

High School Olympiad

Guiding the leaders of tomorrow

ACCOUNTING

GRADE 12

Olympiad Paper

Round One

Marks: 30

Time: 1 hour

Date: 12 May 2021



Instructions

1. Complete questions on the ANSWER SHEET provided.
2. Complete all information on the ANSWER SHEET.
3. The ANSWER SHEET consist of 4 sections. Please select the correct section/subject.
4. There are 4 possible answers per question (A B C D)
Only one answer is correct.
Colour a circle completely.
5. Good luck!

PROVERTO EMS OLYMPIAD 2021 – GRADE 12

ACCOUNTING

ROUND 1

ACCOUNTING INFORMATION, GAAP/IFRS, PUBLISHED FINANCIAL STATEMENTS AND AUDIT REPORTS

1. The _____ principle states that all revenues earned during an accounting year, whether received/not received during that year and all costs incurred, whether paid/not paid during the year should be taken into account when determining the profit or loss for that year.
 - A matching / accrual
 - B prudence / conservatism
 - C consistency
 - D going concern

2. The principle of _____ refers to the idea that all liabilities and expenses should be recorded as soon as possible, while assets and revenues should only be recorded when an accountant is certain they will occur.
 - A matching / accrual
 - B prudence / conservatism
 - C consistency
 - D going concern

3. The _____ principle entails that the recorded amounts for equity investments, assets and liabilities should not be adjusted for improvements, market value or inflation.
 - A business entity
 - B double entry
 - C full disclosure
 - D historic cost

4. According to the _____ principle, credit sales are recorded when sales take place and not when the customer pays the invoice.
 - A full disclosure
 - B monetary unit
 - C time period
 - D matching / accrual

5. Which one of the following is an example of the business entity principle?
- A Drawings reduce the current assets of the business or increase the current liabilities of the business.
 - B Market conditions, technological changes and the efficiency of management would not be disclosed in the accounts.
 - C Any payments for the owner's personal expenses by the business will be treated as drawings and reduce the owner's capital contribution in the business.
 - D A provision for doubtful debts should be made.
6. A business records small-valued assets such as pencil sharpeners, wastepaper baskets and pocket calculators as stationery (expenditure) instead of as equipment (assets), although they can last for more than one accounting period. The applicable accounting principle is _____.
- A objectivity
 - B consistency
 - C materiality
 - D business entity

Read the following and answer questions 7 and 8.

There are various users of accounting information, e.g.

- **User 1** – Needs information about the profitability and solvency of the business in order to determine the risk and interest rate of loans.
- **User 2** – Needs information about the liquidity of a business in order to assess the ability to repay the amounts owed to them.
- **User 3** – Needs information about various businesses for statistics and formulation of economic plans.
- **User 4** – Interested in long-term stability of the business and continuance of the supply of particular products.
- **User 5** – Interested in the stability of the business to provide employment, fringe benefits and promotion opportunities.

7. Which user is most probably a financial institution where the business has applied for a loan?
- A User 1
 - B User 2
 - C User 3
 - D User 4
8. Which user is most probably a trade creditor of the business?
- A User 1
 - B User 2
 - C User 4
 - D User 5
9. Assets and liabilities are classified as either current or non-current based on _____.
- A value
 - B time
 - C payments
 - D cost

10. A company takes out a short-term loan of three months to use as bridging finance. The interest on this loan will be classified as a/an _____.
- A expense
 - B payment
 - C non-current liability
 - D current liability
11. The total instalments payable on a mortgage loan for the following financial year will be shown as:
- A an expense in the published cash budget for the following financial year.
 - B a current liability as part of the notes of the balance sheet at the end of the current financial year.
 - C a non-current liability on the face of the balance sheet.
 - D an expense on the projected income statement for the following financial year.
12. Which one of the following is **NOT** true concerning the auditor's report?
- A The auditor's report is a document containing the auditor's opinion on whether a company's financial statements comply with accounting standards and are free from material misstatement.
 - B The audit report is important because various stakeholders, e.g. banks, creditors and regulators, require an audit of a company's financial statements.
 - C A qualified audit report means a company followed accounting standards while an unqualified report means there might be errors.
 - D An adverse report means that the financial statements might have had discrepancies and/or misrepresentations and did not adhere to accounting standards.
13. In our opinion, the financial statements present fairly, in all material respects, the financial position of Fancy Technologies Limited as at 28 February 2021 and its financial performance and its cash flows for the year then ended in accordance with IFRS and the Companies Act of South Africa.
- This report will be issued by the _____.**
- A external auditor
 - B internal auditor
 - C Directors
 - D Promoters

TRANSACTIONS RELATED TO COMPANIES AND ANALYSIS OF FINANCIAL STATEMENTS

14. Fargo Ltd. received a loan statement from the BBC Bank. The loan is a mortgage loan and interest is capitalised.

Balance on 28 February 2020	R984 000
Payments received	R37 000 per month
Balance on 28 February 2021	R618 720

Which one of the following statements is true?

- A The loan was used to purchase trading stock and the interest for the year amounts to R78 720.
 B The loan was used to purchase land and buildings and the interest for the year amounts to R78 720.
 C The loan was used to purchase moveable assets and the interest for the year amounts to R35 520.
 D The loan was used to pay trade creditors and the interest varies as the rate is capitalised.
15. The board of Gallagher Limited consists of 3 executive and 4 non-executive members. Directors fees is R20 000 per month.

The remuneration of directors will be included in the financial statements on 28 February 2021 as:

	SALARIES AND WAGES	DIRECTORS FEES
A	R720 000	R960 000
B	R960 000	R720 000
C	R1 680 000	R0
D	R0	R1 680 000

16. The pre-adjustment trial balance on 28 February 2021 shows rent expense as R333 450. Rent increased with 10% on 1 November 2020 and the rent for March 2021 was paid on 24 February 2021.

Which one of the following transactions is correct?

	DEBIT	CREDIT
A	Rent expense, R27 787.50	Prepaid expenses, R27 787.50
B	Prepaid expenses, R27 787.50	Rent expense, R27 787.50
C	Rent expense, R27 170.00	Prepaid expenses, R27 170.00
D	Prepaid expenses, R27 170.00	Rent expense, R27 170.00

17. The pre-adjustment trial balance on 28 February shows the following balances:

	2021	2020
Debtors control	R634 000	R208 600
Provision for bad debts	?	?

The following adjustments must still be taken into consideration:

- (i) Three debtors owing a total of R840 must be written off as irrecoverable.
- (ii) One debtor is insolvent. His estate paid 30 cents in the Rand and R2 370 was received at the end of January. No entry was made.
- (iii) The debtors list includes a creditor with a debit balance of R412 000. This was for a deposit on a new custom build vehicle that will be delivered at the end of May.
- (iv) The provision for bad debts must be increased with one percentage point to 5%.

Choose the correct effect on the financial statements on 28 February 2021.

	INCOME STATEMENT – NET PROFIT WILL	BALANCE SHEET – NET TRADE DEBTORS WILL
A	increase with R233	increase with R233
B	decrease with R233	decrease with R233
C	increase with R2 319	increase with R2 319
D	decrease with R2 319	decrease with R2 319

18. Halo Limited underpaid SARS with R300 for the year ending 28 February 2020. During the current financial year (28 February 2021), tax payments totalling R41 300 were made. On 28 February 2021, the SARS: Income Tax account had a credit balance of R3 400.

Calculate the **net profit before tax** for the year ending 28 February 2021 if the tax rate is 30%.

- A R148 000
- B R127 333
- C R125 333
- D R150 000

19. Cara Limited was registered on 31 May 2017 with an authorised share capital of 2 000 000 shares. On 30 June 2017, shares to the value of R4 000 000 were issued at 400 cents per share. On 1 February 2019, an additional 500 000 shares were issued at 460 cents per share. On 28 February 2020, Cara Ltd. repurchased 100 000 shares from a shareholder at 10% less than the market price of 480 cents per share on that day.

Which entry is correct for the **repurchase of shares on 28 February 2020**?

	ORDINARY SHARE CAPITAL		RETAINED INCOME	
A		432 000		60 000
B	432 000		60 000	
C		420 000		12 000
D	420 000		12 000	

20. The ordinary share capital account shows that 1 200 000 shares are in issue on 1 July 2020 at 400 cents per share. On 1 January 2021, an additional 300 000 shares were issued. On 31 March 2021, 75 000 shares were repurchased at a total of R450 000. The ordinary share capital note shows the balance on 30 June 2021 as R5 985 000.

Shares were issued at _____ cents per share.

- A 500
 B 545
 C 600
 D 410
21. **JJ Limited issued 100 000 shares at R25 per share.**
- An ill-timed news item questioning the company's leadership ethics causes panicked shareholders to begin to sell, driving the price down to R15 per share. The company decides to repurchase 50 000 shares at the current market price and wait out the frenzy. The business remains profitable and launches a new and exciting product line the following quarter, driving the market price up past the original offering price to R35 per share. After regaining its popularity, the company reissues the 50 000 shares at the new market price.

Which one of the following is true?

- A JJ Limited was able to turn R2,5 million in equity into R3,0 million without further diluting ownership by issuing additional shares.
 B JJ Limited has a total share value of R1,75 million.
 C The market price has no influence on the value of shares issued by the company.
 D The total value of shares decreased by R1 million, thus diluting the ownership as JJ Limited has issued new shares.
22. Shares can be bought back from:
- A existing shareholders.
 B directors who have taken a share option.
 C the open market.
 D all of the above.

23. **The following information was taken from the records of Katana Limited:**

	28 FEBRUARY 2021	28 FEBRUARY 2020
Non-current assets at cost	18 000 000	12 000 000
Accumulated depreciation	1 440 000	1 200 000
Depreciation for the year	620 000	430 000

New equipment was purchased during the year at a cost of R7 000 000. Old equipment was sold at carrying value.

Calculate the returns on non-current assets sold.

- A R380 000
 B R810 000
 C R620 000
 D R1 240 000

24. The balance sheet of Lima Limited shows the following:

	28 FEBRUARY 2021	28 FEBRUARY 2020
Financial assets	600 000	500 000

During the year a fixed deposit of R300 000 matured. This money was re-invested in a 60-day call account.

Calculate the change in investment that will be included on the cash flow statement on 28 February 2021.

	INFLOW	OUTFLOW	NET CHANGE
A	400 000	300 000	R100 000 inflow
B	400 000	0	R400 000 inflow
C	300 000	400 000	R100 000 outflow
D	0	400 000	R400 000 outflow

25. The note to the cash flow statement: Cash generated from operations is adjusted with the amounts for depreciation and interest expense because

- A depreciation is shown more prominently on the face of the cash flow statement and interest expense does not represent cash flow and is therefore excluded from cash operations.
- B both depreciation and interest expense are non-cash flow items and must be excluded from the cash flow from operating activities.
- C depreciation must be deducted from net profit as it is shown in the cash flow from investing activities and interest expense is a non-operating expense.
- D interest expense is shown more prominently on the face of the cash flow statement and depreciation does not represent cash flow and is therefore excluded from cash operations.

26. The net change in cash and cash equivalents is the result of:

- A Cash flow from non-current activities, investment activities and financing activities.
- B Cash flow from operating activities, investment activities and financing activities.
- C Cash flow from changes in retained activities, current activities and non-current activities.
- D Cash flow from income activities, expense activities and financing activities.

27. The current ratio is calculated as 2,25:1 and the acid test ratio as 0,90:1.

Calculate the value of stock on hand if current assets is shown as R1 395 000 on the balance sheet.

- A R837 000
- B R1 883 250
- C R1 550 000
- D R620 000

28. Which one of the following statements is true?
- A Return on shareholders' equity looks at how well a company uses shareholder equity while return on capital invested (employed) is meant to determine how well a company uses all its available capital to make profit.
 - B The purpose of return on capital invested (employed) is to figure out the amount of money before dividends a company makes based on all its sources of capital, which includes shareholders' equity and debt.
 - C Return on shareholders' equity determines the investment made in relation to the average capital employed.
 - D The return on capital invested (employed) must preferably be much lower than the current interest rate paid on loans.
29. The current market price of a share in Lima Limited is 450 cents. These shares have been issued at 320 cents and the net asset value per share is 400 cents. Peter has the opportunity to purchase 10 000 Lima share at 500 cents each from a friend.

What would you suggest Peter do?

- A Peter must purchase the shares from his friend.
 - B Peter must purchase the shares on the open market.
 - C Peter must not purchase shares in Lima Limited at all.
 - D Peter must wait for market price to go lower than the net asset value per share before he purchases shares.
30. You have to report on the liquidity of Marvellous Limited.
- Which ratios will you use in your report?**
- A Return on shareholders' equity, current ratio, stock turnover rate, solvency ratio and earnings per share.
 - B Current ratio, stock turnover rate, average debtors collection period, stock holding period.
 - C Return on shareholders' equity, return on capital employed, current ratio and earnings per share.
 - D Solvency ratio, earnings per share, net asset value per share and dividends per share.