SMARTWIZ

GRADE 12 ACCOUNTING EXAM

MARKS: 100

TIME: 3 HOURS

MARKS	

SCHOOL ____

CLASS (eg. 4A) ______________

SURNAME ____

NAME ____

Instructions for Learners:

- Read all instructions carefully before you begin the exam.
- Write your full name and student number clearly on the answer sheet/book.
- Answer all questions unless otherwise instructed.
- Show all your work/calculations where necessary.
- Write neatly and clearly.
- Use only a blue or black pen. Do not use correction fluid or tape.
- Electronic devices (calculators, cell phones, etc.) are not allowed unless explicitly permitted.
- Raise your hand if you have any questions.
- Do not talk to other learners during the exam.
- Any form of dishonesty will result in immediate disqualification from the exam.

This exam consists of Five pages, including the cover page.

SECTION A: SOURCES OF FINANCE & CAPITAL STRUCTURE (25 MARKS)

QUESTION 1

1.1 Define the term **capital structure**. (3)

1.2 Differentiate between **equity financing** and **debt financing**. (4)

1.3 List FOUR advantages of using **retained earnings** as a source of finance. (4)

1.4 Explain the meaning and importance of the **debt-to-equity ratio** for a business. (5)

1.5 A company has the following balances:

- Total debt: R400,000
- Total equity: R600,000
  Calculate the debt-to-equity ratio and interpret the result. (5)

1.6 Suggest TWO reasons why a business might prefer debt financing over equity financing. (4)

SECTION B: FIXED ASSETS MANAGEMENT (25 MARKS)

QUESTION 2

2.1 Define **capital expenditure** and give TWO examples. (4)

2.2 Explain the difference between **capital expenditure** and **revenue expenditure**. (4)

2.3 A business purchased a delivery van on 1 January 2022 for R250,000. The estimated useful life is 8 years with no residual value.

Calculate the depreciation expense for the year ending 31 December 2024 using the **straight-line method**. (5)

2.4 Explain why it is necessary to maintain a **fixed asset register**. (4)

2.5 The business decides to sell the van on 31 December 2024 for R100,000. Calculate the profit or loss on the sale of the van. (8)

SECTION C: FINANCIAL STATEMENTS INTERPRETATION (25 MARKS)

QUESTION 3

3.1 What is the purpose of the **statement of financial position** (balance sheet)? (3)

3.2 Identify and explain TWO types of **current assets** and TWO types of **current liabilities** that appear on a statement of financial position. (6)

3.3 Explain the difference between **gross profit** and **net profit**. (4)

3.4 The following information was extracted from a company's income statement:

- Sales: R1,200,000
- Cost of sales: R720,000
- Operating expenses: R320,000
- Interest expense: R40,000
  Calculate:
  (a) Gross profit
  (b) Operating profit
  (c) Net profit before tax (5)

3.5 Explain the importance of **notes to the financial statements** for users of financial reports. (4)

3.6 Describe TWO limitations of financial statements when making business decisions. (3)

SECTION D: ETHICS AND CORPORATE GOVERNANCE (25 MARKS)

QUESTION 4

4.1 Define **business ethics** and explain why ethics are important in accounting. (4)

4.2 Describe FOUR ethical principles that accountants should follow. (8)

4.3 Explain the role of **corporate governance** in promoting ethical behaviour within a company. (5)

4.4 Discuss TWO consequences of unethical behaviour for a business. (4)

4.5 Suggest TWO measures a company can implement to ensure ethical practices in financial reporting. (4)

End of Exam

TOTAL ; 100

MEMO

SECTION A: SOURCES OF FINANCE & CAPITAL STRUCTURE (25 MARKS)

QUESTION 1

1.1 Capital structure: (3)

- The mix of a company’s long-term sources of finance (debt and equity) used to fund its operations.

1.2 Difference between equity financing and debt financing: (4)

- Equity financing involves raising capital by issuing shares; investors become owners.
- Debt financing involves borrowing funds that must be repaid with interest; no ownership given.

1.3 FOUR advantages of retained earnings: (4)

- No interest or repayment required.
- Readily available internally.
- No dilution of ownership.
- Improves creditworthiness.

1.4 Meaning and importance of debt-to-equity ratio: (5)

- Debt-to-equity ratio = total debt ÷ total equity.
- Indicates financial risk and leverage; shows the proportion of debt used to finance assets.
- Important for assessing solvency and risk by investors and creditors.

1.5 Calculate debt-to-equity ratio: (5)

Debt-to-equity ratio=400,000600,000=0.67\text{Debt-to-equity ratio} = \frac{400,000}{600,000} = 0.67Debt-to-equity ratio=600,000400,000=0.67

Interpretation: The company uses R0.67 debt for every R1 of equity — moderate use of debt, considered relatively low risk.

1.6 TWO reasons why debt financing preferred: (4)

- Interest expense is tax-deductible.
- Does not dilute ownership/control.

SECTION B: FIXED ASSETS MANAGEMENT (25 MARKS)

QUESTION 2

2.1 Capital expenditure definition and examples: (4)

- Money spent to acquire or improve fixed assets.
- Examples: purchase of machinery, building renovations.

2.2 Difference between capital and revenue expenditure: (4)

- Capital expenditure: benefits extend beyond one accounting period; asset creation/improvement.
- Revenue expenditure: costs incurred for day-to-day running; maintenance or repairs.

2.3 Calculate depreciation for 2024 (straight-line): (5)

- Cost = R250,000; Life = 8 years; Residual = 0
- Annual depreciation = 250,000 ÷ 8 = R31,250 per year
- Depreciation for 2024 = R31,250

2.4 Importance of fixed asset register: (4)

- Tracks asset details and location.
- Helps in calculating depreciation.
- Assists with maintenance schedules.
- Prevents asset theft/loss.

2.5 Calculate profit/loss on sale of van: (8)

- Depreciation till 31/12/2024 = 3 years × 31,250 = 93,750
- Book value at sale = 250,000 - 93,750 = 156,250
- Sale price = 100,000
- Loss on sale = 156,250 - 100,000 = R56,250 loss

SECTION C: FINANCIAL STATEMENTS INTERPRETATION (25 MARKS)

QUESTION 3

3.1 Purpose of statement of financial position: (3)

- Shows financial position at a specific date; lists assets, liabilities, and equity.

3.2 TWO current assets and liabilities: (6)

- Current assets: Cash, inventory, accounts receivable.
- Current liabilities: Accounts payable, bank overdraft, short-term loans.

3.3 Difference between gross profit and net profit: (4)

- Gross profit = Sales – Cost of sales.
- Net profit = Gross profit – all expenses (operating, interest, tax).

3.4 Calculate profits: (5)
(a) Gross profit = 1,200,000 – 720,000 = R480,000
(b) Operating profit = Gross profit – operating expenses = 480,000 – 320,000 = R160,000
(c) Net profit before tax = Operating profit – interest expense = 160,000 – 40,000 = R120,000

3.5 Importance of notes to financial statements: (4)

- Provide explanations and additional details on figures.
- Clarify accounting policies and contingencies.
- Help users understand financial statements better.

3.6 Limitations of financial statements: (3)

- Historical data may not reflect current values.
- Do not show non-financial factors (e.g., employee morale).
- Possible manipulation through accounting policies.

SECTION D: ETHICS AND CORPORATE GOVERNANCE (25 MARKS)

QUESTION 4

4.1 Business ethics definition and importance: (4)

- Principles guiding right/wrong behaviour in business.
- Important to maintain trust, credibility, and integrity in accounting.

4.2 FOUR ethical principles for accountants: (8)

- Integrity: Be honest and truthful.
- Objectivity: Avoid bias and conflicts of interest.
- Confidentiality: Protect client information.
- Professional competence: Maintain knowledge and skills.

4.3 Role of corporate governance: (5)

- Establishes systems and processes to ensure accountability and transparency.
- Promotes ethical decision-making and compliance.
- Protects stakeholders' interests.

4.4 TWO consequences of unethical behaviour: (4)

- Loss of reputation and customer trust.
- Legal penalties and financial losses.

4.5 TWO measures to ensure ethical practices: (4)

- Implement a code of ethics and training.
- Establish internal controls and regular audits.

End of Memo

TOTAL : 100