

ACCOUNTING GRADE 12
Paper 2

Time: 2 hours

100 marks

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This paper consists of 6 pages. Please check that your question paper is complete.
2. Read the questions carefully.
3. There is a **complete** Answer Book. There is a clearly marked page for each answer.
4. It is in your interests to write legibly and present your work neatly.
5. Show all calculations in brackets.
6. You may **not** use red or green ink. **You may use pencil, but please use a soft, dark pencil.**
7. No abbreviations are allowed.
8. Good luck!
9. The allocation of marks and approximate time to be taken for each question are as follows:

QUESTION	TIME	MARKS	SECTION	Learning outcomes and assessment standards
1	36 min	30	Budgets and debtors reconciliation	12.1.4 12.2.3 12.3.6
2	50 min	42	Companies - ratios	12.1.5
3	22 min	18	Company audit and governance	12.3.6
4	12 min	10	Bank reconciliation	12.1.4
TOTAL	120 min	100		

QUESTION 1 Budgets and debtors reconciliation (30 marks, 36 minutes)

1.1 Budget:

The owner of Waverley Retailers has been given the budget figures for the months of July and August together with the actual figures for this information.

Required:

Study the figures given below and answer the questions that follow:

Additional information:

- 1 40% of goods are sold for cash.
- 2 Debtors are given 30 days to pay their accounts.
- 3 The business buys stock at the end of every month to replace any stock sold that month – i.e. works on a fixed stock base.
- 4 All purchases are bought on credit and all creditors are paid full in 30 days.
- 5 The loan was taken out on 1 July 2009 at an interest rate of 18% p.a. in order to assist with cash flow problems.

BUDGETED AND ACTUAL FIGURES OF WAVERLEY RETAILERS FOR THE MONTH OF JULY AND AUGUST 2009.

	JULY 2009		AUGUST 2009	
	Budget	Actual	Budget	Actual
Cash receipts				
Cash sales	60 000	70 000	30 000	31 500
Cash from debtors	72 000	52 000	(1)	70 000
Loan	120 000	120 000	0	0
TOTAL RECEIPTS	252 000	242 000	(2)	101 500
Cash payments				
Payments to creditors	80 000	80 000	100 000	100 000
Wages and salaries	12 000	15 000	12 000	12 000
Drawings	25 000	35 000	25 000	28 000
Operating expenses	42 000	38 000	42 000	45 000
Interest on loan	1 800	1 800	1 800	1 850
TOTAL PAYMENTS	160 800	169 800	180 800	186 850
Surplus (Deficit)	91 200	72 200	(3)	(85 350)
Opening bank balance	(36 000)	(36 000)	(4)	36 200
Closing bank balance	55 200	36 200	(5)	(49 150)

Questions:

- 1 Calculate the total budgeted sales for July 2009. (2)
- 2 Calculate the cash form debtors figure for August 2009 marked with an (1) on the sheet above. (3)
- 3 Balance the August budget by calculating the missing figures marked with (2) – (5). (6)
- 4 Explain why the interest on loans increased in August. Give one explanation. (2)
- 5 It appears that raising a loan has not solved the cash flow problems. How can the business improve the cash situation without borrowing further funds. Provide three suggestions, quoting figures from the question. (6)

1.2 Debtors reconciliation:

The owner of Waverley Retailers has requested a Debtors Age Analysis on the 31 August 2009 in order to determine why the figures given in the budget and actual above do not agree.

DEBTORS AGE ANALYSIS ON 31 AUGUST 2009

DEBTORS	1-30days	31-60 days	61-90days	More than 90 days
Ben Beam	17 000	23 000	8 000	5 000
Linda Light	13 000			
Mary Moon	9 000	4 000		
Sally Sun	11 000		13 000	9 000
TOTALS	50 000	27 000	21 000	14 000

Required:

- 1 What is the balance on the account of Beam on 31 August 2009? (2)
- 2 What figure would you insert for Debtors Control in the Balance Sheet on 31 August 2009? (2)
- 3 Does the business have a problem with all their debtors? Explain using examples. (3)
- 4 What 2 actions should the business be taking in order to rectify the problem debtors? Discuss using actual debtors to which you would apply these measures, in your explanation. (4)

QUESTION 2 Companies - ratios**(42 marks, 50 minutes)**

You are provided with information relating to Labtek Limited, a public company listed on the JSE.

Required:

- 1 Provide two other items, apart from the three financial statements (Income Statement, Balance Sheet, Cash Flow Statement) that would be included in a company's published financial statement. Explain the purpose of each. (4)
- 2 Use the information provided to complete the Cash Flow Statement for the year ended 30 June 2009. Show workings in brackets. What is your opinion on the cash flow position? (14)
- 3 You are provided with the following financial indicators for the past two years. Calculate the missing indicators denoted (a) to (e). (13)

	2009	2008
Current ratio	2,5:1	1,1: 1
Acid-test ratio	(a)	0,2: 1
Stock turnover rate	6 times	4 times
Debt/ Equity ratio	(b)	0,4: 1
Net asset value per share	(c)	1229 cents
Earnings per share	(d)	156 cents
Dividends per share	560 cents	175 cents
Return on shareholders' equity	(e)	12.6%
Return on total capital employed	61.8%	16.9%
Interest rate on loans	13.5%	13.5%

- 4 Comment on the following, quoting the financial indicators (actual ratios or percentages, etc.) to support your answer:
 - Liquidity (4)
 - Gearing (use of loans) (3)
 - Return, earnings and dividends earned by shareholders (4)

INFORMATION:**LABTEK LIMITED****BALANCE SHEET ON JUNE 2009****ASSETS****Non-current assets**

Fixed assets	864 200	600 000
Investments	70 000	445 000

Current assets

Inventories (all stock)	505 000	402 000
Trade & other receivables (all trade debtors)	114 000	122 000
Cash & Cash equivalents	157 000	2 000

TOTAL ASSETS

1 710 200	1 571 000
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EQUITY & LIABILITIES**Shareholders' equity**

Ordinary share capital (R10 par value)	810 000	640 000
Share premium	79 200	35 000
Retained income	203 000	112 000

Non-current liabilities

Mortgage loan from Brite Bank	246 000	287 000
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Current liabilities

Trade & other payables (including SARS and Shareholders for dividends)	372 000	404 000
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Bank overdraft 93 000

TOTAL EQUITY AND LIABILITIES 1 710 200 1 571 000

ADDITIONAL INFORMATION:

- 1 The Income Statement for 2009 reflects the following:
 - Income tax, R195 000
 - Interest expense, R36 300 (all interest due has been paid)
 - Depreciation, R31 000
- 2 Unused fixed assets were sold at book value during the year for R56 000.
- 3 Amounts owed to SARS at the year-end are included in Trade & other payables:
 - Owed to SARS on 30 June 2008, R9 600.
 - Owed to SARS on 30 June 2009, R12 000
- 4 The new shares were issued on the last day of the financial year. They do not qualify for dividends in the 2009 financial year. Dividends were as follows:
 - Final dividends for 2008 paid on 5 August 2008, total R78 000.
 - Interim dividends for 2009 paid on 31 December 2008, 180 cents per share.
 - Final dividends for 2009 declared on 30 June 2009, 380 cents per share.

QUESTION 3 Company audit and governance

(18 marks, 22 minutes)

3.1 Required:

- 1 Explain the following concepts in relation to companies:
 - Separate legal entity (2)
 - Limited liability (2)
- 2 In what way does the role of an independent auditor differ from that of an internal auditor? (3)
- 3 Why is it important that an independent auditor should have a CA (SA) qualification? (2)

3.2 Required:

"Eskom is a good example of how not to run a business. If Eskom had been a public company with shareholders, the managers would have been fired by now."

Do you agree with this statement? Explain three points to support your answer. (9)

You may refer to the article (following page) for ideas.

INFORMATION:

The following article appeared in the press. Extracts are printed below.

ESKOM – HOW NOT TO RUN A BUSINESS

Managers are not performing to standard, but are not being punished

By Des Squire, Daily News, Wed 20 February 2008.

The recent on-going failure by Eskom to provide its stakeholders with the product and service it is responsible for, affords all in managerial positions with lessons in how not to manage a business. There are so many areas on which we can concentrate, but let's just look at some of the more important.

Corporate governance

Consider Eskom over the past few weeks. There is no indication of responsibility; there is no accountability or transparency. In the case of Eskom, I ask the question: Who is the responsible person or persons, and have they been called to account? A director is accountable to the company and at the same time responsible to all stakeholders, including the shareholders. In the case of Eskom, this would apply to all directors, yet none are called to account.

Service before profit

Management have a responsibility to ensure service delivery. In order to do so it is the responsibility of management to ensure all the necessary resources, raw materials and human resources are available. If a product or service cannot be delivered because the required resources are not available, the management is held accountable for this failure.

Visionary leadership

To what extent did management at Eskom plan? If there was a foreseen need that was rejected by government, then what contingency plan was put in place?

Rewards and incentives

Companies offer rewards and incentives for achievement, going beyond the expected. At Eskom, you can fail to deliver, make huge profits at the expense of the customer, mismanage, fail to plan, show no leadership ability, and fail to apply good corporate governance principles, be dishonest and unethical, and be rewarded to the tune of millions. How can this be justified?

QUESTION 4 Bank reconciliations (10 marks, 12 minutes)

You are provided with the bank reconciliation statement of Tijuana Traders below. Study the statement and answer the questions that follow.

BANK RECONCILIATION STATEMENT ON 28 FEBRUARY 2009

Balance as per bank statement (Cr)	7600
Outstanding deposit	1450
Outstanding cheques:	
No. 5060	500
No. 7688	1220
No. 7689	980
Balance as per bank account	?

- 1 Calculate the balance of the bank account in the books of Tijuana Traders on 28 February 2009. Indicate whether this is a favourable or an unfavourable balance. (3)
- 2 Explain why an overdraft is shown as a debit balance in the bank statement and as a credit balance in the bank account. (2)
- 3 The office clerk of Tijuana Traders claims that she deposited the cheque for R1 450 that is reflected in the outstanding deposit before the end of the month. However, the manager of the business is worried that she may have stolen the cheque for herself and wants to fire her. Should he do so, in your opinion? Justify your answer with a valid reason. (3)
- 4 What action should the manager of Tijuana Traders take regarding the outstanding deposit? (2)

ANSWER BOOK

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This Answer Book consists of 9 pages. Please check that your Answer Book is complete.
2. There is a clearly marked page for each answer.
3. Make sure that your work is legible and comprehensible.
4. Show all your workings in brackets.
5. Do not abbreviate.
6. You may **not** use red or green ink, but you may use pencil.

QUESTION	MARKS	ACTUAL MARKS	Assessment standards focus
1	30		12.1.4 12.2.3 12.3.6
2	42		12.1.5
3	18		12.3.6
4	10		12.1.4
TOTAL	100		

QUESTION 1 Budgets and debtors reconciliation (30 marks)

1.1 Budgets (19)

1	Calculate the total budgeted sales for July 2009.	(2)
2	Calculate the cash form debtors figure for August 2009 marked with an (1) on the sheet above.	(3)
3	Balance the August budget by calculating the missing figures marked with (2) – (5). 2 = 3 = 4 = 5 =	(6)
4	Explain why the interest on loans increased in August. Give one explanation.	(2)
5	It appears that raising a loan has not solved the cash flow problems. How can the business improve the cash situation without borrowing further funds. Provide three suggestions, quoting figures from the question.	(6)

1.2 Debtors reconciliation**(11)**

1	What is the balance on the account of Beam on 31 August 2009?	(2)
2	What figure would you insert for Debtors Control in the Balance Sheet on 31 August 2009?	(2)
3	Does the business have a problem with all their debtors? Explain using examples.	(3)
4	What 2 actions should the business be taking in order to rectify the problem debtors? Discuss using actual debtors to which you would apply these measures, in your explanation.	(4)

QUESTION 2 Companies – ratios (42 marks)

1	<p>Provide two other items, apart from the three financial statements (Income Statement, Balance Sheet, Cash Flow Statement) that would be included in a company's published financial statement. Explain the purpose of each.</p>	(4)																																																
2	<p>Use the information provided to complete the Cash Flow Statement for the year ended 30 June 2009. Show workings in brackets. (12)</p> <p>LABTEK LIMITED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 70%;"></th> <th style="width: 10%; text-align: center;">Note</th> <th style="width: 20%; text-align: right;">R</th> </tr> </thead> <tbody> <tr> <td>Cash effects of operating activities</td> <td></td> <td style="text-align: right;">(5,000)</td> </tr> <tr> <td>Cash generated from operations</td> <td style="text-align: center;">1</td> <td style="text-align: right; border: 1px solid black;">417,100</td> </tr> <tr> <td>Interest paid</td> <td></td> <td></td> </tr> <tr> <td>..... (</td> <td></td> <td></td> </tr> <tr> <td>..... paid (9 600</td> <td></td> <td></td> </tr> <tr> <td> Cash effects of investing activities</td> <td></td> <td style="text-align: right;"> 79,800</td> </tr> <tr> <td>..... (</td> <td></td> <td></td> </tr> <tr> <td>Proceeds from sale of fixed assets</td> <td></td> <td style="text-align: right; border: 1px solid black;">56,000</td> </tr> <tr> <td>..... (</td> <td></td> <td></td> </tr> <tr> <td> Cash effects of financing activities</td> <td></td> <td style="text-align: right;"> 173,200</td> </tr> <tr> <td>..... (</td> <td></td> <td></td> </tr> <tr> <td>.....</td> <td></td> <td style="text-align: right; border: 1px solid black;"></td> </tr> <tr> <td> Net change in cash and cash equivalents</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">248,000</td> </tr> <tr> <td>Cash and cash equivalents at beginning of year</td> <td></td> <td style="text-align: right;">(91,000)</td> </tr> <tr> <td>Cash and cash equivalents at end of the year</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">157,000</td> </tr> </tbody> </table> <p>Opinion on cash flow position: (2)</p>		Note	R	Cash effects of operating activities		(5,000)	Cash generated from operations	1	417,100	Interest paid		 (..... paid (9 600			 Cash effects of investing activities		 79,800 (Proceeds from sale of fixed assets		56,000 (Cash effects of financing activities		 173,200 (.....			 Net change in cash and cash equivalents		248,000	Cash and cash equivalents at beginning of year		(91,000)	Cash and cash equivalents at end of the year		157,000	(14)
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b) Debt/ equity ratio: (2)

c) Net asset value per share: (3)

d) Earnings per share: (3)

e) Return on shareholders' equity: (3)

4

Comment on the following, quoting the financial indicators (actual ratios or percentages, etc.) to support your answer:

- Liquidity: (4)

(11)

- **Gearing (use of loans): (3)**

- **Return, earnings and dividends earned by shareholders: (4)**

QUESTION 3 Company audit and governance (18 marks)

3.1 Theory (9)

1	<p>Explain the following concepts in relation to companies:</p> <ul style="list-style-type: none">- Separate legal entity: (2) - Limited liability: (2)	(4)
2	<p>In what way does the role of an independent auditor differ from that of an internal auditor?</p>	(3)
3	<p>Why is it important that an independent auditor should have a CA (SA) qualification?</p>	(2)

3.2 Article (9)

1	<p>“Eskom is a good example of how not to run a business. If Eskom had been a public company with shareholders, the managers would have been fired by now.” Do you agree with this statement? Explain three points to support your answer.</p>	(9)
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QUESTION 4 Bank reconciliations (10 marks)

1	Calculate the balance of the bank account in the books of Tijuana Traders on 28 February 2009. Indicate whether this is a favourable or an unfavourable balance.	(3)
2	Explain why an overdraft is shown as a debit balance in the bank statement and as a credit balance in the bank account.	(2)
3	The office clerk of Tijuana Traders claims that she deposited the cheque for R1 450 that is reflected in the outstanding deposit before the end of the month. However, the manager of the business is worried that she may have stolen the cheque for herself and wants to fire her. Should he do so, in your opinion? Justify your answer with a valid reason.	(3)
4	What action should the manager of Tijuana Traders take regarding the outstanding deposit?	(2)

ACCOUNTING GRADE 12
Paper 2

Time: 2 hours

100 marks

MEMORANDUM

QUESTION 1 Budgets and debtors reconciliation (30 marks)**1.1 Budgets (19)**

1	Calculate the total budgeted sales for July 2009. 60 000/ 40 x 100 = R150 000	(2)
2	Calculate the cash form debtors figure for August 2009 marked with an (1) on the sheet above. R150 000 x 60% = R90 000 Or R60 000/ 40 x 60 = R90 000	(3)
3	Balance the August budget by calculating the missing figures marked with (2) – (5). 2= R120 000(30 000+90 000) 3= R120 000 – R180 800 = (R60 800) , providing R180 800 subtracted from answer 2 4= R55 200 5= (R60 800)+R55 200 = (R5 600) , providing no 3 is added to R55 200	(6)
4	Explain why the interest on loans increased in August. Give one explanation. The interest increased from 1 July 2009 (18.5%)	(2)
5	It appears that raising a loan has not solved the cash flow problems. How can the business improve the cash situation without borrowing further funds. Provide three suggestions, quoting figures from the question. <ul style="list-style-type: none"> • Debtors are not paying in the 30 days credit terms allowed – take strict action against debtors who do not pay on time. • Increase the cash sales – only 40% is sold for cash • Delay the payments to creditors – pay after the debtors have paid. • Owner to reduce the drawings • Control the operating expenses • Any feasible suggestion based on figures given in the budget. 	(6)

1.3 Debtors reconciliation (11)

1	What is the balance on the account of Beam on 31 August 2009? R53 000	(2)
2	What figure would you insert for Debtors Control in the Balance Sheet on 31 August 2009? R112 000	(2)
3	Does the business have a problem with all their debtors? Explain using examples. No, Accept any feasible answer based on figures given. Some accounts more than 90 days outstanding etc.	(3)
4	What 2 actions should the business be taking in order to rectify the problem debtors? Discuss using actual debtors to which you would apply these measures, in your explanation. <ul style="list-style-type: none"> • Offer discounts for early settlement – all four debtors • Charge interest on overdue accounts - can be from 30 or 60 days • Close accounts of those that are overdue – Beam and Sun. • Any other feasible answer. 	(4)

QUESTION 2 Companies – ratios (42 marks)

1	<p>Provide two other items, apart from the three financial statements (Income Statement, Balance Sheet, Cash Flow Statement) that would be included in a company's published financial statement. Explain the purpose of each.</p> <ul style="list-style-type: none"> • Directors Report – Explains important points of the past year and the future that might not be evident from the figures. • Audit Report – Explains whether the financial statements can be elide on to make decisions. 	(4)																																																
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3	<p>You are provided with the following financial indicators for the past two years. Calculate the missing indicators denoted (a) to (e).</p> <p>a) Acid-test ratio: (2) (776 000 – 505 000): 372 000 = 0.7:1</p> <p>b) Debt/ equity ratio: (2) 246 000: 1 092 200 = 0.2:1</p> <p>c) Net asset value per share: (3) R1 092 200/ 81 000 shares = R13.48</p> <p>d) Earnings per share: (3) (709 370 – 195 000)/ 81 000 shares = R6.35</p> <p>e) Return on shareholders' equity: (3) (709 370 – 195 000)/½(1 156 800 + 787 000) x 100 514 370/ 939 600 x 100 = 54.74%</p>	(13)																																																
4	<p>Comment on the following, quoting the financial indicators (actual ratios or percentages, etc.) to support your answer:</p> <p>- Liquidity: (4) General assessment – improvement Current ratio: improved from 1.1:1 to 2:1 Acid-test ratio: improved from 0.2: to 0.7:1</p>	(11)																																																

	<p>Stock turnover rate: improved from 4 times to 6 times</p> <p>- Gearing (use of loans): (3) General comment: the company should make use of more loans. Debt/equity ratio: decline from 0.4: to 0.2:1 Return on capital employed: 61.8% is far greater than the interest rate of 13.5%</p> <p>- Return, earnings and dividends earned by shareholders: (4) General comment – shareholders should be satisfied – all improved % return greatly exceeds returns on alternative investments. Return on OSHE: improved 12.6% to 54.74% EPS: improved 156 cents to 635 cents DPS: improved 175 cents to 560 cents</p>	
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QUESTION 3 Company audit and governance (18 marks)

3.1 Theory (9)

1	Explain the following concepts in relation to companies: - Separate legal entity: (2) In law a company is regarded as a person separate from its owners – it has its own legal personality and has the same rights and responsibilities as an individual. - Limited liability: (2) Shareholders cannot be held liable to pay the debts of the company beyond the amount that have been provided as capital. Their losses are limited to the amount contributed by them.	(4)
2	In what way does the role of an independent auditor differ from that of an internal auditor? The independent auditor is appointed by the shareholders to express an opinion on the reliability of the financial statements. He does not work there on a full-time basis. An internal auditor is appointed by the directors to ensure that the internal control and reporting process are in place.	(3)
3	Why is it important that an independent auditor should have a CA (SA) qualification? The readers of the audit report must have confidence in his ability. The CA qualification implies that he has the relevant knowledge.	(2)

3.2 Article (9)

1	“Eskom is a good example of how not to run a business. If Eskom had been a public company with shareholders, the managers would have been fired by now.” Do you agree with this statement? Explain three points to support your answer. A variety of valid explanations possible. 3 marks each Good answer=3, satisfactory=2, poor=1, incorrect=0 Possible responses: <ul style="list-style-type: none">• Explanation of disregard for customers• Explanation of failure to plan accordingly, despite early warnings• Explanation of poor remuneration policy i.e. managers being rewarded with bonuses despite being incompetent, lacking vision.• Explanation of lack of ethical conduct and lack of accountability by those responsible for the devacle.• Etc.	(9)
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QUESTION 4 Bank reconciliations (10 marks)

1	Calculate the balance of the bank account in the books of Tijuana Traders on 28 February 2009. Indicate whether this is a favourable or an unfavourable balance. Bank balance = $7600 + 1450 - 500 - 1220 - 980 = R6\ 350$ Dr (favourable)	(3)
2	Explain why an overdraft is shown as a debit balance in the bank statement and as a credit balance in the bank account. The bank statement is prepared from the point of view of the bank. An overdraft is a liability in our books (we owe the bank money), therefore a Cr balance while it is an asset to the bank (the bank is owed money), therefore a Dr balance in the bank's books.	(2)
3	The office clerk of Tijuana Traders claims that she deposited the cheque for R1 450 that is reflected in the outstanding deposit before the end of the month. However, the manager of the business is worried that she may have stolen the cheque for herself and wants to fire her. Should he do so, in your opinion? Justify your answer with a valid reason. The manager is wrong to fire the secretary (one mark for the correct decision). It's quite possible that she did indeed deposit the cheque before the end of the month, but after the bank statement was printed	(3)
4	What action should the manager of Tijuana Traders take regarding the outstanding deposit? Any valid answer, e.g. the manager should keep track of the movements in his bank account to ensure that the deposit goes through	(2)