



ACCOUNTING

SCHOOL BASED ASSESSMENT



Marks	50
Duration	1 Hour
Topics	Companies Ledger Accounts and Shareholding Corporate Governance and Auditing

NOTE: The task should be administered in class under the supervision of the teacher.

This question paper consists of four pages.

QUESTION 1: COMPANIES LEDGER ACCOUNTS AND SHAREHOLDING

1.1 COMPANIES LEDGER ACCOUNTS

ROYAL STRUCTURES LTD

Royal Structures Ltd is a company that manufactures trailers, mobile houses, and mobile offices. You are one of the three junior accountants who have been recently employed by a company. The chief accountant Nozi Miya has instructed you to use the information provided in their financial records to prepare a section of the financial report. You are expected to report on the equity, retained earnings, liability to SARS and distribution of profits for the year ended on 30 June 2023.

REQUIRED:

In your report include the ledger accounts provided below. The report will be submitted to the board of directors.

- 1.1.1 Ordinary Share capital (6)
- 1.1.2 Retained Income (6)
- 1.1.3 SARS (Income Tax) (7)
- 1.1.4 Appropriation Account (7)

INFORMATION:

The following appeared in the list of balances on 1 July 2022:

Details	Amounts
Ordinary share capital (500 000 shares)	R 2 500 000
Retained income	950 000
SARS-Income tax (Cr)	17 000
Shareholders for dividends	125 000

- 1 July 2022** The company issued a further 200 000 ordinary shares at R6,40 each. The proceeds of the issued shares were banked.
- 20 July 2022** SARS and the shareholders were paid the amounts due to them.
- 31 Dec 2022** The company paid provisional tax of R270 000 and interim dividends of 20 cents per share was paid to shareholders.
- 30 June 2023** At the end of the accounting period, the company made a second provisional tax payment of R250 000.
The directors declared a final dividend of 60 cents per share, all the registered shareholders qualified for the final dividend.
- 30 June 2023** The directors decided to buy back 60 000 shares from a shareholder at R7.00 per share. This transaction was paid via EFT.
- 30 June 2023** The net income after tax for the year amounted to R1 190 000. Income tax is calculated at 30% of net profit before tax

1.2 SHAREHOLDING

NEW AGE AUDITORS

New Age Auditors provide auditing and financial services to various companies. The senior auditor has tasked you to prepare a report on the two companies provided below:

MATRIX LTD

Bronny Brown is the Chief Executive Officer (CEO) of the company, his shareholding is as follows:

Number of shares	Date	% Shareholding
740 000	1 July 2022	?

Share Capital

- 1 500 000 shares were in issue on 1 July 2022.
- 300 000 shares were repurchased on 30 November 2022
- The company issued 200 000 shares on 30 June 2023.

REQUIRED:

1.2.1 Calculate the percentage shareholding of Bronny Brown:

- (a) At the beginning of the year (1 July 2022) (2)
- (b) End of the year (30 June 2023) (4)

KHULA LTD

On 1 March 2022, the company issued an additional 300 000 shares. On 28 February 2023, there were 1 500 000 shares in issue.

Buhle Langa, the CEO owned 540 000 shares in the company on 1 March 2022. She bought additional shares from Johannesburg Securities Exchange (JSE) during the year. On 28 February 2023 Buhle became the majority shareholder, she owns 51% of the shares in issue.

REQUIRED:

1.2.2 Your report must address the following:

- (a) Calculate the total number of additional shares that were purchased by Buhle. (4)
- (b) Give **TWO** possible reasons why Buhle was determined to become the majority shareholder. (4)

QUESTION 2: CORPORATE GOVERNANCE AND AUDIT REPORT

MADIBENG LTD

You have been contracted by Conneli Chartered Accountants as a trainee accountant. They have audited the financial statements of Madibeng Ltd, and an extract of the audit report has been provided. The Chief Accountant, Connie has requested you to prepare a written report that will respond to the questions provided below:

REQUIRED:

- 2.1 Briefly explain your understanding of 'good corporate governance'. (2)
- 2.2 Explain why a company must have their financial statements audited by an external auditor. (2)
- 2.3 Identify the type of audit opinion that was received by the company, provide a reason for your answer. (2)
- 2.4 An investigation of the marketing expense mentioned in the audit report revealed that an amount of R180 000 was for a holiday for the CEO and his family that covered accommodation and air tickets. The bookkeeper was instructed to reflect this as a marketing expense. The CEO tried to convince the independent auditor to ignore this as it had been recorded in the financial statements.

Explain why the independent auditor did not follow the request of the CEO. Provide **TWO** reasons. (4)

INFORMATION:

EXTRACT FROM THE REPORT OF THE INDEPENDENT AUDITORS

We have audited the annual financial statements of Madibeng Ltd for the year ended 28 February 2023. Financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion based on our audit.

International Standards on Auditing require that we perform the audit to obtain reasonable assurance that the financial statements are free of misstatement.

Audit opinion

The financial statements fairly represent the financial position of the company on 28 February 2023, except for the marketing expense in the Statement of Comprehensive Income which could not be verified, no documentation was provided to support this expenditure.

Conneli
Chartered Accountants (SA)

**ACCOUNTING
TASK 1: WRITTEN REPORT
MARKING GUIDELINES**

QUESTION 1		DISTRIBUTION OF MARKS	MARKS	
			TOTAL	LEARNER
1.1 Ledger Accounts and shareholding				
1.1.1	Ordinary share capital Account	Allocate marks as indicated in the marking guideline	6	
1.1.2	Retained Income Account		6	
1.1.3.	SARS Income Tax Account		7	
1.1.4.	Appropriation Account		7	
1.2.	Shareholding			
1.2.1	Calculate the percentage shareholding of Bronny Brown: at the beginning and end of year	Allocate marks as indicated in the marking guideline	6	
1.2.2	Calculate the total number of additional shares that were purchased by Buhle.		4	
	Give TWO possible reasons why Buhle was determined to become a majority shareholder.		4	
TOTAL FOR QUESTION 1			40	
QUESTION 2				
Corporate governance and Auditing				
2.1	Briefly explain your understanding of 'good corporate governance'.	Allocate marks as indicated in the marking guideline	2	
2.2	Explain why a company must have their financial statements audited by an external auditor.		2	
2.3	Identify the type of audit opinion that was received by the company, provide a reason for your answer.		2	
2.4	Explain why the independent auditor did not follow the request of the CEO. Provide TWO reasons.		4	
TOTAL FOR QUESTION 2			10	
TOTAL MARKS			50	

The marking guidelines consist of 7 pages.

QUESTION 1

1.1

GENERAL LEDGER OF ROYAL STRUCTURES LTD
BALANCE SHEET ACCOUNTS SECTION

1.1.1 Dr					ORDINARY SHARE CAPITAL				B1	Cr
2023					2022					
June	30	Bank	CPJ	✓✓324 000	July	1	Balance	b/d	✓2 500 000	
		Balance	c/d	☑3 456 000			Bank	CRJ	✓1 280 000	
				3 780 000					3 780 000	
					2023					
					July	1	Balance	b/d	☑3 456 000	
									(6)	

1.1.2					RETAINED INCOME				B2
2023					2022				
June	30	Bank	CPJ	✓✓96 000	July	1	Balance	b/d	✓950 000
		Balance	c/d	☑1 484 000	2023				
				1 580 000	June	30	Appropriation	GJ	☑630 000
									1 580 000
					July	1	Balance	b/d	☑1 484 000
									(6)

ALTERNATIVE METHOD

1.1.2					RETAINED INCOME				B2
2023					2022				
June	30	Bank	CPJ	✓✓96 000	July	1	Balance	b/d	✓950 000
		Appropriation	GJ	☑950 000	2023				
		Balance	bld	1 484 000	June	30	Appropriation	GJ	☑1 580 000
				1 580 000					2 530 000
					July	1	Balance	b/d	☑1 484 000
									(6)

ALTERNATIVE METHOD

1.1.2 RETAINED INCOME					B2				
2023					2022				
June	30	Bank	CPJ	✓✓96 000	July	1	Balance	b/d	✓950 000
		Appropriation	GJ	☑854 000	2023				
		Balance	b/d	1 484 000	June	30	Appropriation	GJ	☑1 484 000
				2 434 000					2 434 000
					July	1	Balance	b/d	☑1 484 000
									(6)

1.1.3 SARS – INCOME TAX					B4				
2022					2022				
July	20	Bank	CPJ	✓17 000	July	1	Balance	b/d	✓17 000
2023					2023				
Dec	31	Bank	CPJ	✓270 000	June	30	Income tax	GJ	✓510 000
June	30	Bank	CPJ	✓250 000			Balance	c/d	☑10 000
				537 000					537 000
July	1	Balance	b/d	☑10 000					
									(7)

FINAL ACCOUNTS SECTION

1.1.4 Dr					APPROPRIATION ACCOUNT					F3	Cr
2023					2023						
June	30	Income tax	GJ	✓✓510 000	June	30	Profit and loss	GJ		✓✓	1 700 000
		Dividends on ordinary shares	GJ	✓✓560 000							
		Retained income	GJ	☑630 000							
				1 700 000							1 700 000
											(7)

ALTERNATIVE METHOD

FINAL ACCOUNTS SECTION											
1.1.4 Dr					APPROPRIATION ACCOUNT					F3	Cr
2023					2023						
June	30				June	30	Profit and loss	GJ		✓✓ 1 700 000	
		Income tax	GJ	✓✓ 510 000							
		Dividends on ordinary shares	GJ	✓✓ 560 000			Retained income			950 000	
		Retained income	GJ	☑ 1 580 000							
				2 650 000						2 650 000	
										(7)	

ALTERNATIVE METHOD

1.1.4 Dr					APPROPRIATION ACCOUNT					F3	Cr
2023					2023						
June	30				June	30	Profit and loss	GJ		✓✓ 1 700 000	
		Income tax	GJ	✓✓ 510 000							
		Dividends on ordinary shares	GJ	✓✓ 560 000			Retained income			854 000	
		Retained income	GJ	☑ 1 484 000							
				2 554 000						2 554 000	
										(7)	

1.2.SHAREHOLDING

1.2.1

Calculate the percentage shareholding of Bronny Brown:		
(a) At the beginning of the year (1 July 2022)		
$\frac{740\,000}{1\,500\,000} \times 100 = 49.3\%$	✓✓ one part correct refers to shares owned by Bronny or shares in issue	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">2</div>
(b) At the end of the year (30 June 2023)		
$\frac{740\,000}{1\,400\,000} \times 100 = 52.9\%$	☑ One part correct	<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center;">4</div>
two marks for three figures (1 500 000 -300 000+200 000)		

1.2.2

Your report must address the following:							
(a) Calculate the total number of additional shares that were purchased by Buhle.							
<table border="1"> <thead> <tr> <th>CALCULATION</th> <th>ANSWER</th> </tr> </thead> <tbody> <tr> <td> <p>(1 500 000x 51%) two marks</p> <p>765 000 ✓✓ – 540 000 ✓</p> <p>Do not accept 50% + 1 share or 50% + 100 shares</p> </td> <td> <p>225 000 <input checked="" type="checkbox"/></p> <p>operation one part correct</p> </td> </tr> </tbody> </table>	CALCULATION	ANSWER	<p>(1 500 000x 51%) two marks</p> <p>765 000 ✓✓ – 540 000 ✓</p> <p>Do not accept 50% + 1 share or 50% + 100 shares</p>	<p>225 000 <input checked="" type="checkbox"/></p> <p>operation one part correct</p>	<table border="1"> <tr><td> </td></tr> <tr><td>4</td></tr> </table>		4
CALCULATION	ANSWER						
<p>(1 500 000x 51%) two marks</p> <p>765 000 ✓✓ – 540 000 ✓</p> <p>Do not accept 50% + 1 share or 50% + 100 shares</p>	<p>225 000 <input checked="" type="checkbox"/></p> <p>operation one part correct</p>						
4							
(b) Give TWO possible reasons why Buhle was determined to become the majority shareholder.							
<p>Any TWO valid reasons they must relate to influence over control ✓✓ ✓✓</p> <p>Expected responses</p> <ul style="list-style-type: none"> • She wants to have full control of the company. • She wants to influence all decisions of the company in the future. • She wants to address the issue of incompetent directors/influence new appointments that can contribute to the growth of the company <p>Possible responses for one mark</p> <ul style="list-style-type: none"> • To gain more dividends • improve capital gain on the shares or increase the price of shares 		<table border="1"> <tr><td> </td></tr> <tr><td>4</td></tr> </table>		4			
4							

TOTAL MARKS
40

QUESTION 2: CORPORATE GOVERNANCE AND AUDIT REPORT

2.1 **Briefly explain your understanding of ‘good corporate governance’.**

ONE valid point ✓✓ one mark for incomplete / partial answer

- Running the business in an ethical and transparent way/ ensuring fairness and accountability to build a successful organisation.
- Looking after the interest of the employees, the community, the environment, and all other stakeholders involved in the company (implementation of triple bottom line approach)
- Ensuring proper rules and procedures are in place and implemented.
- Engaging all role players in matters that affect them.

2

2.2 **Explain why a company must have their financial statements audited by an external auditor.**

ONE valid point ✓✓ one mark for incomplete / partial answer

- This is a requirement of the Company's Act, it protect shareholders.
- Shareholders are members of the public and this gives them confidence in the financial statements – that they are reliable and credible.
- The external auditors are not expected to have interest in the business and will provide an unbiased view of the situation.

2

2.3 **Identify the type of audit opinion that the company received and provide a reason for your answer.**

TYPE:

Qualified ✓

REASON: ✓✓ one mark for incomplete / partial answer

- The marketing expenses could not be verified.
- Did not mention “fairly represent” in all respects.
- They were satisfied, except for the marketing expense which had no documentation provided as evidence.

2

2.4

Explain why the independent auditor did not follow the request of the CEO. Provide TWO reasons.

TWO reasons ✓✓ ✓✓ one mark for each partial answer

- He would be going against the standards and ethics of his profession.
- It is unethical, amounts to fraudulent behaviour – aimed to deceive.
- He has a code of conduct to uphold / will face disciplinary action if discovered
- He could lose his licence to operate as an auditor.
- He will tarnish the reputation of his company or the auditing firm that has employed him (bad public image).

4

TOTAL MARKS
10

TOTAL: 50