

ACCOUNTING: PAPER II

Time: 2 hours

100 marks

READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This paper consists of 8 pages. Please check that your question paper is complete.
2. Read the questions carefully.
3. There is a **separate** Answer Booklet. There is a clearly marked page for each answer.
4. It is in your own interest to write legibly and to present your work neatly.
5. You may **not** use green or red ink. **You may use a pencil, but please use a soft, dark pencil.**
6. The allocation of marks and the appropriate time to be taken for each question are as follows:

Question 1: Management Accounting (38 marks; 30 minutes)	
Learning outcome	Assessment Standards
LO 2 – Managerial accounting	<ul style="list-style-type: none"> • AS 2 – Prepare, analyse and interpret projected income statement and cash budget for a sole trader and also in a manufacturing environment
LO 3 – Managing resources	<ul style="list-style-type: none"> • AS 4 Apply internal control and internal audit processes in a business environment
Question 2: Internal Control and Reconciliations (32 marks; 40 minutes)	
Learning outcome	Assessment Standards
LO 1 – Financial information	<ul style="list-style-type: none"> • AS 4 – Analyse and interpret Bank, Debtors and Creditors reconciliations
LO 3 – Managing resources	<ul style="list-style-type: none"> • AS 4 – Apply internal control and internal audit processes in a business environment
Question 3: Company Analysis (30 marks; 50 minutes)	
Learning outcome	Assessment Standards
LO 1 – Financial information	<ul style="list-style-type: none"> • AS 5 – Analyse and interpret financial statements
LO 3 – Managing resources	<ul style="list-style-type: none"> • AS 4 – Apply internal control and internal audit processes in a business environment

QUESTION 1 Management Accounting (38 marks; 30 minutes)

Friendly Furnishers is a small listed company that sells homemade furniture. You are provided with their budgeted and actual cash budget for November and December 2007.

Required

Study the information given below and answer the questions that follow

Information:

- The information below shows a comparison between the cash budgeted and actual figures for November and December 2007.

	Budgeted November	Actual November	Budgeted December	Actual December
CASH RECEIPTS				
Cash sales	33 000	35 000	36 000	40 320
Cash received from debtors	66 880	64 600	71 960	46 119
<i>Total Receipts</i>	99 880	99 600	107 960	86 439
CASH PAYMENTS				
Cash purchases of stock	68 750	63 290	75 000	71 800
Loan repayment	2 000	2 000	2 000	2 000
Interest on loan	250	250	200	200
Sundry expenses	150	152	180	185
Salaries and Wages	17 000	17 000	18 000	18 000
Rent expense	5 000	5 000	5 000	5 000
<i>Total Payments</i>	93 150	87 692	100 380	97 185
Cash Surplus/ shortfall	6 730	11 908	7 580	(10 746)
Opening bank balance	1 560	1 560	8 290	13 468
Closing bank balance	8 290	13 468	15 870	2 722

- The business budgets cash sales to be 30% of total sales; however, this did not happen in reality.
- Total actual sales were R100 000 and R112 000 for November and December respectively.
- Debtors are budgeted for and they did receive a 5% discount if they settled their accounts in the transaction month.
- It is the business' policy to mark-up stock by 60% on cost price.
- The business uses the fixed based stock method and buys all their stock for cash.

2. Budgeted Debtors Collection Schedule for the period November - December 2007

CASH RECEIVED FROM DEBTORS		September	October	November	December
September Credit Sales	69 000	13 110	34 500	17 250	
October Credit Sales	70 000		13 300	35 000	17 500
November Credit Sales	77 000			14 630	38 500
December Credit Sales	84 000				15 960
				66 880	71 960

Additional Information

- The new National Credit Act was introduced in June 2007. The purpose of this act was to stop people from spending money they do not have. The act protects consumers and helps them to make informed decisions before buying goods and services on credit. It also places a greater responsibility on businesses and banks to refuse to give you credit if you cannot afford it.
- The NCA required credit providers to conduct a proper assessment of each consumer's ability to make repayments. The consumer has to provide accurate information to the businesses and banks during the completion of this assessment.

Questions

- 1.1 Is the drawing up of a cash budget an aspect of Financial Accounting or Management Accounting? (1)
- 1.2 Why is a Debtors' Collection Schedule drawn up when preparing a cash budget? (2)
- 1.3 Use the information from the Debtors Collection Schedule to calculate what the budgeted Debtors Collection Policy is for Friendly Furnishers. (8)
- 1.4 Give one reason why you think that the December sales were greater than the November sales. (1)
- 1.5 The owner of the business is concerned about the effect of the new credit act on his sales and cash flow. Explain to him whether his concerns are justified, quoting figures or percentages that could have been affected by the new act. (10)
- 1.6 Give one extra accounting control that Friendly Furnishers will need to introduce in order to comply with the new credit act. (2)
- 1.7 Explain whether you think that the new act is unnecessarily restrictive on both consumers and businesses or whether it is an ethically good initiative by government. (6)

- 1.8 Use a calculation to explain whether Friendly Furnishers kept to their intended mark-up. (4)
- 1.9 Give one good reason why businesses do not keep to their intended mark-up. (2)
- 1.10 Explain one way that an auditor can collect audit evidence to ensure that Friendly Furniture does not have any fictitious debtors. (2)

38 marks

QUESTION 2 Internal Control and Reconciliations (32 marks; 40 minutes)

You are provided with the following information provided by employees in the Accounting Department of Bucks Blankets CC, a business that buys and sells blankets.

PART A

Study the September 2008 Bank Reconciliation of Bucks Blankets CC and answer the questions that follow.

BANK RECONCILIATION ON 30 SEPTEMBER 2008	
	R
Balance as per Bank Statement	14 600 CR
Outstanding Deposit	7 400
Outstanding Cheques:	
No 246 dated 31 May 2008	5 000
No 457 dated 25 October 2008	9 400
No 458 dated 30 September 2008	9 000
Balance as per Bank Account	?

Required

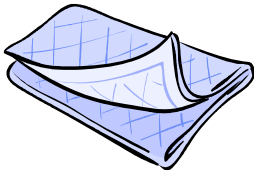
- 2.1 Calculate the Bank Account balance and state whether it is favourable or unfavourable. (2)
- 2.2 Bank Reconciliations are prepared as a form of internal control over cash. Name and explain one other control measure that the business should implement to safeguard its cash. (3)
- 2.3 How would you investigate what had happened to the outstanding deposit if it does not appear on October's Bank Statement? (3)
- 2.4 How would you treat cheque no 246 in October? (1)
- [9]**

PART B

Bucks Blankets CC only have one creditor, Heidi's Hotties (Pty) Ltd, a local manufacturer from which they buy all their stock. Study the following information related to their transactions with Heidi's Hotties (Pty) Ltd and answer the questions that follow:

Information

1. **Statement issued by Heidi's Hotties (Pty) Ltd on 30 September 2008**

<p>STATEMENT Bucks Blankets CC PO Box 330 HILLCREST 3230</p>		<p>Heidi's Hotties (Pty) Ltd PO Box 123 ASSAGAY 4100 Tel: 031 784 1903</p>																																	
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 25%;">Account No.</th> <th style="width: 25%;">Credit Limit</th> <th style="width: 25%;">Statement Date:</th> <th style="width: 25%;"></th> </tr> <tr> <td>34838</td> <td>R10 000</td> <td>September 2008</td> <td>30</td> </tr> </table>			Account No.	Credit Limit	Statement Date:		34838	R10 000	September 2008	30																									
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2. **Creditors Ledger of Heidi's Hotties (Pty) Ltd**

Date	Details	Folio	Debit	Credit	Balance
Sep 1	Balance	b/d			9 590
17	Cheque no. 454	CPJ	1 500		8 090
26	Invoice no. 332	CJ		3 500	11 590
28	Returns	CAJ		140	11 730
29	Invoice 337	CJ		5 000	16 730
30	Cheque 458	CPJ	9 000		7 730

3. Additional Information

After reconciling the statement with the ledger account, the following differences were noted:

- (a) Heidi's Hotties (Pty) Ltd had recorded a credit note on 7 September that was not for Buck's Blankets CC's account.
- (b) On the 12th Buck's Blankets CC stated that they never received the goods that they ordered. On investigation, it was found that Heidi's Hotties (Pty) Ltd had not carried out the order, as they had none of the items in stock at the time.
- (c) The bookkeeper of Buck's Blankets had incorrectly recorded the entries on the 28th and 29th of September 2008.
- (d) Buck's Blankets made a payment of R9 000 on 30 September 2008 which Heidi's Hotties (Pty) Ltd has not recorded.

Required

- 2.5 At the bottom of the Statement from Heidi's Hotties (Pty) Ltd it says '**90+ days**'. What does this mean? (2)
- 2.6 Prepare the Creditors Reconciliation Statement for September. (9)
- 2.7 Buck's Blankets CC made a payment to Heidi's Hotties of R9 000 on 30 September 2008. Redraw the age analysis of Buck's Blankets CC's account after taking into account this payment and the errors mentioned above. (6)
- 2.8 Heidi's Hotties have written Buck's Blankets CC a letter explaining that they want to reduce their credit limit to R7 000 because they have not been paying their account on time. Buck's Blankets CC is hoping to win a contract to supply blankets for one of the leading hotel groups in the country and they cannot afford to have their credit limit reduced. Write a short letter to Heidi's Hotties convincing them not to reduce the credit limit, giving at least three reasons to support your argument. (6)

[23]

32 marks

QUESTION 3 Case Study (30 marks; 50 minutes)

Attached to this question paper is an information page extracted from the Pick 'n Pay Ltd Annual Report for 2007 as well as newspaper articles on food price increases.

Required

- Detach the information sheet and spend time carefully reading the information given.
- Answer the questions that follow.

Questions

- 3.1 In the section *Directors' Responsibility for the Company and Group Annual Financial Statements* reference has been made twice to fair representation.
- What does this term mean? Explain its significance to the shareholders of Pick 'n Pay. (4)
- 3.2 Explain what the GAAP concept 'Going Concern' means. (2)
- 3.3 Retailers are currently experiencing problems in the current economic climate in South Africa.
- What are these problems?
 - What could be the possible causes of these problems?
 - How is Pick 'n Pay hoping to address these problems? (4)
- 3.4 What role do you think businesses need to play in these conditions, i.e. should they be looking after the customers or the shareholders? (4)
- 3.5 Do you think that Pick 'n Pay is experiencing liquidity problems? Support your answer by quoting figures from the Balance Sheet and statements from the chairman's report. (Do not calculate ratios.) (6)
- 3.6 Comment on the businesses earnings per share in comparison to the dividends per share. (4)
- 3.7 Pick 'n Pay had a Debt : Equity ratio of 0,88 : 1 in 2007 and 0,94 : 1 in 2008.
- Discuss the meaning of this ratio.
 - Comment on why there has been an increase in this ratio year and whether you think this is good or bad for the shareholders. (6)

30 marks

TOTAL FOR THIS PAPER: 100 MARKS