

education

Department:
Education
REPUBLIC OF SOUTH AFRICA

GREENBURY SECONDARY SCHOOL
ACCOUNTING : GRADE 12
FIRST QUARTERLY TEST
2016

MARKS : 160
TIME : 1 ½ HOURS

**N.B. This question paper consists of 8 pages and an
answer booklet of 10 pages.**

Please turn over

INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A Special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show ALL workings to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use blue / black ink to answer the questions.
6. Where applicable, show all calculations to ONE decimal point.
7. Write neatly and legibly.
8. Use the information in the table below as a guide below when answering the question paper. Try NOT to deviate from it.

QUESTION 1 : 75 marks; 40 minutes	
Topic of the Questions	The question integrates :
Company Financial Statements	Financial Accounting Income Statement Balance Sheet and notes

QUESTION 2 : 73 marks; 40 minutes	
Topic of the Questions	The question integrates :
Cash Flow Statement and Interpretations	Financial Accounting Cash Flow Statement Interpretation of Financial Information

QUESTION 3 : 12 marks; 10 minutes	
Topic of the Questions	The question integrates :
Audit Report	Financial Accounting Audit Report Managing Resources Ethics

Please turn over

QUESTION 1 – CALCULATION OF FINAL PROFIT, BALANCE SHEET AND NOTES

(75 marks; 40 minutes)

The financial year of Jai Limited ends on 30 June. The accountant of Jai Limited calculated the **net profit before tax as R1 234 335**. However, it was discovered that not all the adjustments were made before calculating the net profit before tax.

REQUIRED :

- 1.1 Refer to information 2.
Calculate the correct net profit after tax for the year ended 30 June 2015.
Indicate a + for increase and a – for decrease. [11]

- 1.2 Prepare the following notes to the Balance Sheet (Statement of Financial Position) on 30 June 2015 :
 - 1.2.1 Ordinary Share Capital [11]
 - 1.2.2 Retained Income [8]
 - 1.2.3 Trade and other payables [10]

- 1.3 Complete the Balance Sheet (Statement of Financial Position) on 30 June 2015. Where notes are NOT required, workings must be shown in brackets. [35]

INFORMATION :

1. The following extract was taken from the list of balances which appeared in the ledger of Jai Limited on 30 June 2015, before any additional adjustments and information were taken into account :

Ordinary Share Capital	R5 200 000
Retained Income (1 July 2014)	R465 000
Land and Building	4 684 000
Equipment	775 500
Accumulated depreciation on equipment :	215 000
Fixed Deposit : ZAR Bank	?
Trading stock	198 500
Debtors' control	54 000
Provision for bad debts	2 475
Bank (Dr)	1 025 000
Cash float	4 000
Consumables stores on hand	1 100
Income Accrued	31 660
Creditors control	87 150
Loan : JSE Bank @ 15% p.a.	420 000
Profit and loss (net profit before tax)	1 234 335

Please turn over

2. The following adjustment and additional information were not taken into account in the calculation and the net profit before tax of R1 234 335.
 - (i) An annual insurance premium of R10 800 was paid for the period 1 January 2015 to 31 December 2015.
 - (ii) Trading stock was damaged in a fire which broke out in the storeroom. The loss due to the fire amounted to R10 500. No entry was made.
 - (iii) The provision for bad debts must be decreased by R315.
 - (iv) In the profit and loss account, the amount for Rent income amounted to R136 950. The accountant did not take into account that the tenant paid the rent for July 2015 in advance. The rent had increased by R1 050 per month on 1 February 2015.
 - (v) The auditor discovered that the profit on disposal of a vehicle, R7 000, was incorrectly shown as a loss.

3. Income Tax and Provisional Payments
 - (i) The company paid R7 000 owing to SARS during the previous financial year.
 - (ii) The first provisional tax of R250 000 was paid to SARS on 3 January 2015.
 - (iii) The second provisional tax of R114 200 was paid to SARS on 28 June 2015.
 - (iv) The accountant calculated the income tax for the year as R371 700.

4. Shares and Dividends
 - (i) On 1 July 2014, 60% of the authorised share capital of 500 000 shares were in issue.
 - (ii) On 31 July 2014, the directors issued an additional 100 000 shares at R16 each. This was properly recorded.
 - (iii) On 10 January 2015, the directors decided to buy back 70 000 shares from the estate of a deceased shareholder at R15 per share. This transaction was completed successfully, but no entries were made.
 - (iv) On 1 December 2014, an interim dividend of R300 000 was declared and paid.
 - (v) A final dividend of 120 cents per share was declared on 30 June 2015. The shares repurchased do not qualify for dividends.

5. The bank reconciliation statement on 30 June 2015, showed an outstanding cheque of R15 000, dated 31 August 2015. This cheque was issued to a creditor.

6. Interest on fixed deposit for the accounting year amounted to R24 000. The interest rate on fixed deposit is 12% p.a. The fixed deposit amount remained unchanged for the accounting year.

7. The business intends to repay R60 000 of the loan in the next financial year.

QUESTION 2 – CASH FLOW AND RATIO ANALYSIS**(73 marks; 40 minutes)**

The information below was extracted from the books of BMW Ltd. Study the information and answer the questions that follow.

REQUIRED :

- 2.1 Prepare the reconciliation between net profit before tax and cash generated from operations. (Show workings in brackets). [15]
- 2.2 Complete the 'Cash Flow from Operating activities' section of the Cash Flow Statement. [11]
- 2.3 Complete the 'Cash Flow from Investing activities' section of the Cash Flow Statement. [10]
- 2.4 Complete the 'Cash Flow from Financing activities' section of the Cash Flow Statement. [10]
- 2.5 Calculate the following for the year ended 30 June 2014
 - 2.5.1 Net asset value per share (NAV) [5]
 - 2.5.2 Debt/equity ratio [3]
 - 2.5.3 Return on shareholders' equity [5]
- 2.6 With regards to the loan and the repayment thereof :
 - Do you think that it was a good idea to pay off a large portion of the loan? Briefly explain your findings with reference to TWO relevant financial indicators. Name and quote figures in your explanation. [7]
- 2.7 Provide TWO comments on the net asset value per share for 2014. Make use of financial indicators or figures to support your opinion. [3]
- 2.8 The shareholders present at the AGM were not happy with the drop in share price on the JSE over the past two years. Provide a possible reason for the change. Suggest a possible solution to the directors to rectify this problem. [2]
- 2.9 One of the shareholders asks the company to repurchase her 90 000 shares from him. What question / point (ONE), should the directors consider before deciding to agree to this or not. [2]

INFORMATION :

1.

List of balance on 30 June 2014	2014	2013
Fixed assets at carrying value	1 175 328	977 760
Financial Assets	156 000	228 000
Inventories	1 350 000	1 374 000
Debtors Control	1 322 400	1 356 000
Accrued Income	15 600	10 800
SARS – Income Tax	0	4 800 (Dr)
Shareholders Equity	2 999 880	1 302 120
Ordinary Share Capital	2 850 000	1 200 000
Retained Income	149 880	102 120
Creditors Control	1 252 278	1 256 760
Accrued Expenses	8 400	11 400
SARS – Income Tax	12 450 (Cr)	0
Shareholders for dividends	312 000	16 800

2. ADDITIONAL INFORMATION :

2.1 Ordinary share capital

- There were 100 000 shares in issue on 1 July 2013.
- 100 000 new shares were issued @ R18 each on 1 January 2014
- 10 000 shares were repurchased at R18 each on 30 June 2014

2.2 Depreciation

- Total depreciation for the year amounted to R19 974.

2.3 Sale of equipment

Details of Equipment sold at carrying value :

Cost price	R48 000
Accumulated depreciation to date sold	R24 684
Date Sold	1 April 2014
Selling price	?

2.4 Income Tax

- Income tax at 28% of the net profit for the year amounted to R198 240.

2.5 Dividends

- The interim dividend of R120 000 was declared and paid on 15 January 2014.
- The final dividend was declared on 30 June 2014.

2.6 The loan statement from Afrika Bank on 30 June 2014 reflected :

Balance at the beginning of the financial year	R1 284 000
Repayments during the year (including interest)	1 008 000
Interest capitalised (interest rate 15% p.a.)	?
Balance at end of financial year	420 000

2.7 Financial indicators

	2014	2013
% return on shareholders' equity	?	59%
% return on capital employed	28,4%	18%
Net asset value per share	?	1195c
Market price per share on JSE	1117c	1600c
Debt / equity Ratio	?	1 : 1
Dividend for share	110 cents	75 cents
Earnings per share	130cents	94 cents
Interest rate on fixed deposit	6%	6%

QUESTION 3 – AUDIT REPORT**(12 marks; 10 minutes)****Extract from audit report of Company 1 :**

In our opinion, the financial statements fairly represent, in all material respects, the financial position of this company at 31 October 2015 and the results of their operations and cash flow for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Extract from audit report of Company 2 :

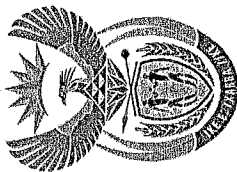
We found that internal control procedures were not adhered to and that documentation did not exist for a significant portion of the transactions tested. Because of the significance of the matter described in the previous paragraph we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements for the year ended 31 October 2015.

REQUIRED :

- 3.1 Why does the Companies Act make it a requirement for public companies to be audited? [2]
- 3.2 Why is it important that the audit is done in accordance with the IFRS? State one point. [2]
- 3.3 SAICA is one of the main professional bodies governing accountants in this country. Explain one of the main roles performed by SAICA. [2]
- 3.4 What type of audit report is indicated in Audit Report of Company 1 and explain your answer. [2]
- 3.5 What type of audit report is indicated in Audit Report of Company 2 and explain your answer. [2]
- 3.6 With reference to the audit report of Company 2, explain ONE consequence of this audit report for the company and the directors. [2]

TOTAL MARKS : 160

Please turn over



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PLEASE TICK

HR	CM
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GREENBURY SECONDARY SCHOOL

ACCOUNTING : GRADE 12

FIRST QUARTERLY TEST : 2016

ANSWER BOOKLET

(MEMO)

NAME : _____ GRADE 12 : _____

QUESTIONS	MARKS	MODERATOR
1.		
2.		
3.		
TOTAL		

N.B. This answer book consists of 10 pages.

Please turn over

QUESTION 1

1.1

Incorrect net profit before tax	1 234 335
Insurance ($10\ 800 \times \frac{4}{12}$)	+ 5 400 ✓
Loss due to fire	- 10 500 ✓
Provision for bad debts adjustment (decrease)	+ 315 ✓
Net income ($136\ 950 - 6300 = 130\ 650/13 = 10\ 050 + 1050$)	- 11 100 ✓
Profit on sale of asset (+ 7000 to correct error; + 7000 to make entry for profit)	+ 14 000 ✓
Correct net profit before tax	123 4450 ✓
Income Tax	(371 700) ✓
Net profit after tax	860 750 ✓
	11

1.2

1.2.1 Ordinary Share Capital

Authorised :	
500 000 ordinary shares	
Issued :	
300 000 ✓ Shares in issue at beginning of year (1 July 2014) [$\frac{500\ 000}{2}$]	3 600 000 ✓
100 000 ✓ Shares issued during the year (30 July 2014) at R16 EACH	1 600 000 ✓
(70 000) ✓ Shares repurchased during the year (10 January 2015) at average price R14 EACH ✓	(980 000) ✓
330 000 ✓ Shares in issue at end of year (30 June 2015)	4 220 000 ✓
	11

Please turn over

1.2.2 Retained Income

Balance at beginning of year	465 000	
Net Profit After Tax (Ref 1.1)	960 750	
Reversal of 10 000 shares above interpose price of R 2 each	(140 000)	
Dividends on ordinary shares	(696 000)	
Interim (Pmt)	(300 000)	
Final (Recommended/Dividend) $[120/100 \times 330\ 000]$	(396 000)	
Balance at end of year	489 750	8

1.2.3 Trade and other Payables

Creditors Control (87150 + 15 000)	102 150	
Income received in advance (Ref 1.1)	11 100	
SARS - Income Tax $(371\ 700 - 364\ 200)$	7 500	
Shareholders for dividends (Final Dividends) (Ref 1.2.2)	396 000	
Current portion of loan (Amount payable during next financial year)	60 000	
	576 750	10

Please turn over

1.3 Balance Sheet (Statement of Financial Position on 30 June 2015)

Non Current Assets	5 444 500	
Fixed/Tangible Assets at carrying value $(4\ 684\ 000 + 775\ 500 - 215\ 000)$	5 244 500	
Financial Assets $(24\ 000 \times 100/12)$	200 000	
Current Assets	282 000	
Inventory $(198\ 500 - 10\ 500 + 1100)$	189 100	
Trade and other receivables $(54\ 000 - 2160 + 5\ 400 + 31\ 600)$	88 900	
Cash and cash equivalent (4000)	4 000	
TOTAL ASSETS	5 726 500	
Equity and Liability		
Shareholders Equity	4 779 750	
Ordinary Share Capital (Ref 1.2.1)	4 210 000	
Retained Income (Ref 1.2.2)	489 750	
Non Current Liability	360 000	
Loan : JSE Bank $(420\ 000 - 60\ 000)$	360 000	
Current Liability	576 750	
Trade and other payables (Ref 1.2.3)	576 750	
Bank overdraft $(1025\ 000 - 910\ 000 - 104\ 000 + 15\ 000)$	10 000	
TOTAL EQUITY AND LIABILITY	5726 500	35

-1 For each foreign entry (MAX 3)

75
75

Please turn over

QUESTION 2

2.1 Reconciliation between Net Profit before Tax and Cash Generated from Operations

NET PROFIT BEFORE TAX	$(198\ 240 \times \frac{100}{25})$	709 000	✓
Adjustments in respect of			
DEPRECIATION		19 974	✓
INTEREST EXPENSE	$(420\ 000 + 1\ 008\ 000 - 1284\ 000)$	144 000	✓
Operating profit before changes in working capital		871 974	✓
Net change in working capital		45 318	✓
Change in Inventory	$(1374\ 000 - 1\ 350\ 000)$	24 000	✓
Change in Receivables	$(135\ 000 + 108\ 000) - (1\ 321\ 400 + 15\ 600)$	28 800	✓
Change in Payables	$(1256\ 760 + 114\ 000) - (1252\ 278 + 84\ 000)$	(7 482)	✓
Cash generated from operations		917 292	✓
		15	15

2.2

Cash Flows from Operating Activities	455 502	✓
Cash generated through operations	(Ref 2.1)	917 292
Interest paid		(144 000)
DIVIDENDS PAID	$(-432\ 000 - 16\ 800 + 312\ 000)$ OR $(120\ 000 + 168\ 000)$	(136 800)
TAXATION PAID	$(-198\ 240 + 4800 + 12\ 450)$	(180 990)
		11

2.3

Cash Flows from Investing Activities	(145 542)	✓
FIXED ASSETS PURCHASED	$(977\ 760 + 199\ 740 + 23\ 216 - 1175\ 325)$	(240 858)
DISPOSAL OF FIXABLE ASSETS AT GAINING VALUE		23 216
FIXED DEPOSIT MATURED	$(228\ 000 - 156\ 000)$	72 000
		10

Please turn over

2.4

Cash Flow from Financing Activities	756 000	✓
PROCEEDS FROM NEW SHARES ISSUED	$(100\ 000 \times R18)$	1 800 000
REPURCHASE OF SHARES	$(10\ 000 \times R18)$	(180 000)
LOAN REPAY	$(1284\ 000 - 420\ 000)$ OR $(1\ 008\ 000 - 144\ 000)$	(864 000)
		10

2.5

2.5.1 Net asset value per share

$R\ 2\ 999\ 880$	✓	$\times \frac{100}{1}$	CENTS
$100\ 000 + 100\ 000 - 10\ 000$			
$= R\ 2\ 999\ 880$		$\times \frac{100}{1}$	CENTS
$190\ 000$			
$= 1579$			CENTS PER SHARE
			5

2.5.2 Debt / Equity Ratio

$420\ 000 : 2\ 999\ 880$	
$0.14 : 1$	3

Please turn over

2.5.3 Return on Shareholders' Equity

$$\frac{708,000 - 198,240}{\frac{1}{2} (2,998,820 + 1,200,000 + 1,021,200)} \times \frac{100}{1} \%$$

$$= \frac{509,760}{2,151,000} \times \frac{100}{1} \%$$

$$= 23.7\% \rightarrow$$

5
5

2.6 With regards to the loan and repayment thereof:

- Do you think that it was a good idea to pay off a large portion of the loan?
 - Briefly explain your findings with reference to TWO relevant financial indicators.
- Name and quote figures in your explanation.

Yes / No ✓
 ✓
 DEBT EQUITY RATIO → IMPROVED (decreased) FROM 1:1 IN 2013 TO 0,14:1 IN 2014 ✓
 → LOWEST GEARING, LOW RISK ✓
 → COMPANY IS NOT RELYING ON BORROWED CAPITAL. ✓
 ✓
 ROYCE ✓
 → IMPROVED (decreased) FROM 18% IN 2013 TO 23,7% IN 2014 ✓
 → ROYCE 23,7% IS HIGHER THAN THE INTEREST RATE ON LOANS 15% ✓
 → INDICATES A POSITIVE GEARING OF 8,7% (23,7% - 15%) ✓

7
7

2.7 Provide TWO comments on the NAV for 2014. Make use of financial indicators or figures to support your opinion.

NAV INCREASED FROM 1195 CENTS IN 2013 TO 1579 CENTS IN 2014 (NET PROFIT AFTER TAX DILUTED) ✓
 NAV OF 1579 CENTS IS MORE THAN THE MARKET PRICE OF THE JSE OF 117 CENTS (PUBLIC DOES NOT HAVE CONFIDENCE IN COMPANY → INVESTIGATE REASONS) ✓

3
3

Please turn over

2.8 The shareholders present at the AGM were not happy with the drop in share price on the JSE over the past two years. Provide a possible reason for the change. Suggest a possible solution to the directors to rectify this problem.

REASON	SOLUTION
✓ <u>Guaranteed Return</u> ✓	✓ <u>Directors must ensure that the financial statements fairly present the financial position in all respects.</u> ✓
✓ <u>Lack of Confidence in the Directors</u> (Management of Company)	✓ <u>Improve the image of the company through publicity.</u>
✓ <u>Lack of participation in corporate social and environmental projects</u>	✓ <u>Directors would have to engage in environmental / social projects or advertise at local events to improve the company.</u>
✓ <u>Directors concentrated their efforts in running the company efficiently and would have to focus on publicity.</u>	✓ <u>Approach a public relations officer that would improve the public image of company to potential investors → publicity in media.</u>

(Any 1 Reason / Solution)

2
2

2.9 One of the shareholders asks the company to repurchase her 90 000 shares from him. What question / point (ONE), should the directors consider before deciding to agree to this or not.

✓ <u>What price will he accept for the shares?</u>	✓ <u>If the price is significantly higher than the market price and the average issue price, then existing shareholders will be disadvantaged because retained income will drop.</u> ✓
✓ <u>Does the company have sufficient cash to pay for these shares without negatively affecting the liquidity & solvency of the company?</u>	✓ <u>Does the company have sufficient cash to pay for these shares without negatively affecting the liquidity & solvency of the company?</u>

(Any 1 Point)

2
2

72
73

Please turn over

QUESTION 3

- 3.1 Why does the Companies Act make it a requirement for public companies to be audited?

✓ TO PROTECT THE INTEREST OF SHAREHOLDERS BECAUSE OWNERSHIP AND MANAGEMENT IS SEPARATE.

2.	2
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- 3.2 Why is it important that the audit is done in accordance with the IFRS?

State one point.

✓ FINANCIAL STATEMENTS CONFORM TO INTERNATIONAL STANDARDS IN TERMS OF THE ACT AND ENSURES CONSISTENCY.
✓ THE FINANCIAL STATEMENTS CAN BE COMPARED IN THE GLOBAL MARKET AND DIFFERENT BUSINESSES.

2.	2
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- 3.3 SAICA is one of the main professional bodies governing accountants in this country. Explain one of the main roles performed by SAICA.

✓ CONTINUOUS PROFESSIONAL DEVELOPMENT.
✓ ENSURES STANDARDISATION OF TREATMENT OF FINANCIAL STATEMENTS
✓ DISCIPLINARY PROCEDURES SHOULD BE NEGLECTED IN HIS DUTIES.
✓ ASSURANCE OF HIS KNOWLEDGE OF ACCOUNTING AND AUDITING PROCEDURES (ANY ONE) ✓✓

2.	2
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- 3.4 What type of audit report is indicated in Audit Report of Company 1 and explain your answer.

UNQUALIFIED. ✓

✓ IT IS A GOOD REPORT → INDEPENDENT AUDITORS HAVE NO CONCERNS OVER THE ITEMS THEY HAVE COME ACROSS DURING THEIR AUDIT ✓

2.	2
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- 3.5 What type of audit report is indicated in Audit Report of Company 2 and explain your answer.

DISCLAIMER. ✓

✓ THE INDEPENDENT AUDITOR HAVE REFUSED TO EXPRESS AN OPINION AS THEY HAVE BEEN UNABLE TO VERIFY A SIGNIFICANT PART OF THE COMPANY'S TRANSACTIONS.

2.	2
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- 3.6 With reference to the audit report of Company 2, explain ONE consequence of this audit report for the company and the directors.

✓ AFFECT SHARE PRICE (CHECKER PRICE) NEGATIVELY.
✓ FUTURE SHAREHOLDERS WILL NOT INVEST IN THE COMPANY → AFFECT SHARE PRICE (LACK OF DEMAND)
✓ EXISTING SHAREHOLDERS WILL LOSE FAITH IN THE COMPANY AND POSSIBLY WILL SELL THEIR SHARES
✓ FINANCIAL STATEMENTS WOULD NOT BE FAIRLY PRESENTED → NOT RELIABLE
✓ SUPPLIERS WILL LOSE FAITH IN THE COMPANY.
✓ DIRECTORS MAY NOT BE RE-APPOINTED OR COULD LOSE THEIR JOB ✓✓
(ANY OTHER VALID ANSWER)

12.	12
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