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SENIOR CERTIFICATE EXAMINATIONS/ NATIONAL SENIOR CERTIFICATE EXAMINATIONS

ACCOUNTING P1

MAY-JUNE 2024

MARKS: 150

TIME: 2 hours

**This question paper consists of 12 pages,
a formula sheet and a 10-page answer book.**

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 | 40 | 30 |
| 3 | Interpretation of Financial Information | 40 | 35 |
| 4 | Corporate Governance | 15 | 10 |
| TOTAL | | 150 | 120 |

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

The information relates to DBN Ltd. The company sells household products. The financial year ended on 29 February 2024.

REQUIRED:**1.1 Refer to information A.**

The bookkeeper has recorded all the entries regarding fixed assets in the books. Complete the amounts denoted by (i) to (iii) on the Fixed Asset Note. (12)

1.2 Refer to information C and D.

Calculate the correct net profit **after tax** for the year ended 29 February 2024. Indicate (+) for increase and (-) for decrease, next to each amount. (13)

1.3 Complete the Statement of Financial Position on 29 February 2024. (30)

NOTE: Some amounts are provided in the ANSWER BOOK.

INFORMATION:**A. Fixed assets:**

| | Buildings R | Vehicles R | Equipment R |
|-------------------------------|----------------|---------------|----------------|
| Carrying value: (01/03/2023) | | 249 850 | |
| Cost | (i) | | 436 000 |
| Accumulated depreciation | | | |
| Movements: | | | |
| Additions (at cost) | 0 | 260 000 | 0 |
| Disposals (at carrying value) | (420 000) | 0 | (iii) |
| Depreciation | | (ii) | (32 000) |
| Carrying value: (29/02/2024) | 9 421 300 | | |
| Cost | | 786 000 | 356 000 |
| Accumulated depreciation | | | |

- Depreciation is calculated as follows:
 - Vehicles: 15% p.a. on cost
 - Equipment: 20% on the diminishing-balance method
- A new vehicle was bought on 1 October 2023.
- Extract from the Fixed Assets Register in respect of equipment sold:

| KINOPA MWALIMU 234 | |
|----------------------------------|-------------------|
| Cost price: R80 000 | |
| Date purchased: 1 September 2021 | |
| Date sold: 31 May 2023 | Sold for: R53 000 |
| CARRYING VALUE | |
| 28 February 2022 | R72 000 |
| 28 February 2023 | R57 600 |
| 31 May 2023 | ? |

B. Balances on 29 February 2024:

| | |
|---|------------|
| Fixed assets at carrying value | R9 952 480 |
| Ordinary share capital | ? |
| Retained income | ? |
| Loan: PTA Bank | ? |
| Fixed deposit | 425 000 |
| Trading stock | 1 064 200 |
| Net trade debtors | 744 900 |
| Creditors' control | 518 950 |
| SARS: Income tax (provisional tax payments) | 322 800 |

- C. The bookkeeper has calculated the net profit before tax as **R1 150 000**.
The pre-adjustment balances to be adjusted are:

| | |
|-----------------|-----------|
| Audit fees | R144 000 |
| Trading stock | 1 064 200 |
| Rent income | 287 300 |
| Directors' fees | 852 800 |

Only the adjustments listed below must still be taken into account.

- (i) Audit fees of R45 600 were still owing on 29 February 2024.
- (ii) A donation of 100 blankets was made to a children's hospital, but the donation has not been recorded. The business uses the weighted-average method for valuing blankets. The stock records for blankets reflect the following:

| | Quantity (units) | Unit price | Total cost |
|-----------------------------------|------------------|------------|------------|
| Purchases during the year: | 1 500 | | R603 000 |
| 15 April 2023 | 600 | R330,00 | 198 000 |
| 22 June 2023 | 900 | R450,00 | 405 000 |
| Sales | 1 220 | | |
| Stock on hand: 29 Feb. 2024 | 280 | | |

- (iii) Rent was **increased** by **R1 300** per month from 1 January 2024. Only the rent for the **period 1 March 2023 to 31 January 2024** was received and recorded.
- (iv) The company had one director, Jenny, at the beginning of the financial year. Jenny had been paid in advance for two months. A second director, Frank, was appointed on 1 December 2023. His monthly fee is 20% lower than that of Jenny. Frank received the fees due to him.

D. Income tax:

The assessment from SARS indicated total income tax for the financial year as R351 000, after all adjustments had been made. ...

E. Share capital and dividends:

| DATE | DETAILS |
|------------------|---|
| 1 March 2023 | 2 120 000 shares in issue |
| 30 June 2023 | 230 000 shares repurchased: The average share price was R5,90 at the date of the repurchase |
| 29 February 2024 | 1 890 000 shares in issue |

- Interim dividends were not declared during the financial year.
- Final dividends of 25c per share were declared on 29 February 2024 to all shares in the share register.

F. Transfer of debtor's balance to Creditors' Ledger:

A debtor with a debit balance of R8 400 in the Debtors' Ledger must still be transferred to his account in the Creditors' Ledger.

G. Loan: PTA Bank

Extract from the Loan Statement from PTA Bank:

| | |
|--|------------|
| Balance on 1 March 2023 | R1 400 000 |
| Repayments for the financial year (including interest) | ? |
| Interest capitalised | 168 000 |
| Balance on 29 February 2024 | 1 004 000 |

NOTE:

- All entries for the repayments and interest have been made.
- Directors expect to maintain the capital repayments made this year, during the next financial year.

QUESTION 2: CASH FLOW STATEMENT AND FINANCIAL INDICATORS
(40 marks; 30 minutes)

CONCEPTS

- 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 The current ratio is a financial indicator which is relevant to the (liquidity/solvency) of a company.
- 2.1.2 An increase in a fixed deposit will lead to an (inflow/outflow) of cash in the Cash Flow Statement.
- 2.1.3 A decrease in inventories will lead to an (inflow/outflow) of cash in the Cash Flow Statement. (3)

JINGLE LTD

The information relates to the financial year ended 29 February 2024.

REQUIRED:

- 2.2 Prepare the Retained Income Note for the financial year ended 29 February 2024. (8)
- 2.3 Refer to the partially completed Cash Flow Statement provided. Calculate and/or provide the figures denoted by (i) to (v). (17)
- 2.4 Calculate the following financial indicators for the financial year ended 29 February 2024:
- Acid-test ratio (4)
 - Interim dividend per share (in cents) (4)
 - % return on average shareholders' equity (ROSHE) (4)

INFORMATION:

A. Share capital:

| Number of shares | Details |
|------------------|---|
| 1 450 000 | Shares in issue on 1 March 2023 |
| 30 000 | Shares repurchased on 1 June 2023, at R3,70 above the average share price |
| 250 000 | Shares issued on 1 November 2023, at R17,20 per share |
| 1 670 000 | Shares in issue on 29 February 2024 |

B. Dividends:

- Interim dividends were paid on 31 August 2023 to all shares in the share register.
- A final dividend was declared on 29 February 2024.

C. Extract from the Statement of Comprehensive Income for year ended 29 February 2024:

| | |
|-----------------------------------|------------|
| Depreciation | R1 620 000 |
| Operating profit | 4 826 000 |
| Interest on loans | 966 000 |
| Income tax (at a tax rate of 30%) | 1 950 000 |

D. Extract from the Statement of Financial Position on 28/29 February:

| | 2024 | 2023 |
|--------------------------------|-------------------|-------------------|
| Fixed assets at carrying value | R43 095 000 | R39 365 000 |
| Current assets (Note 1) | 9 623 000 | 8 029 000 |
| Current liabilities (Note 2) | 18 310 000 | 12 044 000 |
| Shareholders' equity | 28 248 000 | 25 729 000 |
| Ordinary share capital | ? | 22 910 000 |
| Retained income | ? | 2 819 000 |

Note 1: Items included under Current assets

| | 2024 | 2023 |
|-------------------------|------------|------------|
| Inventories | R4 190 000 | R3 883 000 |
| Cash & cash equivalents | 55 000 | 1 030 000 |

Note 2: Items included under Current liabilities

| | 2024 | 2023 |
|----------------------------|------------|------------|
| Shareholders for dividends | R2 338 000 | R2 320 000 |
| SARS: Income tax | 115 000 | 86 000 |
| Bank overdraft | 3 274 000 | 0 |

E. Fixed assets:

- A vehicle was sold at carrying value.
- Fixed assets were also purchased during the financial year.

F. Partially completed Cash Flow Statement on 29 February 2024:

| | |
|--|-------------|
| Cash effects of operating activities | |
| Cash generated from operations | |
| Interest paid | (966 000) |
| Dividends paid | (5 728 000) |
| ? | (i) |
| Cash effects of investing activities | |
| ? | (ii) |
| Proceeds from sale of fixed assets | 232 000 |
| Change in investments | |
| Cash effects of financing activities | |
| ? | (iii) |
| ? | (iv) |
| Change in loans | |
| Net change in cash & cash equivalents | |
| Cash & cash equivalents on 1 March 2023 | 1 030 000 |
| ? | (v) |

QUESTION 3: INTERPRETATION OF FINANCIAL INFORMATION**(40 marks; 35 minutes)**

The information relates to Britesun Ltd. The company sells high-quality solar panels to businesses and homeowners to generate electricity. The financial year ends on 28/29 February each year.

REQUIRED:

NOTE: Where comments or explanations are required, you must:

- Quote financial indicators and trends, with figures
- Give a reason or an explanation on the relevant financial indicators

3.1 Mark-up percentage

Explain how the customers reacted to the change in the mark-up percentage and whether this benefited the company or not. (4)

3.2 Profitability and operating efficiency:

Comment on the operating efficiency of the company over the past two years. Quote TWO financial indicators. (4)

3.3 Financial risk and gearing:

3.3.1 One of the shareholders cannot understand why the debt-equity ratio increased in 2024 despite the increase in the loan. Provide him with an explanation. (2)

3.3.2 The chief financial officer (CFO) is of the opinion that the increase in the loan was a good decision. Apart from the debt-equity ratio, provide TWO points to support his opinion, including ONE relevant financial indicator. (4)

3.4 Returns, earnings and dividends:

3.4.1 Comment on whether the shareholders should be satisfied with the return on their investment. Provide TWO points, including ONE financial indicator. (4)

3.4.2 Comment on the earnings per share (EPS) and explain its impact on the dividend pay-out policy adopted by directors. (4)

3.5 Share price on the stock exchange:

Comment on the performance of the share price on the stock exchange (JSE). Provide TWO points, with figures and trends. (4)

3.6 Shareholding of Allan Ashwin:

3.6.1 Allan Ashwin owns shares in Britesun Ltd. He is pleased with his investment in the shares of this company. Provide TWO points, with figures or calculations, to support his opinion. (4)

3.6.2 The company plans to issue additional new shares equal to 20% of the issued share capital, in the next financial year to existing shareholders. Allan has indicated that he will not take up this offer. Explain how this decision will affect his % shareholding. Provide a calculation or figures to support your explanation. (6)

3.7 Bonuses for directors and other employees of Britesun Ltd:

Bonuses for directors and other employees are included in the company's budget. Shareholders will be required to vote at the AGM on whether these bonuses should be paid or not.

Apart from the points provided above, state TWO different factors that will influence shareholders to vote in favour of approving such bonuses. (4)

INFORMATION:**A. Financial indicators and additional information:**

| | 29 Feb. 2024 | 28 Feb. 2023 |
|--|---------------------|---------------------|
| Current ratio | 1,8 : 1 | 4,3 : 1 |
| Acid-test ratio | 0,9 : 1 | 2,5 : 1 |
| Debt-equity ratio | 0,2 : 1 | 0,3 : 1 |
| Earnings per share (EPS) | 224 cents | 113 cents |
| Dividends per share (DPS) | 90 cents | 90 cents |
| Dividend pay-out rate | 40% | 80% |
| % return on average equity (ROSHE) | 15,6% | 8,0% |
| % return on total capital employed (ROTCE) | 19,7% | 11,0% |
| Net asset value per share (NAV) | 1 543 cents | 1 413 cents |
| Solvency ratio | 2,5 : 1 | 3,6 : 1 |
| % operating expenses on sales | 22,0% | 28,0% |
| % operating profit on sales | 15,6% | 10,2% |
| % net profit after tax on sales | 13,5% | 8,8% |
| % mark-up | 60% | 40% |
| Number of directors and other employees | 38 | 43 |
| Number of customers | 245 | 280 |
| Average sales per customer | R160 000 | R120 000 |
| Market price of shares on JSE | 1 610 cents | 1 342 cents |
| % interest rate on investments | 7% | 7% |
| % interest rate on loans | 13% | 13% |

B. Extracts from Cash Flow Statement:

| | 29 Feb. 2024 | 28 Feb. 2023 |
|---------------------------------------|---------------------|---------------------|
| Cash generated from operations | R6 785 000 | R3 863 500 |
| Proceeds of shares issued | R2 800 000 | 0 |
| Increase in loan | R1 000 000 | R4 000 000 |
| Fixed assets purchased | 0 | R750 000 |
| Fixed assets sold* | R1 100 000 | 0 |
| *Unproductive fixed assets were sold. | | |

C. Shareholding of Allan Ashwin in Britesun Ltd:

| | Britesun Ltd |
|---|---------------------|
| Shares in issue on 29 February 2024 | 700 000 |
| Number of shares owned by Ashwin | 360 000 |
| Purchase price per share paid by Ashwin | 780 cents |
| Dividends earned per share | 90 cents |

QUESTION 4: CORPORATE GOVERNANCE**(15 marks; 10 minutes)**

You are provided with a media article relating to Gadram Ltd.

REQUIRED:**4.1 Refer to Paragraph 4.**

The three board members implicated in this case each own 150 000 shares. Calculate the loss that Loma and the two directors each were able to avoid by selling their shares on 13 April 2023.

(3)

4.2 Refer to Paragraph 3.

- Explain why the text message is so important to the investigators.
- Explain why you think this crime is referred to as 'insider trading'.

(2)

(2)

4.3 Explain how the rapid decline in the share price and the fraudulent financial statements are likely to affect the existing shareholders and its workers.

(4)

4.4 If you were a shareholder in Gadram Ltd, what other questions would you raise at the AGM? Explain TWO points.

(4)

INFORMATION:

Use the information in the article and your knowledge on companies to answer the questions.

SOCIAL MEDIA LIFTS THE LID ON MAJOR INSIDER TRADING**Paragraph 1**

Bizmiz News reported last month on the disclaimer audit report received by Gadram Ltd and that a police investigation into the false financial statements had recently begun. But this is not the end of the company's problems.

Paragraph 2

In March 2024, the Financial Sector Conduct Authority (FSCA) imposed a penalty of R50 million on Loma Leonard, CEO (chief executive officer) of Gadram Ltd, for breaching the Financial Markets Act (Act 19 of 2012) when he sent text messages to two directors, warning them to sell their Gadram shares.

Paragraph 3

The incriminating message from Loma read: 'You always ask for my opinion. It will take a long time for Gadram to get rid of all the bad news. Sell your shares immediately at the current price. Delete this message now and don't tell anyone.'

Paragraph 4

In deciding on the fine, the FSCA noted that on 10 April 2023 Loma had sent the message and on 13 April 2023, the three board members, Loma and the two directors, sold their shares on the JSE at R105,00 per share. The subsequent rapid decline to R8,00 per share in the market price of the shares occurred in the following two days.

15**TOTAL: 150**

| GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET | |
|---|---|
| $\frac{\text{Gross profit} \times 100}{\text{Sales}} \quad 1$ | $\frac{\text{Gross profit} \times 100}{\text{Cost of sales}} \quad 1$ |
| $\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$ | $\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$ |
| $\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$ | $\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$ |
| 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 | |
| $\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$ (See Note 1 below) | $\frac{\text{Cost of sales}}{\text{Average trading stock}}$ |
| $\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$ | $\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$ (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) |
| $\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$ | |
| $\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$ | $\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$ |
| $\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$ | $\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$ |
| $\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$ | $\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$ |
| $\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$ | |
| <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> | |