



**WORKED EXAMPLE OF A  
YEAR-END GRADE 12 ACCOUNTING EXAMINATION  
PREPARED BY NEW ERA ACCOUNTING**

## QUESTION PAPER 1

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<b>Question</b>	<b>Topic</b>	<b>Marks</b>	<b>Minutes</b>
1	Income Statement, Balance Sheet & Notes	60 marks	45 minutes
2	Cash Flow Statement & financial indicators	40 marks	30 minutes
3	Interpretation of financial information	50 marks	45 minutes
<b>TOTAL:</b>		<b>150 marks</b>	<b>120 minutes</b>

**This question paper consists of 7 pages.**



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**QUESTION 1: COMPANY FINANCIAL STATEMENTS****(60 marks; 45 minutes)**

The information relates to **XOLA Limited** for the financial year ended 29 February 2020. The business sells clothing.

**REQUIRED:**

- 1.1 Calculate the missing amounts to complete the Statement of Comprehensive Income (Income Statement) for the financial year ended 29 February 2020. (26)
- 1.2 Prepare the following notes to the Statement of Financial Position (Balance Sheet) on 29 February 2020.
- Ordinary share capital (7)
  - Retained income (8)
- 1.3 Prepare the EQUITY AND LIABILITIES section of the Balance Sheet. Show all workings. (19)

**INFORMATION:****Figures extracted from the records for the financial year ended 29 February 2020:**

Total current assets	R 1 710 360
Loan: Sage Bank	?
Ordinary share capital (1 March 2019)	8 550 000
Retained income (1 March 2019)	99 300
Vehicles (at cost)	1 172 000
Accumulated depreciation on vehicles (1 March 2019)	410 000
Trading stock of Men's shirts	186 000
Creditors' control	281 000
Rent income	343 400
Directors' fees	1 400 000
Audit fees	250 000
Sundry expenses	?

**Adjustments and additional information for 2020:****A. Depreciation:**

Provide for depreciation on vehicles at 25% on the diminishing balance method. Note that a new vehicle costing R120 000 was bought and recorded on 30 November 2019.

**B. Trading stock of Mens' shirts:**

One of the stock items is a range of Polo Men's shirts. A stock count on 29 February 2020 revealed that only 280 units were on hand. No adjustment has been made. These shirts are valued using the weighted average method.

	<b>Units</b>	<b>Cost price</b>	<b>Total cost</b>
Opening stock	200	R400	R80 000
Bought in April 2019	600	R450	R270 000
Bought on July 2010	400	R520	R208 000

***Information continues on the next page***

**C. Debtor and Creditor:**

A debtor requested that the balance of R4 000 on his debtors' ledger account to be offset against the amount of R11 000 owed to him by the business. Adjust accordingly.

**D. Rent from tenant:**

The only item of other income is rent paid by a tenant. The total received during the year includes rent received in advance for March and April 2020. An increase of R2 500 per month was applied on 1 September 2019.

**E. Loan from Sage Bank:**

- Interest is capitalised.
- The loan statement reflects an opening balance of R1 800 000 at the beginning and R1 638 000 at the end of the financial year.
- Monthly repayments covering loan repayment and interest are R30 000 per month.
- The capital loan repayment will remain unchanged in 2020.

**F. Income tax:**

- Income tax is calculated at 30% of the net profit before tax.
- Provisional tax payments for the year totalled R340 000.

**G. The following financial indicators were calculated on 29 February 2020:**

% gross profit on cost of sales achieved.	70%
% operating profit on sales	15%
Current ratio	1,8 : 1

**H. Share capital and dividends:**

- The authorised share capital is 2 000 000 ordinary shares.
- On 1 March 2019, 45% of the authorised shares were in issue.
- On 1 May 2019, directors repurchased 120 000 ordinary shares for R1 236 000. These shareholders did not qualify for interim dividends.
- On 31 August 2019, interim dividends of R132 600 were paid.
- On 1 October 2019, a further 250 000 shares were issued at R10,25 per share.
- On 28 February 2020, a final dividend of 28 cents per share was declared. Only shareholders on the share register qualified for final dividends.

**QUESTION 2: AUDIT CONCEPTS, CASH FLOW STATEMENT & FINANCIAL INDICATORS**  
**(40 marks; 30 minutes)**

2.1 Match the term/concept in Column A with a description provided in Column B. Write only the letter (A - C) next to the number (2.1.1 – 2.1.3) in the ANSWER BOOK.

COLUMN A		COLUMN B	
2.1.1	Disclaimer audit report	A.	The independent auditor <u>is not satisfied with a minor aspect</u> of the financial statements
2.1.2	Unqualified audit report	B.	The independent auditor <u>is not satisfied with major aspects</u> of the financial statements
2.1.3	Qualified audit report	C.	The independent auditor <u>is satisfied with all aspects</u> of the financial statements

(3)

2.2 **THYME LTD**

The financial year ended on 29 February 2020.

**REQUIRED:**

2.2.1 Calculate the following figures for the 2020 Cash Flow Statement:

- Change in investments (indicate if this is an inflow or outflow of cash) (3)
- Income tax paid (4)
- Proceeds from the sale of fixed assets (5)

2.2.2 Calculate:

- Total dividends for the 2020 financial year (4)
- Bank overdraft on 29 February 2020. (4)

2.2.3 Calculate financial indicators for the 2020 financial year:

- % operating expenses on sales (3)
- Debt/equity ratio (3)
- % return on average capital employed (ROCE) (6)
- Interim, final and total dividends per share (refer to Information B & D). (5)

***Information is on the next page***

**INFORMATION:****A. Extract from the Income Statement on 29 February 2020:**

Sales	R 6 450 000
Gross profit	2 640 000
Operating expenses	1 280 000
Depreciation	430 000
Operating profit	1 584 000
Interest expense (Interest on loan)	406 000
Net profit before tax	1 178 000
Income tax	353 400
Net profit after tax	824 600

**B. Extract from Balance Sheet:**

	<b>29 February 2020</b>	<b>28 February 2019</b>
Fixed assets (carrying value)	R 11 840 000	R11 027 000
Investments	100 000	500 000
Cash and cash equivalents	2 000	95 000
Bank overdraft	?	0
Ordinary shareholders' equity	8 800 000	7 144 000
Loan: Mint Bank	3 300 000	4 100 000
SARS: Income tax	12 800 <b>Cr</b>	6 700 <b>Cr</b>
Shareholders for dividends	126 000	450 000

**C. Extract from the Cash Flow Statement on 29 February 2020:**

Dividends paid	R 705 000
Fixed assets purchased	1 331 000
Proceeds from shares issued	1 650 000
Net decrease in cash and cash equivalents	149 000

**D. Interim & final dividends for 2020:**

- Interim dividends: 850 000 shares qualified for interim dividends.
- Final dividends: 1 050 000 shares qualified for final dividends.

**QUESTION 3 INTERPRETATION OF FINANCIAL INFORMATION (50 marks; 40 minutes)**

Mabel Mashele owns shares in Rock Limited and Stone Limited. Both companies are in the same industry. She asks for your advice.

**NOTE:** When answering the questions below, compare the information given and quote the relevant financial indicators of both companies (percentages, ratios and/or amounts).

**REQUIRED:****3.1 Solvency and Liquidity:**

- Explain two ways in which you would assess the solvency of any company. (2)
- Compare the Current and Acid-test ratios of the two companies and explain which company has the more preferable ratios. (6)
- Explain one possible problem for each company with regard to their control of the working capital items. (4)

**3.2 Market price of shares:**

- Comment on the value of the shares of the two companies on the Johannesburg Securities Exchange (JSE) for 2020. (5)
- You are concerned about the price at which the new shares were issued by Rock Ltd. Explain why you would be concerned and provide evidence. Also explain what action the directors should take. (6)

**3.3 Gearing & risk:**

Comment on the degree of risk and gearing in each company. Quote two financial indicators. (8)

**3.4 Earnings and return:**

- Explain whether or not Mabel should be satisfied with the trend in the % Return on equity (ROSHE) for each company. (4)
- Compare the earnings per share (EPS) of each company and provide evidence to Mabel on which company has the better EPS. (7)

**3.5 Dividends:**

Comment on the dividend pay-out policies of the two companies for 2020 and explain which company has the better policy and why that company adopted that policy. (4)

**3.6 Mabel's shareholding:**

Mabel is prepared to buy additional shares on the JSE at the current market price to become a majority shareholder in Stone Ltd. Calculate the amount that she will have to spend on buying the shares to make this happen. (4)

***Information is on the next page***

**INFORMATION:**

<b>A. ORDINARY SHARE CAPITAL FOR YEAR-END 29 FEBRUARY 2020</b>	<b>ROCK LTD</b>		<b>STONE LTD</b>	
	<b>Number of shares</b>	<b>R</b>	<b>Number of shares</b>	<b>R</b>
New shares issued during the financial year	90 000	R990 000	120 000	R720 000
Repurchased during the financial year	(60 000)	(R780 000)	0	0
Total shares in issue at end of the financial year	330 000	R4 290 000	420 000	R2 499 000
Average issue price per share at end of financial year	R13,00		R5,95	

<b>B. MABEL MASHELE'S SHAREHOLDING</b>	<b>ROCK LTD</b>	<b>STONE LTD</b>
Number of shares currently owned by her	140 000 shares	162 000 shares
Her original purchase price per share	R12,00	R4,00

<b>C. OTHER INFORMATION</b>	<b>ROCK LTD</b>	<b>STONE LTD</b>
Current market price of shares on JSE	R23,00	R11,40
Interest rate on loans	14,0%	
Return on alternative investments	7,5%	

<b>D. FINANCIAL INDICATORS</b>	<b>ROCK LTD</b>		<b>STONE LTD</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Current ratio	1,4 : 1		3,0 : 1	
Acid-test ratio	0,7 : 1		2,2 : 1	
Stock-holding period	20 days		60 days	
Average debtors' collection period	25 days		48 days	
Average creditors' payment period	30 days		30 days	
Debt-equity ratio	0,1 : 1	0,3 : 1	0,5 : 1	0,5 : 1
Return on total capital employed (ROTCE)	13,2%	11,2%	21,0%	22,3%
Return on shareholders' equity (ROSHE)	11,1%	10,6%	23,9%	24,1%
Earnings per share (EPS)	222 cents	210 cents	207 cents	190 cents
Dividend pay-out rate	117,1%	70%	60,0%	60%
Net asset value per share (NAV)	R18,90	R18,10	R8,60	R7,80

50

**TOTAL MARKS: 150**