Education

KwaZulu-Natal Department of Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

MARCH 2017

COMMON TEST

NATIONAL SENIOR CERTIFICATE

GRADE 12

MARKS: 100

TIME : 1 hour

NB: this question paper consist of 8 pages.

INSTRUCTIONS AND INFORMATION

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

1. This question paper consists of 8 pages.
2. A special **ANSWER BOOK** consisting of 5 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. All calculations, where applicable, must be rounded off to two decimal places.
9. Use the information in the table below as a guide when answering the question paper:

Question 1: 20 Marks, 12 Minutes	
The topic of this question is:	**Content:**
Calculation of ratio's and audit report	• Return on total capital employed • Return on shareholders' equity • Audit report
Question 2: 20 Marks, 12 Minutes	
The topic of this question is:	**Content:**
Interpretation of ratio's	• Financial Statements
Question 3: 30 Marks, 18 Minutes	
The topic of this question is:	**Content:**
Financial Statements	• Income statement • Balance sheet • Ordinary share capital
Question 4: 30 Marks, 18 Minutes	
Cash Flow Statement	• Cash Flow Statement

QUESTION 1 (20 Marks, 12 Minutes)

1.1 RATIO'S

You are provided with information, taken from the books of Inkuzi Ltd, for the financial year ended 28 February 2017. This company is listed on the Johannesburg Securities Exchange (JSE).

REQUIRED:

Calculate the following:

1.1.1 Return on average shareholders' equity (ROSHE) **(5)**

1.1.2 Return on total capital employed (ROTCE) **(8)**

INFORMATION:

A.

	2017	2016
Shareholders' equity	**5 148 000**	**3 226 000**
Share capital	4 800 000	3 000 000
Retained income	348 000	226 000
Mortgage Loan: TKO Bank	800 000	500 000
Current Liabilities	**537 500**	**489 900**
Creditors and other payables	136 800	151 300
SARS (Income tax)	25 700	0
Shareholders for dividends	375 000	240 000
Bank overdraft	0	98 600

B. Interest expense R135 000

C. Net profit before tax R1 179 800

D. Income tax R352 800

E. Net profit after tax R827 000

1.2 AUDITORS' REPORT AND BUSINESS ETHICS

1.2.1 Who is responsible to see to it that the financial statements are drawn up? **(2)**

1.2.2 To which main group of people should the auditors address their report and why is the report directed to this group of people? **(3)**

1.2.3 The auditor's report refers to the International Financial Reporting Standards (IFRS). Explain why the auditors have to bring the IFRS into account when they give their opinion. **(2)**

20

QUESTION 2

(20 Marks, 12 Minutes)

Your friend, Sibusiso Smith, wants to buy shares in a company which sells computers. He asks you for advice and presents you with the following financial indicators of two companies that he is considering. Both companies have the same number of shares.

REQUIRED:

Answer the following questions. In each case compare and quote the relevant financial indicators (figures, ratios or percentages) of both companies to support your explanations.

2.1 Compare and comment on the dividend pay-out policy of the two companies. **(6)**

2.2 Comment on the financial gearing of both companies. Explain which company is making more use of loans and state whether it is a good idea or not, for that company to do so. **(8)**

2.3 Refer to the market price of the shares and the net asset value per share. What advice would you offer Sibusiso Smith about investing in either company? **(6)**

INFORMATION:

A. Financial indicators of Ladysmith Ltd and Dundee Ltd. Both companies financial year ended on 28 February 2017.

	Ladysmith Ltd	**Dundee Ltd**
Market price per share (JSE)	445 cents	315 cents
Net asset value per share (NAV)	316 cents	342 cents
Earnings per share (EPS)	63 cents	92 cents
Dividends per share (DPS)	56 cents	46 cents
Return on average capital employed (ROTCE)	21,2%	9.6%
Return on shareholders' equity (ROSHE)	19.7%	7.6%
Debt/equity ratio	0.9:1	0.52:1
Current ratio	1.43:1	4:1
Acid test ratio	0.5:1	1.6:1
Current interest rate on loans	11%	11%
Current interest rate on alternative investment	10%	10%

20

QUESTION 3 **(30 Marks; 18 Minutes)**

The financial year of Mbuso Limited ends on 28 February 2017.

The bookkeeper of Mbuso Limited took the year-end adjustments into account and calculated the net profit before tax as R900 000. However, it was discovered that some adjustments were not taken into account and some were entered incorrectly when calculating the net profit before tax.

REQUIRED:

3.1 Calculate the correct net profit after tax for the year ended 28 February 2017. **(7)**

3.2 Complete the Liabilities section of the Balance Sheet (Statement of Financial Position) on 28 February 2017. Where notes are not required, calculations must be shown in brackets for part marks to be earned. **(14)**

3.3 Prepare the following note to the Balance Sheet (Statement of Financial Position):

3.3.1 Ordinary Share Capital **(9)**

INFORMATION:

A. The following extract was taken from the list of balances which appeared in the ledger of Mbuso Limited on 28 February 2017, before any additional adjustments and information were taken into account:

Ordinary Share capital	?
Retained Income (1 March 2016)	R310 000
Equipment	350 000
Accumulated depreciation on equipment	145 000
Provision for bad debts	1650
Bank overdraft	550 000
SARS: Income tax (Dr.)	242 800
Creditors Control	?
Deferred income	11 000
Expenses payable	15 200
Loan: Nongoma Bank	794 000

B. The following adjustments and additional information were either omitted or entered incorrectly when calculating the net profit.

1. An invoice issued to a debtor for goods sold on credit for R 70 000, was recorded as a credit note for unsatisfactory goods returned. The mark-up for this sale was 60% on cost.

2. According to the profit and loss account the insurance amounted to R27 000. This amount included an annual premium of R7 200 which was paid on 1 November 2016.

3. In the profit and loss account, the amount for Rent income amounted to R91 300. The accountant did not take into account that the tenant paid the rent for March 2017 in advance. The rent had increased by R700 per month on 1 October 2016.

4. The loan statement received from Nongoma Bank reflected the following:

Balance at the beginning of the year	R880 000
Interest capitalized	R103 600 for the year
Monthly payment to Nongoma Bank	R15 800 per month
Balance at the end of the year	R794 000

   In terms of the loan agreement, fixed monthly repayment of capital plus interest is to be paid until the loan is settled. Interest was not taken into account when the Income Statement was prepared.

5. The total current assets amounted to R1 704 000

6. Income Tax for the year amounted to R247 800

7. The current ratio for 2017 is 1,5:1

8. Share capital:
   - On 1 March 2016 the ordinary share capital amounted to R2 400 000.
   - 60 % of the authorised share capital of 500 000 shares were issued.
   - On 1 July 2016 the directors issued an additional 100 000 shares at R8,20.
   - On 10 January 2017 the directors decided to buy back 70 000 shares from the estate of a deceased shareholder at R8,60 per share. This transaction was completed successfully, but no entry has been made as yet. These shares qualify for final dividends.

9. Final dividends were declared at 80 cents per share on 28 February 2017.

30

QUESTION 4 (30 Marks; 18 Minutes)

You are provided with an extract from the financial records of M.G Limited on 28 February 2017, the end of the financial year. They are authorised to issue 1 200 000 shares. By 28 February 2017 they had issued 540 000 of these shares.

REQUIRED:

4.1 Complete the Reconciliation of net profit before tax and cash generated from operations on 28 February 2017. **(9)**

4.2 Complete the Cash Flow Statement on 28 February 2015. **(21)**

INFORMATION:

A. **Extract from the Income Statement**

	28 February 2017
Net profit after tax	1 260 000
Depreciation	?
Interest expense	89 600
Income tax	540 000

B. **The following balances were extracted from the Balance Sheet:**

	2017	2016
Share capital	?	4 500 000
Retained income	266 260	270 720
Loan: Siya Bank	652 000	665 600
SARS (Income tax)	13 540 (Cr)	17 520 (Dr)
Trade debtors	238 600	288 600
Prepaid expenses	31 200	24 800
Trade creditors	490 000	410 000
Income received in advance	47 800	59 200
Inventories	312 000	248 000
Cash and cash equivalents (bank)	2 000 003	91 200
Bank overdraft	15 200	126 390
Shareholders for dividends	?	140 000

C. **Fixed assets**

Equipment purchased on 1 March 2014 for R80 000, was sold on 31 August 2016 for cash at the carrying value. Depreciation on equipment is calculated at 15% p.a. on diminished method.

D. **Share capital and dividends**

- 900 000 shares were in issue on 1 March 2016.
- The company issued 125 000 ordinary shares at R13,20 per share on 1 July 2016.
- 75 000 ordinary shares were repurchased from the estate of a deceased shareholder at R3,10 above the average price on 28 February 2017. These shares do qualify for final dividends.
- Final dividends of 12 cents have been declared on 28 February 2017.
- Total dividends for the year ended 28 February 2017 amounted to R225 500.

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TOTAL MARKS: 100

Education

KwaZulu-Natal Department of Education
REPUBLIC OF SOUTH

ACCOUNTING

ANSWER BOOK

MARCH 2017

NATIONAL
SENIOR CERTIFICATE

GRADE 12

NAME:____

QUESTION	MARKS	MOD
1.		
2.		
3.		
4.		
TOTAL		

N.B. This answer book consist of 5 pages

QUESTION 1

1.1.1

Return on average shareholders' equity (ROSHE)

5

1.1.2

Return on total capital employed (ROTCE)

8

1.2.1

Who is responsible to see to it that the financial statements are drawn up?

2

1.2.2

To which main group of people should the auditors address their report and why is the report directed to this group of people?

3

1.2.3

The auditor's report refers to the International Financial Reporting Standards (IFRS). Explain why the auditors have to bring the IFRS into account when they give their opinion.

2

QUESTION 2

2.1 **Compare and comment on the dividend pay-out policy of the two companies.**

6

2.2 **Comment on the financial gearing of both companies. Explain which company is making more use of loans and state whether it is a good idea or not, for that company to do so.**

8

2.3 **Refer to the market value of the shares and the net asset value per share. What advice would you offer Sibusiso Smith about investing in either company?**

6

QUESTION 3

3.1

Calculate the correct net profit after tax for the year ended 28 February 2017.	
Net profit before tax	**900 000**

7

3.2

Complete the Liabilities section of the Balance Sheet (Statement of Financial Position) on 28 February 2017. Where notes are not required, calculations must be shown in brackets for part marks to be earned.	
Non-current liabilities	
Current liabilities	

14

3.3

Ordinary Share Capital	
	2 400 000

9

QUESTION 4

4.1

Complete the Reconciliation of net profit before tax and cash generated from operations on 28 February 2017.	

9

4.2

Complete the Cash Flow Statement on 28 February 2017	
Cash flow from operating activities	
Cash flow from investing activities	
Purchase of Fixed assets	(229 620)
Cash flow from financing activities	

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ACCOUNTING

MEMORANDUM

MARCH 2017

NATIONAL SENIOR CERTIFICATE

GRADE 12

MARKS: 100

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item. No double penalty applied.
2. If a pre-adjustment figure is shown as the final figure, no marks will be allocated.
3. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect.
4. Codes: f=foreign item; p=placement

NB this memorandum consists of 5 pages.

QUESTION 1

1.1.1 **Return on average shareholders' equity (ROSHE)**

$$\frac{827\ 000✓}{½✓(5\ 148\ 000✓ + 3\ 226\ 000✓)} \times \frac{100}{1}$$

$$\frac{827\ 000}{4\ 187\ 000} \times \frac{100}{1}$$

=19.75% ☑ one part correct

5 | 5

1.1.2 **Return on total capital employed (ROTCE)**

$$\frac{1\ 179\ 800✓ + 135\ 000✓}{½✓(5\ 148\ 000✓ + 800\ 000✓ + 3\ 226\ 000✓ + 500\ 000✓)} \times \frac{100}{1}$$

$$\frac{1\ 314\ 800}{4\ 837\ 000} \times \frac{100}{1}$$

= 27,18% ☑ one part correct

8 | 8

1.2.1 **Who is responsible to see to it that the financial statements are drawn up?**

Directors of the company.✓✓

2 | 2

1.2.2 **To which main group of people should the auditors address their report and why is the report directed to this group of people?**

Shareholders✓ –

- They are the owners of the company who want to see which recommendations the auditors will make.✓✓
- They have invested in the company and want to see which recommendations the auditors will make.
- They are interested in their investment hence want to see which recommendations the auditors will make.

3 | 3

1.2.3 **The auditor's report refers to the International Financial Reporting Standards (IFRS). Explain why the auditors have to bring the IFRS into account when they give their opinion.**

It is a requirement of audit standards and assures that the financial statements of a company comply with International Standards and can thus be compared with other companies✓✓

2 | 2

QUESTION 2

2.1

Compare and comment on the dividend pay-out policies of the two companies.		
	Financial indicators or explanation, with figures	Comparison and comment Do not accept comparison of the DPS or EPS only must mention both companies ✓✓ marks or nothing
Ladysmith Ltd	DPS 56 cents✓ EPS 63 cents✓ **OR** 2 marks Distributes 89%	Ladysmith Ltd is distributing a higher percentage of income earned; Dundee Ltd has decided to retain half of EPS. **OR** Ladysmith Ltd appears to keep shareholders satisfied by giving them good dividends, Dundee Ltd appears to have plans for growth.
Dundee Ltd	DPS 46 cents✓ EPS 92 cents✓ **OR** 2 marks Distributes 50%	

6
6

2.2

Comment on the financial gearing of both companies. Explain which company is making more use of loans and state whether it is a good idea or not, for that company to do so.		
	Financial indicators or explanation, with figures	
Ladysmith Ltd	Debt/equity ratio 0.9:1✓ ROTCE is 21.2%✓	**Company that is using more loans:** Ladysmith✓ Yes✓ Return on capital employed for Ladysmith is 21.2% above the interest rate on loans (11%)✓✓ OR 10.2% positive gearing
Dundee Ltd	Debt/equity ratio 0.52:1✓ ROTCE is 9.6%✓	

8
8

2.3

Refer to the market value of the shares and the net asset value per share. What advice would you offer Sibusiso Smith about investing in either company?		
	Financial indicators with figures	Explanation must involve advice. Do not accept comparison of JSE on NAV. ✓✓ marks or nothing
Ladysmith Ltd	JSE price 445✓ cents above NAV of 316 cents✓	I would advise Sibusiso to invest in Ladysmith Ltd the shares seem to be in good demand. **OR** I would advise Sibusiso not to invest in Ladysmith Ltd as the shares might be overpriced. **OR** I would advise Sibusiso to invest in Dundee Ltd as the shares seem to be under-valued.
Dundee Ltd	JSE price 315 cents✓ below the NAV of 342 cents✓	

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6

QUESTION 3

3.1

Calculate the correct net profit after tax for the year ended 28 February 2017.	
Net profit before tax	**900 000**
Gross profit (140 000 – 87 500) or (26 250 x 2)	52 500✓✓
Insurance	4 800✓
Rent income	– 7 400✓
Interest on loan	– 103 600✓
Income tax	– 247 800✓
Net profit after tax operation one part correct except 900 000	598 500☑

Award 1 mark for Gross Profit 26 250 with correct sign.

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3.2

Complete the Liabilities section of the Balance Sheet (Statement of Financial Position) on 28 February 2017. Where notes are not required, calculations must be shown in brackets for part marks to be given.	
Non-current liabilities	**708 000**
Loan (794 000✓ – 86 000✓) operation	708 000☑
Current liabilities operation	1 136 000☑
Trade and other payables (7 400☑+ 11 000✓+ 15 200✓+ 5 000✓ + 320 000✓ + 141 400 ☑Balancing figure Creditors) operation	500 000☑ Balancing figure
Current portion of loan check loan Bank overdraft	86 000☑ 550 000✓
Operation one part correct	1 844 000☑

14
14

3.3

Ordinary Share Capital	
300 000✓ ordinary shares	**2 400 000**
100 000✓ ordinary shares @ R8.20	820 000✓
(70 000)✓ shares bought back @ R8.05✓☑	(563 500)✓
330 000✓ ordinary shares @ R8.05 operation one part	2 656 500☑

9
9

QUESTION 4

4.1

Complete the Reconciliation of Net Profit before Tax and Cash Generated from Operations on 28 February 2017.		
Net profit before tax (1 260 000 + 540 000)		1 800 000✓
Depreciation	balancing figure	145 788☑
Interest expenses		89 600✓
Net profit before changes in working capital	operation	2 035 388☑
Changes in working capital	operation	48 200☑
Inventory (312 000 – 248 000)		(64 000)✓
Debtors (238 600 + 31 200 – 288 600 – 24 800)		43 600✓
Creditors (490 000 + 47 800 – 410 000 – 59 200)		68 600✓
	See 4.2 cash generated by operations	2 083 588☑

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4.2

Complete the Cash Flow Statement on 28 February 2015		
Cash flow from operating activities	operation	1 242 548☑
Cash generated by operations	balancing figure/see 4.1	2 083 588☑
Interest paid	see 4.1 interest expenses	(89 600)☑
Dividends paid (140 000 + 102 500)	2 or nothing	(242 500)✓✓
Tax paid (540 000✓ – 13 540✓ – 17 520✓)	operation	(508 940)☑
Cash flow from investing activities	operation	(176 155)☑
Purchases of Fixed assets		**(229 620)**
Proceeds on sale of fixed asset	2 or nothing	53 465✓✓
Cash flow from financing activities	operation	953 600☑
Proceeds on shares issued (125 000 X 13. 20)	2 or nothing	1 650 000✓✓
Buy-back of shares(75 000 X 9. 10)	2 or nothing	(682 500)✓✓
Repayment of loan		(13 600)✓
Net change in cash and cash equivalent	operation	2 019 993☑
Cash and cash equivalent at the beginning		(35 190)✓
Cash and cash equivalent at the end		1 984 803✓

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