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Education

KwaZulu-Natal Department of Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 12

ACCOUNTING
COMMON TEST
MARCH 2018

MARKS: 100

TIME: 1 hour

This question paper consists of 8 pages.

INSTRUCTIONS AND INFORMATION

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

1. This question paper consists of 9 pages.
2. A special **ANSWER BOOK** consisting of 8 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. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

Question 1: 40 Marks, 24 Minutes	
The topic of this question is:	Content:
Financial Statement	• Correct net profit • Retained Income • Ordinary share capital • Equity and liability section of the Balance Sheet
Question 2: 30 Marks, 18 Minutes	
The topic of this question is:	Content:
Cash Flow Statement	• Cash Flow Statements
Question 3: 30 Marks, 18 Minutes	
The topic of this question is:	Content:
Ratio's and analysis and interpretation	• % return on average shareholders equity • Interpretation

QUESTION 1**(40 Marks; 24 Minutes)****FINANCIAL STATEMENT**

You are provided with information relating to Nokubonga Limited for the year ended 28 February 2018.

REQUIRED:

- 1.1 Calculate the correct net profit after tax for the year ended 28 February 2018. Indicate a + for increase and a – for decrease. (7)
- 1.2 Prepare the Retained Income Note on 28 February 2018. (9)
- 1.3 Prepare the Ordinary share capital Note on 28 February 2018. (9)
- 1.4 Complete the Equity and liability section of the Statement of Financial Position (Balance Sheet) (15)

INFORMATION:**A. Extract of balances on 28 February 2018.**

Balance Sheet Account Section	R
Ordinary share capital (1 March 2017)	4 200 000
Retained income (1 March 2017)	468 000
Mortgage loan	262 200
Fixed assets	7 000 000
Trading stock	200 000
Debtors control	150 000
Creditors control	180 000
Provision for bad debts (1 March 2017)	11 400
SARS: Income tax (provisional tax payments)	48 000
Income receivable	5 200

B. The net profit before tax was calculated as R 166 800 before taking into account the following information:

1. The provision for bad debts must be adjusted to R10 400.
2. The rent for February 2018 is still outstanding. The rent from 1 March 2018 onwards will be R3 080 as the rent will be increased by 10%.
3. An annual insurance premium of R9 000 was paid and recorded in the Income Statement. This premium was for the period 1 November 2017 to 31 October 2018.
4. The auditors discovered that the profit on disposal of a vehicle, R1 200, was incorrectly recorded as a loss in the Income Statement.
5. Income tax liability for the year amounts to R51 000

C. Shares:

- Nokubonga Ltd is authorised to sell 4 000 000 ordinary shares.
- 160 000 shares were in issue on 1 March 2017.
- On 1 December 2017 the directors decided to buy back 50 000 shares from the family of a deceased shareholder, at R30 per share. These shares are entitled to final dividends.
- On 1 January 2018, 100 000, shares were issued at R21 each. These shares do not qualify for final dividends.

D. Dividends:

- An interim dividend of 14 cents per share was declared and paid on 31 August 2017.
- A final dividend of 10 cents per share was declared on 28 February 2018.

E. A debtor with a debit balance of R2 000 in the debtors ledger must still be transferred to his account in the creditors ledger.

F. Mortgage loan:

The mortgage loan was obtained on 1 December 2016. This will be repaid over six years. A fixed loan repayment (excluding interest) is made at the end of each month. The first monthly loan repayment was made on 31 December 2016. All other loan repayments have been made to date. Interest is not capitalised and has been correctly recorded.

QUESTION 2**(30 Marks; 18 Minutes)****CASH FLOW STATEMENT**

2.1 State whether each of the following statements is True or False. Write only 'True' or 'False' next to the question number (2.1.1-2.1.4) in the answer book.

2.1.1 The external auditor prepares relevant control measures for accounting procedures and ensures that they are followed. (1)

2.1.2 The directors are responsible for preparing the financial statements of a company. (1)

2.1.3 Depreciation is added back into the Cash Flow Statement, as it is regarded as a non-cash expense. (1)

2.1.4 Interest expense is recorded under operating expenses in the Income Statement. (1)

2.2 You are provided with information relating to Alwande Limited, a public company.

REQUIRED:

2.2.1 Complete the note to show the cash generated from operations. (8)

2.2.2 Calculate the following amounts that will appear in the Cash Flow Statement for the year ended 28 February 2018:

(a) Taxation paid (4)

(b) Dividends paid (4)

(c) Fixed assets purchased (4)

2.2.3 Calculate the % return on total capital employed (ROTCE) (6)

INFORMATION:**A. Extract from the Income Statement**

Depreciation	178 000
Interest expense	52 000
Income tax	93 520
Net profit after income tax	240 480

B. Figures obtained from the Balance Sheet and notes on 28 February

	2018	2017
Fixed asset (carrying value)	2 568 730	2 174 390
Financial assets	150 000	230 000
Current assets	413 600	496 810
Inventories	194 600	262 000
Trade debtors	214 000	198 000
SARS-Income tax	-	2 110
Cash and cash equivalent	5 000	34 700
Shareholders' equity	2 392 480	1 848 000
Ordinary share capital	2 016 000	1 520 000
Retained income	376 480	328 000
Non-current liabilities	500 000	800 000
Current liabilities	239 850	253 200
Trade creditors	124 800	165 200
Shareholders for dividends	96 000	88 000
SARS – income tax	6 300	-
Bank overdraft	12 750	-

C Share capital

- 400 000 shares were issued before 28 February 2017.
- On 1 March 2017 an additional 200 000 shares were issued.
- On 1 September 2017 the company repurchased 120 000 shares from a dissatisfied shareholders at 30 cents above the average price.

D. Fixed assets

- Extensions to the existing buildings were undertaken during July 2017.
- There were no other movements of fixed assets during the financial year.

E. Dividends

- An interim dividend of R60 000 was paid on 30 September 2017.
- The final dividend was declared on 28 February 2018.

QUESTION 3**(30 Marks; 18 Minutes)****3.1 MBIZENI LTD AND SIVUKILE LTD**

You have R100 000 to invest in a listed company. You have two companies in the same industry to choose from.

Note: When answering the question below, compare the information given and quote the relevant financial indicators of both companies (percentages, ratio's and/or amounts)

REQUIRED:

- 3.1.1** Comment on the value of the shares of the two companies on the Johannesburg Securities Exchange (JSE). Explain how this will influence your choice of company. **(5)**
- 3.1.2** Compare and comment on the dividend pay-out policies of the two companies. **(5)**
- 3.1.3** Comment on the degree of risk and gearing. Explain how this will influence your choice of company. **(5)**

INFORMATION:

	MBIZENI LTD	SIVUKILE LTD
Current ratio	4.3:1	1.5:2
Acid-test ratio	2.8:1	0.8:1
Stock turnover rate	4 times	6 times
Stock-holding period	90 days	62 days
Average debtors collection period	54 days	26 days
Average creditors payment period	59 days	62 days
Debt-equity ratio	0.5:1	2.5:1
Return on total capital employed (ROTCE)	17.6%	11%
Return on shareholders' equity (ROSHE)	19.2%	9.1%
Earnings per share (EPS)	400 cents	1000 cents
Dividend per share (DPS)	360 cents	500 cents
Net asset value per share (NAV)	440 cents	970 cents
Market price of shares on JSE	500 cents	850 cents
Interest rate on loans	12%	12%

3.2 JANGAZA LTD

You are provided with information relating to Jangaza LTD for the financial year ended 28 February 2018.

REQUIRED:

3.2.1 Calculate the % return on average shareholders' equity (ROSHE) (3)

3.2.2 Zibani is the CEO of the company his shareholding is as follows:

Number of shares	Date purchased	% shareholding
420 000	January 2016	46.7%

(a) Calculate Zibani's % shareholdings on 1 September 2017 after the repurchased of shares. (The shares were repurchased on of Jangaza LTD). (3)

(b) Explain how Zibani has benefitted from the decision to repurchase the shares. (2)

(c) The independent auditor discovered that Zibani had made the decision to repurchase the shares without informing the board of directors.

Why should the independent auditor be concerned about this? (2)

(d) Calculate the number of shares that Zibani must purchase to regain the control after the issued shares on 1 January 2018. (5)

INFORMATION:

A. Extract from Income Statement and Balance Sheet on 28 February:

	2018	2017
Income tax	750 000	900 000
Net profit after tax	1 750 000	2 100 000
Current assets	1 015 000	456 000
Shareholders' equity	10 050 750	9 540 000
Loan	8 000 000	4 500 000
Current liabilities	635 200	1 479 300

B. Shares

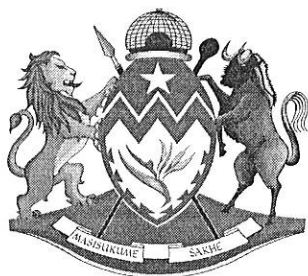
- 900 000 shares were in issue on 1 March 2017.
- 75 000 ordinary shares were repurchased from the estate of a deceased shareholder on 1 September 2017.
- The company issued 125 000 shares on 1 January 2018.

30

TOTAL MARKS: 100

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Basic Education

KwaZulu-Natal Department of Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

MEMORANDUM

MARCH 2018

**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. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect.
3. Where penalties are applied, the marks for that section of the question cannot be a final negative.
4. Codes: f=foreign item; p=placement

This memorandum consists of 6 pages.

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1.1

Calculation of the correct net profit after tax	
Accept brackets instead of - if no sign assume + positive effect and figure must be correct	
Incorrect net profit	166 800
Provision for bad debts adjustment	✓ +1 000
Rent Income	✓ +2 800
Insurance	✓ + 6 000
Profit on sale of an asset	✓ +2 400
Correct net profit before tax Operation, one part correct	☒ 179 000
Income tax	✓ (51 000)
Net profit after tax Check operation, NP- tax	☒ 128 000

7
7

1.2 RETAINED INCOME NOTE ON 29 FEBRUARY 2016

Balance at beginning of year	468 000
Repurchase of shares (50 000 X R 3.75✓)	✓ (187 500)
Net profit after tax (see 1.1)	☒ 128 000
Dividends Operation, one part correct	☒ (38 400)
Interim (160 000 X 0.14) two or nothing	✓✓ 22 400
Final (160 000 X 0.10) two or nothing	✓✓ 16 000
Balance at end of year Operation, one part correct	☒ 370 100

9
9

1.3 ORDINARY SHARE CAPITAL

160 000 shares @ R26.25	4 200 000
(50 000)✓ buy – back of shares @ R26.25✓	✓ (1 312 500)
100 000✓ shares @ R21✓	✓ 2 100 000
210 000✓ shares @ R23 .75✓	☒ 4 987 500

9
9

1.4 EQUITY AND LIABILITIES

Shareholders' equity Operation, one part accurately correct	☒ 5 357 600
Ordinary share capital (see 1.3)	☒ 4 987 500
Retained income (see 1.2)	☒ 370 100
Non-current liabilities Operation, one part correct	☒ 207 000
Loan (262 200✓ – 55 200✓)	✓ 207 000
Current liabilities Operation, one part correct	☒ 252 200
Creditors (180 000✓ - 2 000✓)	✓ 178 000
Current portion of loan check non-current liabilities	☒ 55 200
SARS-Income tax (51 000 - 48 000)	✓ 3 000
Shareholders for dividends (see 1.2)	☒ 16 000
Total equity and liabilities Operation, one part correct	☒ 5 609 800

15
15

TOTAL MARKS

40

Consider the above information if the candidate used rent income

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Consider the below information if the candidate used rent expenses.

1.1 Calculation of the correct net profit after tax

Accept brackets instead of - if no sign assume + positive effect and figure must be correct

Incorrect net profit	166 800
Provision for bad debts adjustment	✓+1 000
Rent Expenses	✓-2 800
Insurance	✓+ 6 000
Profit on sale of an asset	✓+2 400
Correct net profit before tax Operation, one part correct	☒ 173 400
Income tax	✓(51 000)
Net profit after tax Check operation, NP- tax	☒ 122 400

7

7

1.2 RETAINED INCOME NOTE ON 29 FEBRUARY 2016

Balance at beginning of year	468 000
Repurchase of shares (50 000 X R 3.75✓)	✓ (187 500)
Net profit after tax (see 1.1)	☒ 122 400
Dividends Operation, one part correct	<input "="" checked="" type="checkbox"/> 364 500

9

9

1.4 EQUITY AND LIABILITIES

Shareholders' equity Operation, one part accurately correct	☒ 5 352 000
Ordinary share capital (see 1.3)	☒ 4 987 500
Retained income (see 1.2)	☒ 364 500
Non-current liabilities Operation, one part correct	☒ 207 000
Loan (262 200✓ - 55 200✓)	✓207 000
Current liabilities Operation, one part correct	☒ 252 200
Creditors (180 000✓ - 2 000✓)	✓178 000
Current portion of loan check non-current liabilities	☒ 55 200
SARS-Income tax (51 000 - 48 000)	✓3 000
Shareholders for dividends (see 1.2)	☒ 16 000
Total equity and liabilities Operation, one part correct	☒ 5 811 200

15

15

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QUESTION 2

- 2.1 State whether each of the following statements is True or False. Write only 'True' or 'False' next to the question number (2.1.1-2.1.4) in the answer book. Indicate

2.1.1	False✓
2.1.2	True✓
2.1.3	True✓
2.1.4	False✓

4

4

2.2

2.2.1 Cash generated from operation

	☒ 575 000
Net profit before tax (240 480 + 93 520)	✓334 000
Depreciation	✓178 000
Interest expense	✓52 000
Net profit before changes in working capital	564 000
Changes in working capital	☒ 11 000
Inventory (262 000 – 194 600) (inflow)	✓67 400
Debtors (198 000 – 214 000) (outflow)	✓(16 000)
Creditors (165 200 – 124 800) (outflow)	✓(40 400)

8

8

2.2.2

(a) Tax paid	
93 520✓ – 2 110✓ – 6 300 ✓ or one part correct	☒ 85 110
2 110 + 6 300 – 93 520	
(b) Dividends paid	
60 000 ✓ + 88 000✓ or one part correct	☒ ✓148 000
88 000 + 156 000 – 96 000 or	
96 000 – 88 000 – 156 000	
(c) Fixed assets purchased	
2 568 730✓ + 178 000✓ – 2 174 390✓ or	☒ 572 340
2 174 390 – 178 000 – 2 568 700	one part correct

12

12

2.2.3 Calculate the % return on total capital employed (ROTCE)

$\frac{386\,000}{2\,770\,240} \times \frac{100}{1}$
13.9%✓ ☒ 14 % one part correct

6

6

The calculation of R386 000 is 240 480 + 93 520 + 52 000

The calculation of R2 770 240 is $\frac{1}{2}$ (2 392 480 + 1 848 000 + 500 000 + 800 000)

TOTAL MARKS
30
30

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QUESTION 3

3.1.1 Comment on the value of the shares of the two companies on the Johannesburg Securities Exchange (JSE). Explain how this will influence your choice of company.

Financial indicators or explanations thereof; with figures	Explanation, must involve a choice Do not accept comparison of JSE prices only ✓
Mbizeni Ltd JSE price 500 cents > ✓NAV 440 cents. ✓	I would invest in Mbizeni Ltd as the shares seem to be in good demand OR I would not invest in Mbizeni Ltd as the shares might be overpriced.
Sivukile Ltd JSE price 850 cents < ✓NAV 970 cents. ✓	OR I would invest in Sivukile Ltd as the shares seem to be under-valued. OR I would not invest in Sivukile Ltd as the shares might be in low demand.

5

5

3.1.2 Compare and comment on the dividend pay-out policies of the two companies. Award part-marks for incomplete answers

	Financial indicators or explanations thereof; with figures	Comparison and comments Do not accept comparison of the DPS only must mention both companies✓
Mbizeni LTD	DPS 360 cents✓ EPS 400 cents✓ Or 2 marks Distributes 90% of earnings	Mbizeni Ltd is distributing a higher percentage of income earned; Sivukile Ltd has decided to retain half of EPS. OR
Sivukile Ltd	DPS 500cents✓ EPS 1 000 cents✓ Or 2 marks Distributes 50% of earnings	Mbizeni Ltd appears to keep shareholders satisfied by giving them good dividends: Sivukile Ltd appears to have plans for growth.

5

5

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3.1.3 Comment on the degree of risk and gearing. Explain how this will influence your choice of company.

Financial indicators or explanations thereof with figures.		Comparison, must involve a choice.
Must use D/E and ROTCE		Accept valid alternatives ✓
Mbizeni Ltd	D/E ratio 0.5 : 1 ✓ ROTCE 17.6% > 12% interest rate ✓	I choose Mbizeni Ltd as financial risk is low and gearing is positive (ROTCE exceeds interest)
Sivukile	D/E ratio 2.5 : 1 ✓ ROTCE 11% < 12% interest rate. ✓ ROTCE must be compared to interest rate.	OR I choose Mbizeni Ltd for its positive gearing (ROTCE exceeds interest) but they are not making effective use of loans OR I do not choose Sivukile Ltd as there is high financial risk and negative gearing / too much money borrowed and not able to use the funds effectively OR I choose Sivukile Ltd as there is high use of loans and, if they can improve efficiency (ROTCE), profit would improve significantly.

5

5

3.2

3.2.1 Calculate the % return on average shareholders' equity (ROSHE)

$\frac{1\,750\,000}{\frac{1}{2}(10\,050\,750 + 9\,540\,000)}$	$\times \frac{100}{1}$
$\frac{1\,750\,000 \checkmark}{9\,795\,375 \checkmark}$	$\times \frac{100}{1}$
17.9% ☒ or 18% one part correct	

3

3

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3.2.2 Calculate Zibani's % shareholdings on 1 September 2017 after the repurchased of shares.

Do not award this mark if another figure added

$$\frac{420\,000}{825\,000} \times \frac{100}{1} = 50.9\%$$

3

3

Explain how Zibani has benefitted from the decision to repurchase the shares.

Explanation ✓✓ Part-mark for unclear / incomplete answer
Zibani became the majority shareholder

2

2

The independent auditor discovered that Zibani had made the decision to repurchase the shares without informing the board of directors.

Responses for two marks: ✓✓ Part-mark for unclear / incomplete answer

- Not good corporate governance / Not in accordance with King Code
- CEO cannot make these decisions without getting board approval
- Considered to be insider trading / Abuse of position for personal benefit

2

2

Responses for one mark:

Not good / not right / King Code / Corporate governance / Could have outvoted other shareholders or directors/ Unethical / Not transparent

Calculate the number of shares that Zibani must purchase to regain the control after the issued shares on 1 January 2018.

825 000 Shares ✓ + 125 000 ✓ Shares = 950 000 Total shares issued

After buy back

950 000 X 51% = 484 500 ✓ shares – 420 000 share

484 500 shares – 420 000 ✓ shares = he must purchase 64 500 for 51% ✓ **one part correct**

OR

950 000 X 50% = 475 000 shares + 1 share

475001 shares – 420 000 shares = 55 001 shares

5

5

TOTAL MARKS

30

30

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