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Basic Education

KwaZulu-Natal Department of Basic Education
REPUBLIC OF SOUTH AFRICA

ACCOUNTING

COMMON TEST

MARCH 2015

**NATIONAL
SENIOR CERTIFICATE**

GRADE 12

MARKS: 100

TIME: 1 hour

This question paper consists of 9 pages and an answer book 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 9 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:

Question 1: 47 Marks, 28 Minutes	
Main topic of the question:	This question integrate:
Financial statements	Financial accounting • Balance sheet • Ordinary share capital note • Retained income
Question 2: 34 Marks, 20 Minutes	
Main topic of the question:	This question integrate:
Cash Flow Statement	Financial accounting • Cash generated from operations • Cash Flow Statements
Question 3: 19 Marks, 12 Minutes	
Main topic of the question:	This question integrate:
Calculation of ratio's and interpretation	Financial accounting • Debtors average collection period • Return on average capital employed • Interpretation

QUESTION 1**(47 Marks; 28 Minutes)**

You are provided with the information related to Ladysmith LTD on 28 February 2015.

REQUIRED:

1.1 Prepare the following notes to the Balance Sheet.

1.1.1 Ordinary share capital. (7)

1.1.2 Retained income. (7)

1.2 Prepare the Balance Sheet on 28 February 2015. (33)

(Where notes are not required, show ALL workings in brackets to earn part marks)

INFORMATION:**A. Share Capital**

Of the 500 000 authorised ordinary shares, 400 000 were issued by the end of the year. Three quarters of these shares were issued for 600 cents each in 2009 while a quarter was sold for 780 cents per share on 1 November 2014.

At the end of the financial year, 28 February 2015, 20 000 ordinary shares were repurchased for 800 cents per share. These shareholders were entitled to final dividends. Transaction was not recorded.

The following balances appeared in the books on 28 February 2015:

Fixed assets	?
Fixed deposit: WKM Bank (7% per annum) 1 March 2014	300 000
Retained income (1 March 2014)	580 500
Mortgage loan: Jozini Bank	750 600
Trade debtors	223 606
Provision for bad debts	1 600
Bank	324 494
Net profit after tax	?
Creditors control	110 000
Accrued income	86 000
Accrued expenses	9 920
SARS- Income tax DR	290 000

C. Dividends

- An interim dividend of 60 cents per share was paid. The new shares issued did not qualify for the interim dividend.
- A final dividend of 80 cents per share was declared on 26 February 2015.

D. Income tax

Income tax of R 300 000 was calculated at 30% of the net profit.

E. Inventory

Inventory valued R5000 was donated to local schools, transaction was properly recorded.

Physical count on 28 February 2015 revealed the following:

- Trading stock R 250 000.
- Consumable stores R 2 000.

F. Fixed Deposit

Interest on fixed deposit is earned at 7% p.a. and is capitalised. No interest has been received as yet. Fifty percent of the investment will mature on 30 June 2015.

G. Mortgage Loan

The company took out a mortgage loan from Jozini Bank on 1 July 2013. The loan is repayable in five equal annual installments at the end of June each year.

QUESTION 2**(34 Marks; 20 Minutes)****CASH-FLOW STATEMENT**

The information given below was extracted from the financial statements of Nongoma LTD, distributors of exquisite traditional cloths.

REQUIRED:

2.1 Prepare the following:

2.1.1 Complete the note for reconciliation between profit before taxation and cash generated from operations. (6)

2.1.2 Prepare the Cash-Flow Statement for the year ended 28 February 2015. (22)

2.2 The directors have taken significant decisions during the year which have obviously affected the cash balance. List THREE of these by quoting figures from the Cash Flow Statement in each case. State why each of these decisions will have an important effect on the future results of the company. (6)

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

Sales	7 650 000
Depreciation	160 000
Interest expense (loan)	140 000
Net income before tax	844 200
Income tax	260 400
Net profit after tax	?

2. Balance Sheet on 28 February 2015

ASSETS	2015	2014
Non-current assets	5 894 200	4 300 000
Fixed assets	4 950 000	3 700 000
Investments/financial assets	944 200	600 000
Current assets	626 500	664 700
Inventories	175 000	241 900
Trade debtors and other receivables (2.1)	408 000	368 000
Cash and cash equivalents	43 500	54 800
TOTAL ASSETS	6 520 700	4 964 700
EQUITY AND LIABILITIES		
Shareholders' equity	5 189 000	3 321 000
Ordinary share capital	3 900 000	2 400 000
Retained income	1 289 000	921 000
Non-current liabilities	680 000	900 000
Loan	680 000	900 000
Current liabilities	651 700	743 700
Trade creditors and other payables (2.2)	391 700	543 700
Shareholders for dividends	?	200 000
TOTAL EQUITY AND LIABILITIES	6 520 700	4 964 700

2.1 Trade debtors and other receivables

	2015	2014
Trade debtors	398 000	353 000
Prepaid expenses	10 000	-
SARS (income tax)	-	15 000
	408 000	368 000

2.2 Trade creditors and other payables

	2015	2014
Trade creditors	368 700	508 700
Accrued expenses	-	35 000
SARS (income tax)	23 000	-
	391 700	543 700

3. Additional Information**3.1 Fixed Assets**

- Land and buildings were bought for R1 600 000.
- Vehicles were sold at book value.
- No other fixed/tangible assets were sold or purchased during the year.

3.2 Ordinary Shares

- 2 000 000 shares have been authorized.
- 500 000 ordinary shares were in issue at the end of the previous financial year, 28 February 2014.
- 200 000 ordinary shares were issued on 1 November 2014 at R9 per share.
- 50 000 ordinary shares were repurchased from an unhappy shareholder over and above the average price by R4 on 28 February 2015.

3.3 dividends

- Interim dividends of 20 cents per share was declared and paid on 1 September 2014.
- Final dividends of 30 cents per share were declared on 28 February 2015. The shareholder who also bought back his 50 000 shares qualified for this final dividend.

QUESTION 3**(19 Marks; 12 Minutes)****PART A CALCULATION OF RATIOS**

You are provided with information related to Khanda Shabangu LTD on 28 February 2015.

REQUIRED:

Use the information below to calculate the following figures or financial indicators for the financial year ended 28 February 2015:

3.1 Debtors average collection period in days (4)

3.2 Return on average capital employed (5)

INFORMATION RELATING TO KHANDA SHABANGU LTD

	28 February 2015	28 February 2014
Sales (cash sales is 20%)	890 000	700 000
Cost of sales	556 250	437 500
Interest expenses	19 500	28 000
Income tax	224 100	300 000
Net profit after tax	522 900	310 000
Debtors control	64 000	52 000
Creditors	320 000	450 000
Ordinary share capital	2 400 000	1 600 000
Retained income	200 000	168 000
Loan	130 000	940 000

PART B INTERPRETATION OF RATIOS

You are provided with information related to Lekota LTD on 28 February 2015.

REQUIRED:

3.3 Existing shareholders are happy with the price at which each new share was sold. Quote **TWO** financial indicators / figures to support their opinion and comment on it. (3)

3.4 With regard to the loan and the repayment thereof:

- Do you think that it was a good idea to pay off a large portion of the loan?
- Briefly explain your findings with reference to TWO relevant financial indicators. Name and quote figures in your explanation (7)

Financial indicators

	2015	2014
Net asset value per share	597 cents	509 cents
Earnings per share	450 cents	390 cents
% return on shareholders' equity	51%	49%
% return on capital employed	28.4%	18%
Debt/equity ratio	0.14 : 1	1 : 1
Interest rate	15%	15%

INFORMATION:**A. Market price on JSE:**

- Market price on JSE was 560 cents on 1 April 2014. It increased by 30 cents during the financial year.

B. Details of shares issued:

- 600 000 ordinary shares were in issue at the end of the previous financial year.
- 345 000 ordinary shares were issued at R6.20 on 1 July 2014.

TOTAL MARKS: [100]

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MEMORANDUM

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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 7 pages.

Accounting

2

March common test 2015

QUESTION 1

1.1.1

ORDINARY SHARE CAPITAL

AUTHORISED:

Number of authorised ordinary shares: 500 000 shares

ISSUED:

300 000✓ ordinary shares in issue at the beginning of financial year	✓1 800 000
100 000✓ additional shares issued during the financial year at an issue price of R7.80 per share	✓780 000
20 000 shares bought back during the financial year at R6.45✓	
380 000 Ordinary shares in issue at the end of the financial year	✓129 000
	✓2 451 000
	operation if one part correct

7

7

1.1.2

RETAINED INCOME

Balance at the beginning of the financial year	✓580 500
Funds used for shares buy-back (20 000 x 1.55✓)	✓(31 000)
Net profit after tax for the year	✓700 000
Dividends	(500 000)
Interim/paid	✓180 000
Final/recommended	✓320 000
Balance at the end of the financial year	operation if one part correct
	✓749 500

7

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QUESTION 2

1.2
LADYSMITH LIMITED
BALANCE SHEET AS AT 28 FEBRUARY 2015

ASSETS		
NON-CURRENT ASSETS		☒ 3 516 020
Fixed/Tangible assets		☒ 3 355 520
6 Financial assets: fixed deposit (300 000✓ + 21 000✓ - 160 500✓)		☒ 160 500
CURRENT ASSETS		☒ 885 000
Inventories (250 000✓ + 2 000✓)		☒ 252 000
Trade and other receivables (223 606✓ - 1 600✓ + 86 000✓)		☒ 308 006
Cash and cash equivalents (324 494✓ + 160 500✓ - 160 000✓)		☒ 324 994
13 TOTAL ASSETS		☒ 4 401 020
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		☒ 3 200 500
Share capital		☒ 2 451 000
3 Retained income		☒ 749 500
NON-CURRENT LIABILITIES		562 950
3 Loan from: Jozini bank (750 600✓ - 187 650✓)		☒ 562 950
CURRENT LIABILITIES		☒ 637 570
Trade and other payables (110 000✓ + 9 920✓ + 320 000✓ + 10 000✓)		☒ 449 920
Current portion of loan		☒ 187 650
8 TOTAL EQUITY AND LIABILITIES		☒ 4 401 020

Balance sheet totals do not have to agree to get method marks for totals
Workings may be shown outside the face of BS; award part marks
Shareholders for dividends can be shown separately
Under current liabilities

33
33

QUESTION 2

2.1.1 Cash generated from operations

Net profit before tax	✓ 844 200
Depreciation	✓ 160 000
Interest expenses	✓ 140 000
Net profit before changes in working capital operation if one part correct	1 144 200
Changes in working capital operation if one part correct	(163 100)
Inventory	✓ 66 900
Debtors	✓ (55 000)
Creditors	✓ (175 000)
operation from part correct	981 100

6
6

2.1.2 Cash Flow Statement for the year ended 28 February 2015.

CASH FLOWS FROM OPERATING ACTIVITIES		318 700
Cash generated by operations		☒ 981 100
Interest paid		(140 000)
Dividends paid (200 000✓ + 100 000✓) or (200 000✓ + 310 000✓ - 210 000✓)		☒ (300 000)
9 Tax paid (15 000✓ + 23 000✓ - 260 400✓) or (260 400 - 15 000 - 23 000)		☒ (222 400)
Sign must be correct; mark one line only		
CASH FLOWS FROM INVESTING ACTIVITIES		(1 410 000)
Purchases of non-current assets		(1 600 000)
5 (4 950 000✓ + 160 000✓ - 1 600 000✓ - 3 700 000✓)		☒ 190 000
Proceeds from disposal of non-current assets		
CASH FLOWS FROM FINANCING ACTIVITIES		1 080 000
Proceeds on issued shares (200 000 x 9)✓ ☒		✓ 1 800 000
Buy-back of shares (50 000 x 10)✓		✓ (500 000)
6 Repayment of loan		✓ (220 000)
Net change in cash and cash equivalents		☒ (11 300)
2 Cash and cash equivalents at the beginning of the year		✓ 54 800
Cash and cash equivalents at the end of the year.		43 500

22
22

2.2

The directors have taken significant decisions during the year which have obviously affected the cash balance. List THREE of these by quoting figures from the Cash Flow Statement in each case. State why each of these decisions will have an important effect on the future results of the company.	
Decision taken (quote figures) decision and figure ✓ No mark for decision only or figure only	Effect on the company in future Effect ✓
land and buildings/fixed assets	Improves the operating efficiency/ leads to future gains
Additional shares were issued for R1 800 000	Improves cash flow but dilutes earnings/pay for the purchasing of land and buildings.
Buy back of shares of R500 000	Keeps specific shareholders happy/dissatisfied shareholders can leave the company.
Repayment of loan of R220 000	To reduce interest costs/decrease financial risk

6
6

QUESTION 3

PART A CALCULATION OF RATIOS

3.1 Debtors average collection period in days
$\frac{1}{2} (52\ 000\checkmark + 64\ 000\checkmark) \times \frac{365}{712\ 000\checkmark}$
= 29.7 days or 30 days✓

4
4

3.2 Return on average capital employed
$\frac{747\ 000\checkmark + 19\ 500\checkmark}{\frac{1}{2} (2\ 730\ 000\checkmark + 2\ 708\ 000\checkmark)} \times \frac{100}{1}$
= 28.19%✓

5
5

PART B INTERPRETATION OF RATIOS

3.3

Existing shareholders are happy with the price at which each new share was sold. Quote financial indicators / figures to support their opinion and comment on it.

Comment: Figure of 620 cents✓ Quoting of indicator ✓ Comment✓
Shares were sold for 620✓ cents per share above the NAV✓ of 597 cents by 23 cents that indicates a profit of (345 000 x R 0.23) R79 350.✓
Shares were sold for 620 cents per share Above the market value of 590 cents by 30 cents that indicates a profit of (345 000 x R0.30) R103 500.

3
3

3.4	With regard to the loan and the repayment thereof: - Do you think that it was a good idea to pay off a large portion of the loan? - Briefly explain your findings with reference to TWO relevant financial indicators. Name and quote figures in your explanation.
	Yes ✓ Debt / equity ratio: ✓ - improved from 1 : 1 to 0,14 : 1 ✓ - Risk in terms of debt decreased substantially. ✓ ROTCE: ✓ - Improved from 18% to 28,4% ✓ - ROTCE of 28,4 % against an interest rate of 15% indicates positive gearing of profits. ✓

7
7