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GRADE 12

ACCOUNTING P1

NOVEMBER 2023

MARKS: 150

TIME: 2 hours

**This question paper consists of 13 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. A Financial Indicator Formula Sheet is attached at the end of this question paper.
4. Show ALL workings to earn part-marks.
5. You may use a non-programmable calculator.
6. You may use a dark pencil or blue/black ink to answer the questions.
7. Where applicable, show ALL calculations to ONE decimal point.
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	Company Financial Statements	55	45
2	Cash Flow Statement and Financial Indicators	35	25
3	Interpretation of Financial Information	45	35
4	Corporate Governance	15	15
TOTAL		150	120

QUESTION 1: COMPANY FINANCIAL STATEMENTS (55 marks; 45 minutes)**BUHLE LIMITED**

The information relates to the financial year ended on 28 February 2023. The business sells bicycles.

REQUIRED:

- 1.1 **Refer to Information B (ii).**
- Calculate the value of closing stock of bicycles using the FIFO method. (6)
- 1.2 Complete the Statement of Comprehensive Income for the year ended 28 February 2023. (24)
- 1.3 Complete the Statement of Financial Position as at 28 February 2023. (25)

NOTE: Some amounts are provided in the ANSWER BOOK.
Figures are NOT required in the shaded areas.

INFORMATION:**A. Extract: Balances and totals from the records on 28 February 2023:**

	R
Ordinary share capital	20 000 000
Retained income	?
Loan: Uhlula Bank	?
Debtors' control	483 110
Fixed deposit	1 500 000
Trading stock	2 125 380
SARS: Income Tax (provisional tax payments)	1 049 000
Bank (favourable)	629 000
Creditors' control	523 890
Sales	21 017 200
Cost of sales	?
Commission income	277 000
Fee income	303 000
Rent expense	?
Directors' fees	1 610 000
Dividends on ordinary shares	990 000

B. Adjustments and additional information:

- (i) The business uses a mark-up of 120% on cost of bicycles. Trade discounts totalling R336 000 have been granted and recorded.
- (ii) The following information was obtained after the physical stock count:
The first-in first-out (FIFO) method is used to value the stock of bicycles.

Purchases for the year were as follows:

	NUMBER OF UNITS	VALUE PER UNIT	TOTAL VALUE R
PURCHASES	5 040		10 094 050
June 2022	2 085	R1 950	4 065 750
September 2022	2 215	R2 020	4 474 300
January 2023	740	R2 100	1 554 000

NOTE:

- There were 1 009 bicycles on hand on 28 February 2023.
 - 40 bicycles, purchased in January 2023, were returned to the supplier due to factory faults identified.
 - A number of bicycles were stolen and must be recorded as a loss.
- (iii) Commission income, R41 000, is owed to the business.
- (iv) Fee income includes R47 150 for February and March 2023.
NOTE: Fee income increased by 5% on 1 March 2023.
- (v) Buhle Ltd rents 150 square metres of space from Prime Storage at a monthly amount of R330 per square metre from 1 May 2022. The company increased the space rented by 25 square metres on 1 November 2022. Rent was paid until 30 April 2023.
- (vi) Provide for the directors' fees owed.
The company's two directors, Brenda and Johan, have been employed since 2020.
- Brenda earns R10 000 per month more than Johan, but she has not been paid for February 2023 yet.
 - Johan took unpaid leave for the last three months of the financial year.
- (vii) Transfer a debtor's debit balance of R2 700 from the Debtors' Ledger to his account in the Creditors' Ledger.
- (viii) The company has invested in three fixed deposits of equal value. One of the fixed deposits will mature on 31 May 2023.
- (ix) An amount for tax is still owed to SARS on 28 February 2023.

(x) Dividends:

Interim dividends paid	R990 000
Final dividends due	R2 640 000

- (xi) The debt-equity ratio on 28 February 2023 is 0,2 : 1.

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

The information relates to Sherbiz Ltd for the financial year ended 28 February 2023.

REQUIRED:

- 2.1 Prepare the Ordinary Share Capital Note. (7)
- 2.2 Complete the following sections of the Cash Flow Statement:
- Cash flow of operating activities (10)
 - Cash flow of financing activities (6)
- 2.3 Calculate the following financial indicators:
- Net asset value per share (3)
 - Dividend payout rate (5)
 - % return on average shareholders' equity (4)

INFORMATION:**A. Share capital and dividends:**

1 March 2022	1 200 000 shares in issue
30 June 2022	An additional 300 000 shares were issued.
1 December 2022	90 000 shares were repurchased from a retired shareholder. He was paid R0,80 above the average share price and would no longer qualify for dividends.

B. Information from the Statement of Financial Position on 28 February:

	2023 R	2022 R
Ordinary shareholders' equity	10 200 000	7 985 500
Ordinary share capital	9 306 000	7 200 000
SARS: Income tax	27 800 (Cr)	42 500 (Dr)
Shareholders for dividends	282 000	?

C. Loan Statement from Megan Bank:

The annual loan statement for 2023 reflects the following:

- Balance on 28 February 2023: R1 678 600
- Interest capitalised for the financial year: R117 600
- Monthly payments including interest: R22 750

D. Net profit and income tax:

- Net profit after tax amounted to R912 500.
- Income tax is calculated at 27% of the net profit.

E. Dividends and earnings per share:

Final dividends per share on 28 February 2022	24,0 cents
Interim dividends per share paid on 31 August 2022	30,0 cents
Final dividends per share on 28 February 2023	?
Earnings per share on 28 February 2023	66,2 cents

NOTE: All shareholders in the share register at the financial year-end qualify for dividends.

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QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION**(45 marks; 35 minutes)****GUARDIAN LTD AND NAVARRA LTD**

The information relates to TWO companies.

REQUIRED:**NOTE:** Where comments or explanations are required, you should:

- Quote financial indicators and trends with figures
- Give a reason or an explanation for the financial indicators quoted

3.1 Choose an explanation from COLUMN B that matches the individual or term in COLUMN A. Write only the letter (A–D) next to the question numbers (3.1.1 to 3.1.3) in the ANSWER BOOK.

COLUMN A	COLUMN B
3.1.1 Director	A no opinion was expressed on the financial position of the company
3.1.2 Unqualified audit report	B the person who invests funds in a company
3.1.3 Shareholder	C manages the operating, financing and investing activities of a company
	D the financial statements fairly present the financial position of the company

(3 x 1) (3)

3.2 **Liquidity:**

Identify the company that is managing its working capital well. Quote TWO financial indicators. (5)

3.3 **Financing strategies and gearing: Guardian Ltd**

- What were the causes of the change in the debt-equity ratio? Provide TWO causes with figures. (4)
- Explain why it was wise for the company to make more use of loans. Quote and explain ONE other financial indicator to support this opinion. (4)

3.4 **Dividends, earnings and returns: Navarra Ltd**

- Explain ONE financial indicator which indicates that a concerned shareholder should not be satisfied with the change in the dividend policy of the company. (3)
- Explain whether the shareholders should be satisfied with the earnings and returns of the company. Quote TWO financial indicators. (6)

3.5 Shareholding of Nathan Crewe in Navarra Ltd:

- Identify the effect that the repurchase of Nathan's shares had on his % shareholding. (2)
- Explain how the company was able to raise approximately R4,4 million to finance the repurchase of shares and the dividends earned by shareholders. Provide TWO points. (4)
- Give TWO reasons why the decision to repurchase Nathan's shares should be considered as irresponsible. (4)

3.6 Directorship:

- 'The CFO (chief financial officer) has a significant influence on the success of a company.'
Explain why you would agree with this statement. (2)
- Explain whether the directors should be satisfied or not with the share prices of the companies at the end of the financial year. Quote TWO financial indicators in EACH case. (6)
- The CEO (chief executive officer) of Guardian Ltd intends to offer the vacant position of CFO to Nathan Crewe in March 2023. Explain ONE point of advice to the CEO. (2)

INFORMATION:**A. Background information:**

- The financial statements of Navarra Ltd have not yet been audited.
- Sheryl Mabaso is the CFO of Guardian Ltd and Nathan Crewe is the CFO of Navarra Ltd. Sheryl will retire in March 2023.

B. Extracts from the records for the financial year ended on 28 February:

	GUARDIAN LTD		NAVARRA LTD	
	2023	2022	2023	2022
Number of shares in issue at beginning of year	1 200 000		1 200 000	
New shares issued/repurchased on 31 August 2022	800 000		(300 000)	
Number of shares in issue at end of year	2 000 000		900 000	
Issue price of new shares	R11,20			
Share repurchase price			R11,50	
	R	R	R	R
Ordinary share capital	20 960 000	12 000 000	9 000 000	12 000 000
Mortgage loan	5 000 000	3 600 000	6 500 000	3 000 000
Bank (favourable)	850 000	250 000		380 000
Bank (overdraft)			3 200 000	

C. Extracts from the Shareholders' Registers:**Repurchase of shares:**

Nathan convinced the other directors of Navarra Ltd that the company should repurchase 300 000 of his shares for R3 450 000 on 1 September 2022. Note that interim dividends were paid on 31 August 2022.

Shareholding of CFOs:

	GUARDIAN LTD		NAVARRA LTD	
	2023	2022	2023	2022
Sheryl Mabaso	350 000	350 000		
Nathan Crewe			362 000	662 000
% shareholding	17,5%	29,2%	40,2%	55,2%

D. Financial indicators, market prices of shares and interest rates:

	GUARDIAN LTD		NAVARRA LTD	
	28 Feb. 2023	28 Feb. 2022	28 Feb. 2023	28 Feb. 2022
Dividend payout rate	46,7%	33,0%	103,8%	34,8%
Earnings per share	150c	106c	80c	115c
Dividends per share	70c	35c	83c	40c
Interim dividends per share	45c		65c	
Final dividends per share	25c		18c	
Current ratio	1,7 : 1	1,5 : 1	0,9 : 1	2,5 : 1
Acid-test ratio	1,2 : 1	1,0 : 1	0,2 : 1	1,4 : 1
Debtors' collection period	19 days	22 days	45 days	40 days
Creditors' payment period	50 days	48 days	55 days	60 days
Debt-equity ratio	0,2 : 1	0,3 : 1	0,6 : 1	0,2 : 1
% return on capital employed	16,6%	13,5%	11,3%	14,8%
% return on shareholders' equity	12,1%	10,5%	6,4%	11%
Net asset value per share	1 230c	1 110c	992c	1 095c
Interest rate on loan	14%	13%	14%	13%
Interest rate on fixed deposit	9%	8%	9%	8%
Market price per share	1 350c	1 150c	400c	1 800c

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

You are provided with an article relating to an internal auditor who lost her job. Use the information presented and your knowledge on companies to answer the questions.

REQUIRED:**4.1 Auditing:**

- Explain ONE duty of an internal auditor. (2)
- Give ONE reason why the accounting records of a listed company must be audited by an external auditor. (2)

4.2 Whistle-blowers (Informants):

What would you say to Sally regarding her statement in the first paragraph about whistle-blowers not being willing to take a stand against corruption? Explain ONE point. (2)

4.3 Shareholders' opinions and concerns:

As a shareholder, explain THREE points that would concern you about the actions of the board of directors of Monaco Ltd. In EACH case, give a suitable reason for your concern. (9)

INFORMATION:**MONACO LTD: A WHISTLE-BLOWER'S STORY**

Eight months ago, the internal auditor of Monaco Ltd, Sally Bolden, was shocked to learn that she had been fired from her well-paid position in the company. She had exposed her bosses, new board chairperson, Glen Turner, and chief financial officer (CFO), Rachel Donovan, for irregular payments of R3 500 million to companies linked to them. Sally remains unemployed and is battling to support her family. She and other whistle-blowers now regret taking a stand against corruption.

Sally's introduction of new internal control measures and her role in replacing non-performing suppliers and service providers with competent ones had greatly benefitted the company. A loss of R500 million in 2021 had been converted into a profit of R280 million in 2022.

However, Sally's problems started when a new board of directors, chaired by Turner, was appointed.

When asked to comment, Turner said that Sally Bolden's employment had been terminated for bringing the company into disrepute. He added that the board would conduct an investigation into identifying the other whistle-blowers.

In recent developments the external auditors of Monaco Ltd found that a further amount of R200 million had been paid to other individuals linked to Turner and Donovan through irregular procurement deals and that they (Turner and Donovan) had allegedly manipulated company policies to appoint their friends to the new board.

15**TOTAL: 150**

GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET	
$\frac{\text{Gross profit} \times 100}{\text{Sales}} \quad 1$	$\frac{\text{Gross profit} \times 100}{\text{Cost of sales}} \quad 1$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses} \times 100}{\text{Sales}} \quad 1$	$\frac{\text{Operating profit} \times 100}{\text{Sales}} \quad 1$
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	
$\frac{\text{Average trading stock} \times 365}{\text{Cost of sales}} \quad 1$ (See Note 1 below)	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors} \times 365}{\text{Credit sales}} \quad 1$	$\frac{\text{Average creditors} \times 365}{\text{Cost of sales}} \quad 1$ (See Note 2 below)
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (See Note 3 below)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity} \times 100}{\text{Number of issued shares}} \quad 1$	$\frac{\text{Dividends for the year} \times 100}{\text{Number of issued shares}} \quad 1$
$\frac{\text{Interim dividends} \times 100}{\text{Number of issued shares}} \quad 1$	$\frac{\text{Final dividends} \times 100}{\text{Number of issued shares}} \quad 1$
$\frac{\text{Dividends per share} \times 100}{\text{Earnings per share}} \quad 1$	$\frac{\text{Dividends for the year} \times 100}{\text{Net income after tax}} \quad 1$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	
<p>NOTE: 1. Trading stock at the end of a financial year may be used if required in a question. 2. Credit purchases may be used instead of cost of sales (figures will be the same if stock is constant). 3. 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.</p>	