# SECONDARY SCHOOL IMPROVEMENT PROGRAMME (SSIP) 2019

GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

## GRADE 12

## SUBJECT: ACCOUNTING

## LEARNER NOTES

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## SESSION 1 : COMPANIES FINANCIAL STATEMENTS

### QUESTION 1: COMPANY FINANCIAL STATEMENTS AND INTERPRETATION
### (75 marks; 45 minutes) [NSC Exam -2017 Feb/March]

You are provided with information from the records of Gandhi Ltd for the financial year ended 28 February 2017.

**REQUIRED:**

1.1 Complete the Income Statement for the year ended 28 February 2017. Note that some information is included in the ANSWER BOOK. (33)

1.2 Prepare the following notes to the Balance Sheet:

3.2.1 Ordinary share capital (10)
3.2.2 Retained income (10)

1.3 Complete the EQUITY AND LIABILITIES section of the Balance Sheet. Show workings in brackets. (16)

1.4 On 1 March 2016, B Sly (a shareholder) owned 400 000 ordinary shares. On 31 March 2016, she bought an additional 80 000 shares.
On 28 February 2017, she convinced the CEO to repurchase 250 000 shares from other shareholders.

1.4.1 Calculate B Sly's percentage shareholding in the company before and after the share buy-back. (4)
1.4.2 Explain why the other shareholders will be concerned about this transaction. (2)

**INFORMATION:**

**A.** The following balances/totals, amongst others, appeared in the books on 28 February 2017:

| | R |
|---|---|
| Ordinary share capital | **?** |
| Retained income | **?** |
| Loan: Anca Bank | 433 500 |
| Trading stock (before the annual stock take) | 231 700 |
| Debtors' control | 540 000 |
| Provision for bad debts (1 March 2016) | 19 600 |
| Creditors' control | 395 200 |
| SARS: Income tax (provisional tax payments) | 360 000 |
| Rent income | 61 900 |
| Interest income | **?** |
| Sundry expenses | **?** |
| Directors' fees | 605 500 |
| Audit fees | 29 000 |
| Ordinary share dividends (interim) | 420 000 |

**B.** The **gross profit** for the year ended 28 February 2017 was calculated at R3 150 000. A mark-up of 60% on cost was achieved.

**C.** The following adjustments must still be brought into account:

- Stocktaking on 28 February 2017 reflected trading stock of R207 500 on hand.
- Provision for bad debts must be increased to R21 600.
- One third ($^1/_3$) of the audit fee was still due on 28 February 2017.
- One of the three directors is still owed his fee for February 2017. All three directors received the same monthly fee.
- A vacant storeroom was rented out from 1 June 2016. On 1 January 2017 the rent was increased by R2 700 per month. The rent for February 2017 is outstanding.
- Sundry expenses are the balancing figure.

**D.** **Loan: Anca Bank**
Interest on the loan is capitalised, but no entry has been made in the books. A monthly instalment of R5 200 (including interest) is paid. This was taken into account. The loan statement showed a closing balance of R487 000. The company plans to increase their loan repayments in order to settle 20% of the loan balance in the next financial year.

**E.** Operating profit on sales was 14,5%.
**F.** Income tax at 32% of the net profit amounted to R396 800.

**G.** **Share capital and dividends:**

- The company is registered with an authorised share capital of 1 200 000 ordinary shares.
- 85% of the authorised shares were in issue on 1 March 2016.
- On 31 March 2016, the directors issued all the unissued shares. EFT payments totalling R756 000 were received.
- On 27 February 2017, the company repurchased 250 000 shares at R4,15 per share.
- An interim dividend was paid on 6 September 2016.
- A final dividend of 25 cents per share was declared on 28 February 2017. All shareholders (including the shares repurchased) were entitled to final dividends. This must still be brought into account.

**75**

## QUESTION 1

### 1.1 GANDHI LTD
### INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017

| | |
|---|---|
| Sales | |
| Cost of sales | |
| Gross profit | 3 150 000 |
| Other income | |
| Commission income | 12 000 |
| | |
| | |
| Gross income | |
| Operating expenses | |
| Salaries and wages | 824 000 |
| Depreciation | 216 500 |
| Sundry expenses | |
| | |
| | |
| | |
| | |
| | |
| | |
| Operating profit | |
| Interest income | |
| Net profit before interest expense | |
| Interest expense | |
| Net profit before tax | |
| Income tax | (396 800) |
| Net profit after tax | |

33

### 1.2.1 ORDINARY SHARE CAPITAL

**AUTHORISED SHARE CAPITAL**

| |
|---|
| **1 200 000 ordinary shares** |

**ISSUED SHARE CAPITAL**

| | | |
|---|---|---|
| | **Ordinary shares on 1 March 2016** | **3 084 000** |
| | | |
| | | |
| | | |

**10**

### 1.2.2 RETAINED INCOME

| | |
|---|---|
| **Balance on 1 March 2016** | **674 500** |
| | |
| | |
| **Ordinary share dividends** | |
| | |
| | |
| **Balance on 28 February 2017** | |

**10**

### 1.3 EQUITY AND LIABILITIES SECTION OF THE BALANCE SHEET

| | |
|---|---|
| **SHAREHOLDERS' EQUITY** | |
| | |
| | |
| | |
| **NON-CURRENT LIABILITIES** | |
| | |
| | |
| **CURRENT LIABILITIES** | |
| | |
| | |
| | |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | |

**16**

| | | |
|---|---|---|
| 1.4.1 | **Calculate B Sly's percentage shareholding in the company before and after the share buy-back.**<br><br>**Before the buy-back:**<br><br>**After the buy-back:** | **4** |
| 1.4.2 | **Explain why the other shareholders will be concerned about this transaction.** | **2** |

| **TOTAL MARKS** |
|---|
| |
| **75** |

## QUESTION 2 : CORRECTION OF PROFIT BEFORE TAX (21 Marks )

**REQUIRED:**
Calculate the Net Profit after tax

**INFORMATION:**

**A.** The accountant calculated the net **profit before tax** to be R840 000, but the following adjustments were taken into consideration.

**B.** **EXTRACT FROM THE PRE-ADJUSTMENT TRIAL BALANCE FOR THE YEAR ENDED 30 JUNE 2018.**

| **Balance Sheet accounts section** | |
|---|---|
| Debtors Control | R176 000 |
| Provision for bad debts | R9 660 |
| Trading Stock | R450 700 |
| Loan: Standard Bank( 12% p.a) | R600 000 |
| SARS: Income Tax(Dr) | R280 000 |
| **Nominal accounts section** | |
| Rent income | R67 250 |
| Directors fees | R760 000 |

**C.** **Unconsidered adjustments:**

(i) A physical stocktaking on 30 June 2018 reflected that stock to the value of R446 000 was on hand.

(ii) The business returned goods not as per sample to the supplier, R5 700. The transaction has not yet been recorded.

(iii) Depreciation must be provided as follows:
- Equipment R40 000
- Vehicles R34 000

(iv) A debtor, A Adams, who owes the business R4 600 has been declared insolvent. His estate has paid 40 cents in each rand. The remainder should be written off as bad debt irrecoverable.

(v) Provision for bad debts should be adjusted to 5%.

(vi) Rent for July 2018 has been received in advance. The rent was increased by 450 per Month on 01 May 2018

(vii) Audit fees for 6 750 were still outstanding on 30 June 2018.

(viii) Provide for outstanding interest on loan. Interest is capitalized

(ix) The business has three directors, they earn the same directors fees. One the a director has been directors fees for July and August 2018.

(x) R12 300 is still owed to SARS regarding the income tax for the financial year ending 30 June 2018.

**QUESTION 2 : CORRECTION OF PROFIT BEFORE TAX**

| **2 .Correction of profit before tax** | |
|---|---|
| Incorrect Profit before tax | **840 000** |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |

| |
|---|
| **7** |

**QUESTION 3: COMPANY FINANCIAL STATEMENTS**
**NSC –NOV 2015 (54 marks; 34 minutes)**

3.1 **PRIDONA LIMITED**

The following information relates to Pridona Limited. The financial year ended on 30 June 2015. The business uses the perpetual (continuous) inventory system.

**REQUIRED:**

3.1.1 **Refer to Information B.**
Calculate the correct net profit after tax for the year ended 30 June 2015. Indicate a **+** for increase and a **–** for decrease. (13)

3.1.2 Prepare the Retained Income Note on 30 June 2015. (11)

3.1.3 Prepare the Balance Sheet on 30 June 2015. Where notes are NOT required, workings must be shown. (30)

**INFORMATION:**

**A.** List of balances/totals on 30 June 2015:

| **BALANCE SHEET ACCOUNTS SECTION** | |
|---|---|
| Ordinary share capital | R5 600 000 |
| Retained income (1 July 2014) | 2 700 000 |
| Mortgage loan: Custom Bank | 262 200 |
| Fixed assets | 8 950 000 |
| Trading stock | 203 200 |
| Debtors' control | 316 000 |
| Provision for bad debts (1 July 2014) | 11 400 |
| Cash and cash equivalents (balancing figure) | **?** |
| SARS: Income tax (provisional tax payments) | 725 000 |
| Income receivable (accrued) | 5 200 |
| Creditors' control | 261 000 |

**B.** Net profit before tax of R2 493 600 was determined BEFORE taking into account the following information:

(i) Trading stock on 30 June 2015 was valued at R191 900.

(ii) Provision for bad debts must be adjusted to R9 000.

(iii) Rent for July 2015, R2 800, had been received in advance.

(iv) An annual insurance premium of R6 000 was paid for the period 1 April 2015 to 31 March 2016.

(v) The auditor discovered that the profit on disposal of a vehicle, R6 800, was incorrectly shown as a loss.

(vi) Income tax amounts to R750 000 for the year.

**C.** Dividends and shares:

(i) Interim dividends of R600 000 were paid on 31 December 2014.

(ii) The directors declared a final dividend of 22 cents per share on 30 June 2015 on all shares issued to date. Shares repurchased on 31 May 2015 do not qualify for final dividends.

(iii) Share capital:

| | |
|---|---|
| 1 July 2014 | 3 000 000 shares were in issue (R3 900 000) |
| 15 August 2014 | 1 000 000 new shares were issued at R1,70 each (R1 700 000). This has been recorded. |
| 31 May 2015 | 20 000 shares were repurchased at R2,50 each from an existing shareholder (R50 000). This has not been recorded. |

**D.** A debtor's debit balance of R1 000 in the Debtors' Ledger must still be transferred to his account in the Creditors' Ledger.

**E.** The mortgage loan from Custom Bank was obtained on 1 April 2014. This will be repaid over 6 years. A fixed loan repayment (excluding interest) is made at the end of each month. The first monthly loan repayment was made on 30 April 2014. All other loan repayments have been made. Interest is not capitalised and has been correctly recorded.

## QUESTION 3 : COMPANY FINANCIAL STATEMENTS

### 3.1 PRIDONA LIMITED

3.1.1

| Calculation of the correct net profit after tax | |
|---|---|
| Incorrect net profit | 2 493 600 |
| | |
| | |
| | |
| | |
| | |
| | |
| Correct net profit before tax | |
| Income tax | |
| Net profit after tax | |

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3.1.2 **RETAINED INCOME NOTE ON 30 JUNE 2015**

| | |
|---|---|
| Balance at beginning of year | 2 700 000 |
| | |
| | |
| Dividends | |
| | |
| | |
| Balance at end of year | |

**3.1.3 PRIDONA LIMITED**
**BALANCE SHEET AS AT 30 JUNE 2015**

| | |
|---|---|
| ASSETS | |
| NON-CURRENT ASSETS | 8 950 000 |
| Fixed assets at carrying value | 8 950 000 |
| | |
| CURRENT ASSETS | |
| Inventories | |
| Trade and other receivables | |
| Cash and cash equivalents | |
| TOTAL ASSETS | |
| | |
| EQUITY AND LIABILITIES | |
| ORDINARY SHAREHOLDERS' EQUITY | |
| Ordinary share capital | 5 572 000 |
| Retained income | |
| | |
| NON-CURRENT LIABILITIES | |
| | |
| | |
| CURRENT LIABILITIES | |
| Trade and other payables | |
| | |
| | |
| | |
| TOTAL EQUITY AND LIABILITIES | |

30