AND INFORMATION

Read the following instructions and be sure to follow them carefully:

1. This question paper consists of 9 pages.
2. A special **ANSWER BOOK** consisting of 6 pages is provided in which to answer all the questions.
3. Answer **ALL** the questions.
4. **Workings must be shown in brackets in order to earn part marks.**
5. Non-programmable calculators may be used.
6. You may use dark pencil or black / blue pen to answer the questions.
7. Marks will be deducted for missing details and foreign entries.
8. Use the information in the table below as a guide when answering the question paper:

Question 1: 31 Marks, 19 Minutes	
The topic of this question is:	Content:
Financial Statement	<ul style="list-style-type: none"> • Correct net profit • Retained Income • Trade and other payables
Question 2: 29 Marks, 17 Minutes	
The topic of this question is:	Content:
Calculation of ratio's and Cash Flow Statement	<ul style="list-style-type: none"> • Ratio's • Cash Flow Statements
Question 3: 13 Marks, 8 Minutes	
The topic of this question is:	Content:
Analysis and interpretation	<ul style="list-style-type: none"> • interpretation
Question 4: 7 Marks, 4 Minutes	
The topic of this question is:	Content:
Auditing	<ul style="list-style-type: none"> • audit report
Question 5: 20 Marks, 12 Minutes	
The topic of this question is:	Content:
Financial Statement	<ul style="list-style-type: none"> • Balance Sheet

QUESTION 1**(31 Marks; 19 Minutes)****FINANCIAL STATEMENT**

You are provided with the information related to Sondoda LTD on 29 February 2016.

REQUIRED:

- 1.1 Calculate the correct net profit after tax for the year ended 29 February 2016. (13)
Indicate a + for increase and a – for decrease. (11)
- 1.2 Prepare the Retained Income Note on 29 February 2016.
- 1.3 Prepare the Note for Trade and other payables. (7)

INFORMATION:

A. **Net profit before tax of R 1 900 000 was determined before taking into account the following information:**

1. Telephone account of R4 000 was still outstanding.
2. An annual insurance premium of R12 000 was paid for the period 1 November 2015 to 31 October 2016.
3. P. Pillay, a debtor, who owed R18 000, was declared insolvent. The company received 60 cents in the rand from his insolvent estate and the balance was written off. No entries were made of these transactions.
4. There were two directors at the start of the accounting period. Directors' fees have been paid for the first half of the accounting period amounted to R180 000. On the 1 September 2015 directors fees increased by 15%.
On 1 January 2016 a third director was appointed. All three directors earn the same monthly fee. Provide for the outstanding fees owed to the directors.
5. The tenant has paid R93 800 for 13 months, **NOTE:** The rent was increased by 10% on 1 December 2015 and that the premises were rented for the whole year.
6. Provision for bad debts must decreased by R 2 000.
7. Income tax amounts to R 461 888 for the year. No provisional tax was paid during the year.

B. **Dividends and shares:**

1. The ordinary share capital of R 9 000 000, on 1 March 2015 consisted of 1 800 000 ordinary shares.
2. 300 000 shares were issued on 1 September 2015 at R5,70 per share.
3. On 29 February 2016 the directors repurchased 70 000 shares from a certain shareholder at a price of R7,50 each. This shareholder is entitled to all dividends declared for the current financial year.
4. An interim dividend of R 270 000 was paid on 31 August 2015.
5. A final dividend of 25 cents per share was declared on 29 February 2016.

QUESTION 2**(29 Marks; 17 Minutes)****CASH FLOW STATEMENT**

You are provided with the information related to Emalahleni LTD on 29 February 2016.

REQUIRED:

2.1 Calculate the following:

2.1.1 Earnings per share (3)

2.1.2 Return on total capital employed (5)

2.2 Calculate the following for the Cash Flow Statement:

2.2.1 Tax paid (4)

2.2.2 Dividends paid (4)

2.2.3 Purchases of non-current assets (5)

2.2.4 Proceeds for shares issued (4)

2.2.5 Repurchase of shares (4)

INFORMATION:

1. Extract from the Income Statement:

	29 Feb 2016
Depreciation	144 000
Interest on loan (capitalised)	86 000
Net profit before tax	750 000
Income tax for the year (28%)	210 000
Net profit after tax	540 000

2. The following figures were extracted from the financial records on 29 February 2016:

	2016	2015
Ordinary share capital	1 926 000	1 440 000
Retained income	479 000	317 000
Non-current liabilities	1 062 000	1 200 000
Fixed/Tangible assets	2 795 000	2 185 000
Inventories (all trading stock)	920 000	780 000
Debtors control	345 000	429 000
Cash and cash equivalents	5 000	19 000
Creditors control	288 000	378 000
Shareholders for dividends	252 000	81 000
SARS (Income tax)	Dr 2 000	Cr 24 000
Bank overdraft	85 000	-

3. Share capital:

The authorised share capital comprises of 3 000 000 ordinary shares.
On 1 March 2015 there were 360 000 ordinary shares in issue.

On 5 March 2015 the directors repurchased 36 000 ordinary shares from a dissatisfied shareholder at R1.60 above the average price. This has been recorded.

On 29 February 2016 the company issued 150 000 new shares at an issue price. This has been recorded.

4. Dividends for the year :

Interim dividends R126 000

Final dividends R252 000

5. An old asset was sold at a carrying value for R 270 000.

QUESTION 3**(13 Marks; 8 Minutes)**

You are provided with the information related to Inkunzi LTD on 29 February 2016.

REQUIRED:

- 3.1 The directors are generally happy with the improvement in the liquidity from 2015 to 2016. Quote **THREE** relevant financial indicators for both years (include actual ratios or figures) to your support opinion. (3)
- 3.2 The board of directors foresee possible cash flow problems in the next financial year and are considering increasing the long term loan. Do you agree with this decision? Explain by quoting financial indicators, with figures, in your answer. (4)
- 3.3 A member of the board of directors feels that the shareholders should be happy with the percentage return and the market price of their shares. Quote and explain TWO financial indicators, with figures, to support or dismiss this feeling. (6)

INFORMATION:

	2016	2015
Current ratio	1,8 : 1	0,6 : 1
Stock turnover rate	7 times	10 times
Acid test ratio	1,1 : 1	0,2 : 1
Period of stock on hand	60 days	40 days
Debtors collection period	27 days	32 days
Debt-equity ratio	0,23 : 1	0,15 : 1
% return on average shareholders' equity	15%	10.5%
% return on total average capital employed	17.77%	14%
Dividends per share	34 cents	20 cents
Earnings per share	133 cents	120 cents
Net asset value per share	1 100 cents	1 133 cents
Market price on JSE	1 050 cents	980 cents
Interest on alternative investment	8.5%	7.5%
Interest rate on loan	10%	11%

QUESTION 4**(7 Marks; 4 Minutes)**

You are provided with information related to Mfanelo LTD on 29 February 2016.

REQUIRED:

Choose the audit opinion from COLUMN B that best describes the audit report in COLUMN A. Write the letter (A – C) next to the question number (4.1.1 – 4.1.3) in the ANSWER BOOK.

(3)

COLUMN A (report)		COLUMN B (opinion)
4.1.1	Qualified audit report	A In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Mfanelo Ltd as at 29 February 2016.
4.1.2	Unqualified audit report	B We have not been able to obtain sufficient audit evidence to provide for an audit opinion. Accordingly, we do not express an opinion on the financial statements of Mfanelo Ltd for the year ended 29 February 2016.
4.1.3	Disclaimer report	C In our opinion, except for the effect of the unauthorised interest-free loan to the Chief Executive Officer, the annual financial statements present fairly, in all material respects, the financial position of Mfanelo Ltd as at 29 February 2016.

REQUIRED:

4.2.1 Provide a reason why the Companies Act makes it a requirement for public companies to be audited.

(2)

4.2.2 At the AGM, one of the shareholders said that he was not happy with the words "fairly present "in the audit report. He wants the auditors to state that financial statements are "correct in all respects". What explanation should be given to this shareholder? State ONE point.

(2)

Audit report – To the shareholders:

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 29 February 2016 and the results of their operations and cash flows for the year ended, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act in South Africa.

DST and Associates
Chartered Accountants (SA)
Registered Accountants and Auditors
Pretoria. 10 August 2014

QUESTION 5**(20 Marks; 12 Minutes)**

You are provided with information related to Ulundi LTD on 29 February 2016.

REQUIRED:

Prepare the Balance Sheet on 29 February 2016.

(20)**INFORMATION:**

1. List of balances

Ordinary share capital	3 000 000
Trade and other payables	1 620 000
Cash and cash equivalent	375 000
Fixed deposit	750 000

2. The following financial indicators were calculated in 29 February 2016.

Current ratio	1,25 : 1
Acid test ratio	0,6 : 1
Net asset value per share	500 cents
Debt/equity ratio	0,25 : 1

3. The number of shares on 29 February 2016 amounted to 648 000.

TOTAL MARKS: 100





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MEMORANDUM

NATIONAL
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GRADE 12

MARKS: 100

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not using marks elsewhere in the question for that item. No double penalty applied.
2. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect.
3. Where penalties are applied, the marks for that section of the question cannot be a final negative.
4. Codes: F=foreign item; P=placement

This memorandum consists of 8 pages.

* TOTAL METHOD MARKS = 23

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Please turn over

Accounting

2

NSC - Memorandum

Common Test March 2016

QUESTION 1

1.1 Calculation of the correct net profit after tax

Accounting entries must be correct. (100% of marks available)

Incorrect net profit	1 900 000
Telephone	- 4 000 ✓
Insurance (912 X 12 000)	+ 8 000 ✓
Bad debts (17 000 X 18 000)	- 7 200 ✓
Directors fees (180 000 X 12 1/100 + 17 000 X 12 1/100)	- 241 500 ✓
Rent income	- 7 700 ✓
Provision for bad debts adjustment	+ 2 000 ✓
Correct net profit before tax	1 649 600 ✓
Income tax	- 461 888 ✓
Net profit after tax	1 187 712 ✓

1.2 RETAINED INCOME NOTE ON 29 FEBRUARY 2016

Balance at beginning of year	1 870 000
Repurchase of shares (70 000 X R 2.40) ✓	(168 000) ✓
Operation, one part correct	
Net profit after tax	1 187 712 ✓
Dividends	(795 000) ✓
Interim (180 000 + 300 000)	270 000 ✓
Final (2 100 000 X 0.25) ✓	525 000 ✓
Balance at end of year	2 094 712 ✓

AVERAGE ISSUE PRICE

R 9 000 000 + 1710 000

1 800 000 + 300 000

= R 5,10

THEORETICAL AVERAGE

ISSUE PRICE = R 7,50 - R 2,40

= R 5,10

* DIRECTORS FEES OUTSTANDING

✓ 180 000 X 12 1/100 = 207 000

✓ 180 000 / 12 = 15 000 X 12 1/100 = 17 000 X 12 = 34 000

* RENT RECEIVED IN ADVANCE

130 100 X 12 = 93 800

130 100 X 12 = 93 800

130 100 X 12 = 93 800

130 100 X 12 = 93 800

130 100 X 12 = 93 800

130 100 X 12 = 93 800

130 100 X 12 = 93 800

130 100 X 12 = 93 800

DR INCOME
OR EXPENSE

Accounting entries must be correct.

Telephone Cr. Acc. (Debit) (TOP)
Insurance Cr. Acc. (Debit) (TOP)
Bad debts Cr. Acc. (Debit) (TOP)
Directors fees Cr. Acc. (Debit) (TOP)
Rent income Cr. Acc. (Debit) (TOP)
Provision for bad debts adjustment Cr. Acc. (Debit) (TOP)
Income tax Cr. Acc. (Debit) (TOP)
Net profit after tax Cr. Acc. (Debit) (TOP)

13
13

11
11

Please turn over

1.3 NOTE FOR TRADE AND OTHER PAYABLES

Creditors	251 000
Accrued expenses (4 000 ✓ + 241 500 ✓) 245 500 ✓	245 500 ✓
Income received in advance 7 700 ✓	7 700 ✓
SARS-income tax	481 988
Shareholders for dividends	525 000 ✓
Operation one part correct	1 491 088 ✓

7
7

$$= 12 = R 1102$$

$$481555 = 0 + 461555$$

* AVERAGE CAPITAL EMPLOYED ($\frac{1}{2} [SHE + NCL]$)

$$\frac{1}{2} (1440000 + 317000 + 120000 + 192000 + 479000 + 1062000)$$

$$\begin{matrix} \swarrow & \downarrow & \downarrow & \downarrow & \downarrow \\ o/s/c & + & RI & + & NCL & + & o/s/c & + & RI & + & NCL \end{matrix}$$

$$\begin{matrix} \swarrow & \downarrow & \downarrow & \downarrow & \downarrow \\ SHE + NCL & + & SHE + NCL & + & SHE + NCL \end{matrix}$$

$$\frac{836000}{3012000} \times \frac{100}{100} = 26.02\%$$

PLEASE TURN OVER

NO LEADER'S LOSS NEW SHARES

BANK 144000

4/1/1990 BANK 630000

o/s/c 144000

o/s/c 630000

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QUESTION 2

2.1.1	Earnings per share	NP AFTER TAX	100 CENTS
		NO OF SHARE ISSUED	1
	540 000 ✓ X 100		
	474 000 ✓		
	(360 000 - 36 000 + 150 000)		
	= 113.9 cents or 114 cents		(3)

2.1.2	Return on total capital employed	NP BEFORE TAX + INTEREST ON CAPITAL	12 CAPITAL EMPLOYED
	750 000 ✓ + 86 000 ✓ X 100		
	1/2 (2 957 000 ✓ + 3 487 000 ✓)		
	= 26.02% or 26 % or 26.03%		(5)

NUMBER	CALCULATION	ANSWER
2.2.1	210 000 ✓ + 2000 ✓ + 24 000 ✓ OR - 210 000 ✓ - 2000 ✓ - 24 000 ✓ Operation one part correct	236 000 ✓ (4)
2.2.2	81 000 ✓ + 126 000 ✓ OR 81 000 ✓ + 378 000 ✓ - 252 000 ✓ Operation one part correct	207 000 ✓ (4)
2.2.3	Operation one part correct 2 795 000 ✓ + 144 000 ✓ + 270 000 ✓ - 2 185 000 ✓ OR 2 185 000 - 144 000 - 270 000 - 2 795 000	1 024 000 ✓ (5)
2.2.4	1 926 000 ✓ + 144 000 ✓ - 1 440 000 ✓ OR 150 000 ✓ X 4.20 ✓ Operation one part correct (R 630 000 / 150 000)	630 000 ✓ (4)
2.2.5	36 000 ✓ X 5.60 ✓ Operation one part correct PURCHASE PRICE = AVERAGE + ABOVE AVERAGE (7)	201 600 ✓ (21)

$$AVERAGE = \frac{R 1440000}{300000} = R 4$$

$$= R 4$$

$$PURCHASE PRICE = R 4 + R 1.60 = R 5.60$$

$$R 4 = AVERAGE (o/s/c)$$

$$R 1.60 = ABOVE AVERAGE (CPI)$$

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1. CURRENT RATIO 2. DEBTORS COLLECTION 3. No. of Months stock on hand
4. Acid Test Ratio 5. CREDITORS PAYMENT PERIOD 6. RATE OF STOCK TURNOVER

QUESTION 3

3.1	The directors are generally happy with the improvement in the liquidity from 2015 to 2016. Quote THREE relevant financial indicators for both years (actual ratios or figures) to support your opinion.	(3)
	Financial indicators (actual ratios or figures): quoting of three relevant indicators and three valid ratios or figures for both years: ✓✓ Current ratio: this change from 0.6:1 → 1.8:1 OR (improved by 1.2:1) Acid test ratio: this change from 0.2:1 → 1.1:1 OR (improved by 0.9:1) Debtors collection period: changed from 32 days → 27 days OR (improved by 5 days) Do not accept stock turnover rate and period of stock on hand.	

3.2	The board of directors foresee possible cash flow problems in the next financial year and are considering increasing the long term loan. Do you agree with this decision? Explain by quoting financial indicators with figures in your answer.	(3)
	Yes ✓ ROTC This is 17.77% ✓ Debt/equity ratio This is 0.23 : 1 ✓ Explanation Positively geared as ROTCE is higher than interest rate. ON LOAN (10%) @ 7.7% Higher. Low financial risk / not making much use of loans (it relies more on funds from internal source) ✓	

3.3	A member of the board of directors feels that the shareholders should be happy with the percentage return and the market price of their shares. Quote and explain TWO financial indicators with figures to support or dismiss this feeling.	(4)
	Financial indicators: ✓✓ ROSCHE improved from 10.5% to 15% and it is 6.5% more than earnings/interest (8.5%) in alternative investments. NAV per share declined from 1133 cents to 1100 cents, the market price of Inkunzi Ltd's shares also increased from 980 cents to 1 050 cents (by 70 cents). Accept any alternative relevant comments.	

QUESTION 4

Choose the audit opinion from COLUMN B that best describes the audit report in COLUMN A. Write the letter (A - C) next to the question number (4.1 - 4.3) in the ANSWER BOOK.

	COLUMN A	COLUMN B
4.1.1	Qualified audit report	C✓
4.1.2	Unqualified audit report	A✓
4.1.3	Disclaimer report	B✓

(3)

4.2.1	Provide a reason why the Companies Act makes it a requirement for public companies to be audited. To protect the shareholders / separation of ownership from control Public funds are used To ensure that it is a fair reflection of financial statements To ensure that directors are not misrepresenting the figures To be accountable to stakeholders e.g. shareholders, SARS To discourage fraud	(3)
4.2.2	At the AGM, one of the shareholders said that he was not happy with the words "fairly present" in the audit report. He wants the auditors to state that financial statements are "correct in all respects". What explanation should be given to this shareholder? State ONE point. ✓✓ ANY ONE VALID REASON Auditors give reasonable assurance because they do not check everything in the books of the company (sampling test only). Cost factor / time-consuming - if everything checked.	(2)

7
7

QUESTION 5

ULUNDI LIMITED
BALANCE SHEET AS AT 29 FEBRUARY 2016

ASSETS		
NON-CURRENT ASSETS		3 645 000✓
Fixed/Tangible assets: Operation		2 895 000✓
Financial assets: fixed deposit		750 000✓
CURRENT ASSETS		2 025 000✓
Inventories		1 053 000✓
Trade and other receivables		597 000✓
Cash and cash equivalents		375 000✓
TOTAL ASSETS	Check equity and liabilities total	5 670 000✓
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		3 240 000✓
Share capital		3 000 000✓
Retained income		240 000✓
NON-CURRENT LIABILITIES		810 000✓
Loan from: Zola bank		810 000✓
CURRENT LIABILITIES		1 620 000✓
Trade and other payables		1 620 000✓
TOTAL EQUITY AND LIABILITIES	Operation	5 670 000✓

20
20

ADDENDUM TO THE MEMORANDUM AND NOT TO BE USED IN CONJUNCTION WITH THE MARKING SCHEME FOR QUESTION 5. THIS IS FOR THE BENEFIT OF THE MARKER.

1. CALCULATION OF CURRENT ASSETS

1 620 000 X 1.25 (Current ratio is given as 1.25 : 1) = R 2 025 000

2. CALCULATION OF LIQUID ASSETS ie (Trade and other receivables and Cash)

1 620 000 X 0.6 (Acid test ratio is given as 0.6 : 1) = R 972 000

3. CALCULATION OF TRADING STOCK

CURRENT ASSETS - LIQUID ASSETS

R 2 025 000 - R 972 000 = R 1 053 000

4. CALCULATION OF TRADE AND OTHER RECEIVABLES

LIQUID ASSETS - CASH AND CASH EQUIVALENTS

R 1 053 000 - R 375 000 = R 597 000

5. CALCULATION OF SHAREHOLDERS' EQUITY

ORDINARY SHAREHOLDERS' EQUITY X 100 = 500 CENTS
648 000 SHARES

= R 3 240 000

6. CALCULATION OF NON-CURRENT LIABILITIES

R 3 240 000 X 0.25 (DEBT - EQUITY RATIO GIVEN AS 0.25 : 1)

7. CALCULATION OF NON-CURRENT ASSETS

TOTAL ASSETS - CURRENT ASSETS

R 5 670 000 - R 2 025 000 = R 3 645 000

8. CALCULATION OF TANGIBLE ASSETS

R 3 645 000 - R 750 000 = R 2 895 000

NOTE: TOTAL METHOD MARKS = 23 + 17 REQUIRED → 40/100 → 40%.

THEREFORE, COMPLETE ALL QUESTIONS PROPERLY.