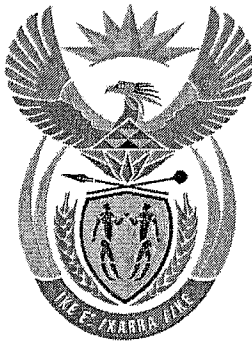




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education

Department:
Education
REPUBLIC OF SOUTH AFRICA

GREENBURY SECONDARY SCHOOL

ACCOUNTING : GRADE 12

FIRST QUARTERLY TEST

2015

MARKS : 150

TIME : 2 HOURS

N.B. This question paper consists of 12 pages and an answer booklet of 8 pages.

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INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A Special ANSWER BOOK is provided in which to answer ALL the questions.
3. Show workings in order to achieve part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer the questions.
6. Where appropriate , calculations must be done to one decimal point.

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7. Use the information in the table below as a guide when answering the question paper .Try NOT to deviate from it .

QUESTION 1 : 57 MARKS ; 45 MINUTE

Topic of the question :	This question integrates :
Financial Statements : Balance Sheet, Interpretation and ethics	Financial accounting ✓ Balance Sheets and Notes ✓ Analysis and Interpretation of financial information ✓ Ethics

QUESTION 2 : 62 MARKS ; 50 MINUTES

Topic of the question:	This question integrates :
Cash Flow Statements, Interpretation	Financial accounting ✓ Cash Flow Statements ✓ Analysis and Interpretation of financial information Managing Resources Interpretation and Report on movement of assets

QUESTION 3 : 31 MARKS ; 25 MINUTES

Topic of the questions :	This question integrates :
Interpretation and Auditing	Financial accounting ✓ Analysis and Interpretation of Financial information ✓ Independent Audit Reports

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QUESTION 1 : COMPANIES – FINANCIAL STATEMENT AND AUDITING**[57 MARKS; 45 MINUTES]**

Rani Ltd is a public company with an authorised share capital of 750 000 ordinary shares. The information relates to the financial year ended 28 February 2014.

REQUIRED :

- 1.1 Calculate the interest on loan capitalised. (See Information C). [4]
- 1.2 Complete the following notes to the Balance Sheet :
(Show the workings in brackets.)
 - 1.2.1 Trade and other receivables [7]
 - 1.2.2 Ordinary share capital [9]
 - 1.2.3 Retained income [8]
- 1.3 Complete the **Balance Sheet** on 28 February 2014.
(Where notes are not required, show workings in brackets to earn part marks.) [23]
- 1.4 The internal auditor warned the Chief Executive Officer (CEO) that including his private entertainment expenditure under sundry expenses could cause problems for the business.
 - 1.4.1 What GAAP / IFRS principle is the internal auditor referring to when this concern is expressed? [2]
 - 1.4.2 Give TWO consequences for the business if the CEO does not take the advice of the internal auditor. (Give TWO points.) [2]
- 1.5 At the annual general meeting, the directors proposed that R250 000 be spent in uplifting the sporting facilities at three local schools. Explain why such projects are considered by big companies. (Give TWO reasons.) [2]

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INFORMATION :

1. Extract of the Pre-Adjustment Trial Balance on 28 February 2014

	DEBITS	CREDITS
Ordinary share capital		2 100 000
Retained income (1 March 2013)		234 000
Loan : Sentry Bank		160 000
Fixed assets (carrying value)	2 258 000	
Trading Stock	162 220	
Debtors Control	63 000	
Fixed deposit : Oxford Bank (7,5% pa)	125 750	
Bank	190 650	
SARS : Income tax (provisional payments)	170 000	
Creditors control		26 000
Ordinary share dividends (paid : 31 August 2013)	120 000	

2. Additional Information

A. Share capital :

400 000	Shares were in issue on 1 ^{MARCH} May 2013. (Beginning of the financial year).
100 000	Additional shares were issued on 31 October 2013 at R5 each. This has been correctly recorded.

B. On 31 January 2014, the business bought back 25 000 ordinary shares from disgruntled shareholders for R118 750. This transaction was not taken into account. These shareholders do not qualify for final dividends.

C. The loan statement received from Sentry Bank showed the following :

Opening balance	256 600
Repayment during the year including interest	96 600
Closing balance	193 000

- Provide for the interest on loan.
- R40 000 of the loan will be paid in the next financial year.

D. Income tax for the year was calculated to be R162 800. This must be taken into account.

E. A final dividend of 22 cents per share was declared on 28 February 2014. This must be taken into account.

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F. The following adjustments must be considered for the Balance Sheet only :

- The rent for February 2014 was not yet received. The vacant storage space was rented out since 1 December 2013. (The rent income amount in the Trial Balance – R17 300.)
- An additional insurance policy on plant and equipment was taken out on 1 October 2013. The annual premium of R6 720 was paid.
- The provision for bad debts was adjusted to 3% of the debtors' control.
- Audit fees of R4 500 were still outstanding on 28 February 2014.

G. The net profit after tax is R380 000 (Note that point F has been taken into account.)

Please turn over

QUESTION 2 : CASH FLOW STATEMENT AND RATIOS**[62 MARKS; 50 MINUTES]**

You are provided with information relating to Phoenix Limited, a public company listed on the JSE. The financial year ends on 28 February 2015.

REQUIRED :

- 2.1 Prepare the Note to reconcile the net profit before tax with the cash generated from operations. [11]
- 2.2 Calculate the missing figures indicated by A, B, C, D, E, F, G, H in the Cash Flow Statement for the year ended 28 February 2015.
(See Information 4.) [23]
Note: Indicate amounts in brackets (), wherever applicable on answer sheet.
- 2.3 Calculate the following financial indicators for the year ended 28 February 2015. Show all calculations to one decimal place.
 - 2.3.1 Acid Test Ratio [4]
 - 2.3.2 Debt / Equity Ratio [3]
 - 2.3.3 Earnings per share [3]
 - 2.3.4 Return on Shareholders' Equity [5]
- 2.4 Comment on the Liquidity position (working capital) of the company. Quote and explain THREE financial indicators (with figures) to support your opinion. [9]
- 2.5 The company wants to expand their operation in the next financial year and therefore they will need more tangible assets such as land and buildings. How do you suggest should they finance this? Give TWO options and explain the reasons for your suggestion. [4]

Please turn over

INFORMATION :**1. Extract from the Income Statement for the year ended 28 February 2015**

Depreciation	160 000
Interest Expenses	96 000
Income Tax	336 000
Net Profit After Tax	864 000

2. Information extracted from the Balance Sheet (Statement of financial position) on 28 February 2015

	2015	2014
Tangible Assets	5 415 000	5 140 000
Financial Assets : Fixed Deposit	100 000	400 000
Inventories	732 000	620 000
Trade and other Receivables (See Information 3.1)	564 000	518 000
Cash and Cash Equivalents	128 000	-
Ordinary Share Capital	4 646 000	3 678 000
Retained Income	798 000	690 000
Non-Current Liabilities (10% pa)	720 000	1 200 000
Trade and other Payables (See Information 3.2)	775 000	736 000
Bank Overdraft	-	374 000

3. Notes and Additional Information**3.1 Trade and Other Receivables includes :**

	2015	2014
SARS – Income Tax	22 000	-

3.2 Trade and Other Payables includes :

	2015	2014
Accrued Expenses – Interest on Loan	7 000	9 600
SARS – Income Tax	-	11 400
Shareholders for dividends	372 000	340 000

3.3 Tangible Assets

- ✓ Old equipment was sold at Book Value during the financial year, R62 000.
- ✓ Tangible Assets were purchased during the year.

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3.4 Ordinary Share Capital

- ✓ The company has an authorised share capital of 1 500 000 shares.
- ✓ The Directors issued 130 000 new shares on 1 March 2014. The issue of the new shares was recorded.
- ✓ 12 000 shares were bought back by the company on 2 February 2015 at R9 each. The shares were originally issued at R6 each.
- ✓ The total number of shares in issue on 28 February 2014 was 775 000.

3.5 Dividends

- ✓ Interim Dividends of R348 000 were paid out on 1 September 2014.
- ✓ Final Dividends were declared on 28 February 2015 but not paid.

4. Cash Flow Statement for the year ended 28 February 2014

Cash effects of operating activities	?
Cash generated from operations	?
Interest paid	A
Taxation paid	B
Dividends paid	(688 000)
Cash effects of investing activities	?
Purchase of tangible assets	C
Disposal of tangible assets	D
Decrease in fixed deposit	300 000
Cash effects of financing activities	?
Proceeds from the issue of shares	E
Funds utilized for share buy-back	F
Loans	G
Net change in Cash and cash equivalents	H
Cash and cash equivalents at beginning of year	(374 000)
Cash and cash equivalents at the end of the year	128 000

5. The following financial indicators were calculated for the past two financial years

	28 February 2014	28 February 2013
Current ratio	1,8 : 1	1 : 1
Acid-test ratio	?	0,5 : 1
Stock turnover rate	9,4 times	6,8 times
Debt equity ratio	?	0,2 : 1
Return on total capital employed (ROTCE)	22,1%	18,3%
Interest rate on loans	10%	10%
Earnings per share (EPS)	?	102 cents
Dividends per share (DPS)	93 cents	85 cents
Return on average shareholders' equity	?	15,1%

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QUESTION 3 : INTERPRETATION OF FINANCIAL INDICATORS AND AUDIT REPORTS
[31 MARKS; 25 MINUTES]

De Villiers Limited and Amla Limited are two relatively new companies quoted on the JSE. Both deal in sportswear.

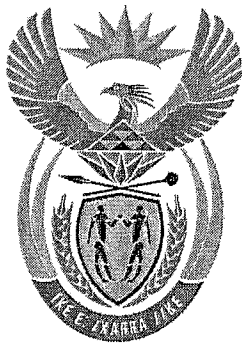
A friend of yours, Leah, wants to buy shares in one of them. She has studied their latest results and presents you with the following financial indicators of the two companies.

REQUIRED :

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

- 3.1.1 You have decided to purchase 10 000 ordinary shares in Amla Limited on the JSE at the beginning of the new financial year. If the dividend for share remain the same next year, what is the amount of dividend you can expect from the company? [3]
- 3.1.2 Which company has a better dividend pay-out policy? Explain and quote figure or financial indicators to support your opinion. [4]
- 3.1.3 Comment on the % return to shareholders, gearing (debt / equity) and degree of risk (ROTCE) of each company. [12]
- 3.1.4 The shareholders of the two companies hold different opinions of the current market value of their shares. Which shareholders are happy with the market value? Explain. [4]

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Department:
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GREENBURY SECONDARY SCHOOL

ACCOUNTING : GRADE 12

FIRST QUARTERLY TEST : 2015

ANSWER BOOKLET

MEMO

NAME : _____ GRADE 12 : _____

QUESTIONS	MARKS	MOD
1.		
2.		
3.		
TOTAL		

N.B. This answer book consists of 9 pages.

Please turn over

QUESTION 1

1.1 Interest on loan

* $193\ 000 + 96\ 600 - 256\ 600 = 33\ 000$ ✓

4

4

1.2

1.2.1 Trade and other receivables

Debtors control	63 000	
PROVISION FOR BAD DEBTS ($3/100 \times 63\ 000$)	(1 890)	✓
NET TRADE DEBTORS	61 110	
PREPAID EXPENSES (INSURANCE $\rightarrow 7/12 \times 6720$)	3 920	✓
ACCRUED INCOME (RENT INCOME $\rightarrow 17300/2 = 8650$ PER MONTH)	8 650	✓
SARS - INCOME TAX ($170\ 000 - 162\ 800$)	7 200	✓
	80 880	7

1.2.2 Ordinary share capital

400 000 ✓	ORDINARY SHARES IN ISSUE ON 1 MARCH 2013 ($2100000 - 500\ 000$)	* 1 600 000 ✓	
100 000	ORDINARY SHARES ISSUE DURING THE YEAR AT R5 EACH	500 000 ✓	
(25 000) ✓	ORDINARY SHARES RE-PURCHASED AT AVERAGE PRICE OF R4,20 ✓	(105 000) ✓	9
475 000 ✓	ORDINARY SHARES IN ISSUE ON 28 FEBRUARY 2017	1 995 000 ✓	9

AV PRICE = $R\ 2100\ 000 / 500\ 000\ SHARES = R4,20$

1.2.3 Retained income

Opening balance	234 000	
NET PROFIT AFTER TAX	380 000	✓
SHARES RE-PURCHASED ($25\ 000 \times 0,55$) OR [118 750 - 105 000]	(13 750)	✓
ORDINARY SHARE DIVIDENDS	(224 500)	✓
INTERIM DIVIDEND	(120 000)	✓
FINAL DIVIDEND ($475\ 000 \times 22/100$)	(104 500)	✓
	375 750	8

EXCESS PRICE = PURCHASE PRICE - AV PRICE
 $= \frac{118\ 750}{25\ 000\ SHARE} - R4,20$
 $= R4,75 - R4,20$
 $= R0,55$

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1.3 BALANCE SHEET AS AT 28 FEBRUARY 2014

ASSETS			
NON-CURRENT ASSETS		2 383 750	✓
Fixed Assets		2 358 000	✓
FINANCIAL ASSETS (FIXED DEPOSIT)		125 750	✓
CURRENT ASSETS		315 000	✓
INVENTORY		162 220	✓
TRADE AND OTHER RECEIVABLES	REF (1.2.1)	80 980	✓
CASH AND CASH EQUIVALENTS (190 650 - 118 750)*		71 900	✓
TOTAL ASSETS		2 698 750	✓
EQUITY AND LIABILITIES			
SHAREHOLDERS EQUITY		2 370 750	✓
ORDINARY SHARE CAPITAL	REF (1.2.2.)	1 995 000	✓
RETAINED INCOME	REF (1.2.3)	375 750	✓
NON-CURRENT LIABILITIES		153 000	
LOAN: SENTRY BANK (193 000 - 40 000)*		153 000	✓
CURRENT LIABILITIES		175 000	✓
TRADE AND OTHER PAYABLES (26 000 + 4 500 + 104 500 + 40 000)		175 000	✓
TOTAL EQUITY AND LIABILITIES		2 698 750	✓

1.4 The internal auditor warned the CEO that including his private entertainment expenditure under sundry expenses could cause problems for the business.

1.4.1 What GAAP / IFRS principle is the internal auditor referring to when this concern is expressed?

BUSINESS ENTITY ✓✓

(THE OWNER AND BUSINESS ARE SEPARATE ENTITIES)

2

2

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1.4.2 Give TWO consequences for the business if the CEO does not take the advice of the internal auditor. (Give TWO points.)

ANY TWO VALID RESPONSES ✓✓

- ✓ THE EXTERNAL AUDITOR WOULD QUALIFY THE AUDIT REPORT
- ✓ THE PROFIT OF THE BUSINESS WOULD BE UNDERSTATED, SHAREHOLDERS WOULD NOT BE HAPPY
- ✓ INVESTORS WOULD NOT BE CONFIDENT IN THE BUSINESS (INTEGRITY/TRANSPARENCY)
- ✓ CREDIBILITY OF CEO

2

2

1.5.

At the annual general meeting, the directors proposed that R250 000 be spent in uplifting the sporting facilities at three local school..

Explain why such projects are considered by big companies. (Give TWO reasons.)

ANY TWO VALID RESPONSES ✓✓

- ✓ CORPORATE SOCIAL RESPONSIBILITY
- ✓ INVESTMENT IN THE COMMUNITY TO ENHANCE GOODWILL
- ✓ CREATE A GOOD/POSITIVE IMAGE OF THE COMPANY.
- ✓ PUSHING BACK TO THE COMMUNITY FROM WHICH IT GAINS PROFITS
- ✓ TAX DEDUCTIBLE
- ✓ BEE POINTS FOR DEVELOPMENT

2

2

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QUESTION 2

2.1 Reconciliation between Net Profit before tax and the cash generated from operations

Net Profit before Tax (864 000 + 336 000)	1 200 000	✓✓
Adjustments for:		
DEPRECIATION	160 000	✓
INTEREST EXPENSE	96 000	✓
Operating profit before changes in working capital	1 456 000	
Net change in working capital	(115 000)	
++ INVENTORIES INCREASED (732 000 - 620 000)	(112 000)	✓✓
++ TRADE AND OTHER RECEIVABLES INCREASED (564 000 - 220 000) - (518 000) *	(24 000)	✓✓
++ TRADE AND OTHER PAYABLES INCREASED (775 000 - 7 000 - 372 000) - (736 000 - 96 000 - 114 000) *	21 000	✓✓
CASH GENERATED FROM OPERATIONS	1 341 000	✓✓ 11

2.2. * NOTE: INDICATE OUTFLOWS IN BRACKES AS PER CASH FLOW STATEMENT.

	CALCULATION	AMOUNT	
A	96 000 + 96 000 - 7 000	(98 600)	✓
B	336 000 + 114 000 + 22 000 or (-336 000 - 114 000 - 22 000) *	(369 400)	✓
C	5140 000 - 160 000 - 62 000 - 5415 000 *	(497 000)	✓
D		62 000	✓✓
E	130 000 x R8 or (4646 000 + 72 000 - 3678 000)	1040 000	✓✓
F	12 000 x R9	(108 000)	✓✓
G	1200 000 - 720 000	(480 000)	✓✓
H	(374 000) + 128 000	502 000	✓✓

2.3.

2.3.1 Acid-test ratio

(1424 000 - 732 000) : 775 000		
692 000 : 775 000		
0,9 : 1	✓	ALLOCATE METHOD MARK ONLY IF ONE PART IS CORRECT.

4

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2.3.2 Debt / Equity ratio

720 000 : 5 444 000		
0,1 : 1	✓	ALLOCATE METHOD MARK ONLY IF ONE PART IS CORRECT.

3

3

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2.3.3 Earnings per share (EPS)

$$\frac{864\,000}{775\,000} \times \frac{100}{1} \text{ CENTS}$$

$$\underline{111,5 \text{ CENTS}} \quad \text{ACCEPT ONLY IF } \times 100$$

OR $R_{1,11} / R_{1,12}$ IF NOT $\times 100$ ALLOCATE METHOD MARK ONLY IF ONE PART IS CORRECT.

3.

3

2.3.4 Return on average shareholders' equity

$$\frac{864\,000}{\frac{1}{2}(5\,444\,000 + 4\,368\,000)} \times \frac{100}{1} \%$$

OR $\frac{864\,000}{4\,906\,000} \times \frac{100}{1} \%$

$$\underline{17,6 \%} \quad \text{ALLOCATE METHOD MARK ONLY IF ONE PART IS CORRECT}$$

C

5

2.4 Comment on the liquidity position of the company. Quote and explain THREE financial indicators (with figures) to support your opinion.

Financial Indicators :

- ✓ CURRENT RATIO ✓ INCREASED FROM 1,1:1 TO 1,8:1 ✓
- ✓ ACID TEST RATIO ✓ INCREASED FROM 0,5:1 TO 0,9:1 ✓
- ✓ STOCK TURNOVER RATE ✓ INCREASED FROM 6,8 TIMES TO 9,4 TIMES ✓

General Comments :

- ✓ CURRENT ASSETS COVER THE CURRENT LIABILITIES ADEQUATELY ✓
- ✓ LIQUID ASSETS (EXCLUDING INVENTORY) COVER THE CURRENT LIABILITIES ADEQUATELY ✓
- ✓ GOODS ARE SELLING AT A FASTER RATE → LESS WORKING CAPITAL REQUIRED ✓

9

9

2.5.

OPTION ONE ✓ THEY CAN ISSUE MORE SHARES - THEY HAVE ISSUED ONLY 775 000 OF THE 1 500 000 AUTHORISED SHARES. ✓

OPTION TWO ✓ THEY CAN TAKE OUT A LOAN - THEIR DEBT/EQUITY RATIO IS 0,1:1 AND ROCE 22,1% WHICH IS HIGHER THAN THE INTEREST RATE ON LOAN 10% ✓

4

4

62

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QUESTION 3

3.1

3.1.1 Dividend amount you can expect next year.

10 000 SHARES ✓ X R4 ✓ = R40 000 ✓	3
	2

3.1.2 Better dividend pay-out policy

De Villiers Ltd : $\frac{650}{1300} = 50\%$ ✓	
Amla Ltd : $\frac{400}{420} = 95\%$ ✓	
Conclusion :	
DE VILLIERS LTD HAS A BETTER POLICY BECAUSE THEY ARE <u>RETAINING FUNDS</u> FOR FUTURE EXPANSION → LEAD TO <u>BETTER RETURNS (DIVIDENDS) IN FUTURE.</u> ✓	4
	4

3.1.3

% Return on shareholders	
DE VILLIERS LTD IS 16,2% ✓	
AMLA LTD IS 13,9% ✓	
Comment	
BOTH COMPANIES ARE EARNING RETURNS THAT ARE <u>HIGHER THAN ALTERNATIVE INVESTMENT.</u> ✓	
Gearing (Debt/Equity Ratio)	
DE VILLIERS LTD IS 1,8:1 ✓	
AMLA LTD IS 0,2:1 ✓	
Comment	
DE VILLIERS LTD IS <u>HIGHLY GEARED</u> → <u>RELYING TOO MUCH ON BORROWED CAPITAL</u> - MUCH MORE RISKY SITUATION ✓	
AMLA LTD IS <u>LOWLY GEARED</u> → <u>NOT RELYING ON BORROWED CAPITAL</u> → NOT RISKY ✓	
Degree of Risk (ROTCE)	
DE VILLIERS IS 13,4% ✓	
AMLA LTD IS 13,2% ✓	
Comment	
BOTH COMPANIES ARE <u>POSITIVELY GEARED</u> AS <u>ROTCE EXCEEDS INTEREST RATE ON LOAN 9,5%</u> ✓	12
	12

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3.1.4 Shareholders happy with market price

THE SHAREHOLDERS OF AMLA LTD ARE HAPPY WITH THE MARKET VALUE OF 960 CENTS PER SHARE BECAUSE IT IS HIGHER THAN THE NET ASSET VALUE OF 609 CENTS. ✓

THIS INDICATES THAT THE PUBLIC HAS CONFIDENCE IN THE FUTURE OF THE COMPANY AND WILL PAY MORE THAN THE SHARES ARE ACTUALLY WORTH. ✓

4

4

3.2.

3.2.1

De Villiers Ltd :

HAS BEEN GIVEN AN UNQUALIFIED REPORT. ✓

THIS MEANS THAT THE AUDITORS DID NOT FIND ANY 'MISSTATEMENT OR MISREPRESENTATION' IN THE FINANCIAL STATEMENTS PREPARED BY THE DIRECTORS. ✓

THEY DID NOT FIND ANY FRAUD OR GROSS ERRORS WHEN CONDUCTING THEIR AUDIT.

LEAH WOULD BE HAPPY TO BUY SHARES. ✓

Amla Ltd :

HAS BEEN GIVEN A QUALIFIED REPORT. ✓

THE AUDITORS FEEL THAT THE FIXED ASSETS HAVE BEEN OVERVALUED → THIS MEANS THE NET ASSET VALUE OF SHARES IS OVERSTATED. ✓

LEAH WOULD NOT BE WILLING TO BUY SHARES. ✓

6

C

3.2.2 IFRS and Companies Act

IFRS :

COMPANY FINANCIAL STATEMENTS MUST COMPLY WITH IFRS SO THAT THERE IS A COMMON WAY OF DOING THIS ACROSS THE WORLD (TO ELIMINATE CONFUSION). ✓

Companies Act :

COMPANY HAS TO COMPLY WITH THE ACT OTHERWISE THE DIRECTORS COULD BE HELD GUILTY OF A CRIMINAL OFFENCE. ✓

2

2

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