



**ACCOUNTING PAPER II**

Time: 2 hours

100 marks

**READ THE FOLLOWING INSTRUCTIONS CAREFULLY**

1. This paper consists of 14 pages, an Information Sheet of 4 pages and a ratio sheet. Please check that your question paper is complete.
2. Read the questions carefully.
3. Answer ALL questions on this question paper.
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:

<b>Question 1: Reconciliations 30 marks; 35 minutes</b>	
<b>Learning Outcome</b>	<b>Assessment Standards</b>
LO 1 – Financial Information LO 3 – Managing Resources	<ul style="list-style-type: none"> <li>• AS 4 – Analyse and interpret Bank, Debtors and Creditors reconciliations</li> <li>• AS 4 – Apply internal control and internal audit processes in a business environment</li> </ul>
<b>Question 2: Projections and Budgets 40 marks; 40 minutes</b>	
<b>Learning Outcome</b>	<b>Assessment Standards</b>
LO 2 – Management Accounting LO 3 – Managing Resources	<ul style="list-style-type: none"> <li>• AS 1 – Interpret and report on asset disposal</li> <li>• AS 2 – Prepare, analyse and interpret projected income statement and cash budget for a sole trader and also in a manufacturing environment</li> </ul>
<b>Question 3: Company Analysis 30 marks; 45 minutes</b>	
<b>Learning Outcome</b>	<b>Assessment Standards</b>
LO 1 – Financial Information LO 3 – Managing Resources	<ul style="list-style-type: none"> <li>• AS 3 – Discuss non-compliance to the code of ethics</li> <li>• AS 5 – Analyse and interpret financial statements</li> </ul>

**QUESTION 1 RECONCILIATIONS (30 marks; 35 minutes)**

Freshly Ground Ltd is a company that sells ethnic clothing. They have shops scattered across the country situated in most of the popular shopping centres. A website has also been developed so that people both locally and internationally can purchase clothes online. Freshly Ground Ltd offer account facilities to credit worthy customers who purchase in store.

Sherwin Ramiah, the financial director, is preparing information for the external auditors. While putting the information together he discovers a few issues that concern him, namely:

- The Debtors Age Analysis shows that the credit policy may need to be reviewed.
- The Debtors Collection Period last year was calculated to be 45 days. The current Debtors Collection Policy is:
  - The credit terms are 30 days.
  - Debtors who settle their accounts within 30 days receive a discount of 5%.
  - Interest of 2% p.a. will be charged on accounts that are over 60 days.
- There is a possibility that cash is being stolen from the business.
- The person responsible for preparing the Bank Reconciliation Statement has gone on leave and a temporary bookkeeper has been employed.
- The intended mark-up percentage is 125% on cost.

**Required**

Study the information below and on the attached Information Sheet (Source 1 and Source 2) to answer the questions that follow.

**Information**

1. Extract from the Income Statement of Freshly Ground Ltd for the year ended

	28 February 2009 R	29 February 2008 R
<b>Total Sales</b>	<b>816 240</b>	<b>1 211 000</b>
• Cash sales	367 920	525 600
• Credit sales	448 320	685 400
<b>Cost of sales</b>	<b>396 940</b>	<b>538 220</b>

2. Extract from the Balance Sheet of Freshly Ground Ltd as at the year ended

	28 February 2009 R	29 February 2008 R
Inventories	221 560	113 580
Trade and other receivables	105 690	70 290
• Trade debtors	113 250	74 500
• Provision for bad debts	(9 060)	(5 960)
• Prepaid expenses	1 500	1 750
Cash and Cash equivalents	2 000	71 480
• Bank	-	65 480
• Petty cash	2 000	6 000
Trade and other payables	133 090	100 550
• Creditors	105 250	98 450
• Bank overdraft	25 840	-
• Accrued expenses	2 000	2 100

<b>Freshly Ground Ltd</b>					
Debtors Age Analysis on 28 February 2009					
Debtor	Current	31 – 60 days	61 – 90 days	90 + days	TOTAL
D. Rau	2 515	4 580		6 870	13 965
S. Dunlop	480	4 000	4 500		8 980
D. Pillay	2 870	3 040	3 120	3 130	12 160
J. Smith	750			19 075	19 825
N. Khuzwayo			9 850		9 850
N. Purdon				6 890	6 890
P. Oels		1 280	2 200		3 480
T. Neadley	2 500				2 500
8 new debtors*	35 600				35 600
<b>TOTAL</b>	<b>44 715</b>	<b>12 900</b>	<b>19 670</b>	<b>35 965</b>	<b>113 250</b>
Percentage	39%	11%	17%	32%	

\* These debtors all have current balances only as they are new account holders

3. Bank Reconciliation Statement on 28 February 2009

	DR	CR
Cr Balance as per Bank Statement	32 450	
Dr Outstanding cheques:		
No. 1155 (20 February 2009)	10 000	
No. 1182 (24 February 2009)	4 500	
No. 1213 (28 February 2009)	2 250	
No. 1216 (3 March 2009)	2 200	
Cr Outstanding deposit (27 February 2009)		15 690
Cr Outstanding deposit (5 January 2009)		9 870
Dr Balance as per Bank Account		25 840
	51 400	51 400

**Questions**

1.1 Give TWO reasons why preparing a Debtors Age Analysis is a useful tool in managing debtors.


(2)

1.2 Look at the Bank Reconciliation Statement of Freshly Ground Ltd. Write down the cheque number of the cheque that is post-dated. How should this cheque be treated at the end of the financial year?


(3)

1.3 Explain why Sherwin might think that cash is being stolen from the business.


(2)

1.4 If you suspected that the bookkeeper on leave was stealing money, explain three ways that you would look for audit evidence to back up your suspicion.


(3)

1.5 1.5.1 What is the percentage provision for bad debts being applied in 2009? Provide a calculation.

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(3)

1.5.2 Calculate the debtors collection period for 2009. (Use average debtors in your calculation)

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(4)



**QUESTION 2      PROJECTIONS AND BUDGETS (40 marks; 40 minutes)**

Kentan Motors, a car dealership owned by Dylan Kent, sells new and pre-owned vehicles. The businesses's financial year-end is 31 October.

**Required**

Study the information that appears below and on the Information Sheet (Source 3, 4 and 5) to answer the questions that follow.

**Information**

1. At the end of October 2009, Kentan Motors compared their actual results with their projected figures. They then used these to prepare projected figures for November.

<b>Projected Income Statement</b>	<b>Projected</b>	<b>Actual</b>	<b>Projected</b>
	<b>October 2009</b>	<b>October 2009</b>	<b>November 2009</b>
	<b>(R)</b>	<b>(R)</b>	<b>(R)</b>
Sales	3 980 000	1 776 600	3 268 760
New (aim for 25% mark-up on cost)	2 025 000	777 600	1 508 760
Pre-owned (aim for 15% mark-up on cost)	1 955 000	999 000	1 760 000
Cost of sales	3 320 000	1 548 000	2 788 000
New	1 620 000	648 000	1 188 000
Pre-owned	1 700 000	900 000	1 600 000
Gross Profit	660 000	228 600	480 760
Other operating income	48 000	22 500	40 500
Licensing fees (R1 500 per car)	48 000	22 500	40 500
Other operating expenses	393 980	412 540	487 930
Advertising and customer sales incentives	199 000	213 192	261 501
Bank charges	16 780	17 620	18 450
Commissions	25 000	15 000	37 000
Motor vehicle expenses (including depreciation)	9 900	11 388	10 299
Printing and stationery	6 800	6 000	6 800
Rent expense	29 000	29 000	31 900
Salaries and wages	98 000	105 840	109 760
Telephone	9 500	14 500	12 220
Operating profit for the year	314 020	(161 440)	33 330
Interest Income	8 000	8 200	8 000
Net Profit before Interest expense	322 020	(153 240)	41 330
Interest Expense	4 400	8 500	10 000
Net Profit for the year	317 620	(161 740)	31 330

**Questions to be answered**

2.1 Give an example of an item that would appear in both a Projected Income Statement and a cash budget and explain why the amounts could be different in the two statements.


(2)

2.2 Study the source material on the information sheet. Explain what has happened to car sales in South Africa. Quote information which you feel is significant to support your answer. Give two reasons why this has occurred.


(3)

2.3 A potential client, Mrs Benz, has a problem deciding about her personal car, an Audi which is 5 years old. The car is working well. She is not paying for repairs at the moment because of the 5-year motor plan offered by Audi, but she will need to spend R25 000 per year on repairs and servicing from next year when the motor plan expires. She has been offered a trade-in by Kentan Motors of R132 000 on her old car. She has the following options:

- (a) Keep her 5 year old Audi (original cost R272 000).
- (b) Trade in the old Audi against a new Audi of the same model which costs R340 000, (this comes with a 5-year maintenance plan, i.e. no charge for repairs for 5 years).
- (c) Trade in the old Audi and buy a 2 year old pre-owned Audi costing R210 000 (the maintenance plan still has 3 years to run).
- (d) Buy a 2 year old Audi repossessed by a bank at R170 000 (the motor plan on the repossessed car has 3 years to run, but she would have to sell her old car privately).

2.3.1 Calculate the percentage by which the cost of a new Audi has increased over the past 5 years.

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(1)

2.3.2 In your opinion explain whether the trade-in value offered by Kentan Motors is reasonable or not.


(2)





- 2.5 Kentan Motors has identified a variety of problems that they experienced in October 2009, in terms of their turnover and profits. You are required to:
- use calculations to analyse these problems.
  - discuss whether you think they were realistic in their predictions for November when they prepared their projected Income Statement.
  - provide alternative strategies which the business could consider in each case in order to improve their financial results.

Your report must include calculations and must quote relevant information to support your answer. Use the format provided below (2.5.1 to 2.5.5) in order to communicate your findings.

- 2.5.1 Calculate and comment on the mark-up percentage **achieved** on new and pre-owned cars in October 2009. Comment on your findings and explain whether the November projections are reasonable.

Mark-up on new cars:	Mark-up on pre-owned cars:
Comment:	

(4)

- 2.5.2 The business licenses all cars that it sells to customers. Calculate the predicted and actual number of cars sold in October. Comment on your findings and explain whether the November projections are reasonable.

Calculations:
Comment:

(3)

2.5.3 Calculate percentage changes in operating expenses between predicted and actual figures for October. Comment on your findings and explain whether the November predictions are reasonable.

Calculations:

(3)

2.5.4 Calculate change in predicted and actual Net profit figures for October. Comment on your findings and explain whether the November predictions are reasonable.

Calculations:

(2)



**QUESTION 3 ANALYSIS OF FINANCIAL STATEMENTS (30 marks; 45 minutes)**

Your Information Sheet contains extracts from the Annual Reports of two popular food franchise companies. Carefully read the information before answering the questions below. Where explanations are required, quote information or financial indicators to support your answer.

**Required**

Use the information for Question 3 on the Information Sheet to answer the questions below.

**Questions to be answered**

3.1 Although both Spur Corporation and Famous Brands Food Ltd are in similar food industries, what would you say is the major difference between the natures of these two companies?


(1)

3.2 3.2.1 Calculate the acid test ratio for Spur Corporation for 2008.

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(2)

3.2.2 Comment on the liquidity position of each company. In your opinion, which of the two companies do you think could experience liquidity problems? Explain.


(4)

3.3 Read through the Chairman's Report of Spur Corporation and Famous Brands Ltd.

3.3.1 Explain which of the two companies has been affected the most by the poor economic conditions.


(2)

3.3.2 One of the shareholders of Spur Corporation, Mr Mona, has criticised the chairman for mentioning the failure of the unsuccessful venture in the Chairman's report. Mr Mona feels that this comment has affected the price of his shares negatively. Explain whether you agree with Mr Mona's opinion or not.


(2)

3.4 Spur has decided to issue the same dividends as last year. Why do you think the directors have decided to do this?


(1)

3.5 3.5.1 Calculate the Debt : Equity ratio of Famous Brands Ltd for 2008.


(2)

3.5.2 Mr Joe King is a shareholder of Famous Brands Ltd and he has noticed a huge increase in the Non-current liabilities of the company. Do you think the shareholders need to be concerned? Explain.


(3)

3.6 Look carefully at the extracts from the Corporate Governance Reports for both companies.

3.6.1 The financial statements of both companies consist of a Corporate Governance Report. Why is this important to the readers of financial statements?


(2)

3.6.2 Explain what is meant by the concepts of 'accountability', 'transparency' and 'fairness' in context of good corporate governance.

<input type="checkbox"/>	<b>Accountability:</b>
<input type="checkbox"/>	<b>Transparency:</b>
<input type="checkbox"/>	<b>Fairness:</b>

(3)

3.7 Look carefully at the share prices of these two companies.

3.7.1 Comment on the share price of each company. Mention trends and net asset values in your answer.

SPUR CORPORATION	FAMOUS BRANDS LTD

(4)

3.7.2 Look at both companies and identify **other** financial indicators from the financial statements, which may have indirectly influenced the share prices. Explain 2 points for each company.

SPUR CORPORATION	FAMOUS BRANDS LTD
<b>Point 1:</b>	<b>Point 1:</b>
<b>Point 2:</b>	<b>Point 2:</b>

(4)

<b>30</b>

**Total: 100 marks**