



ACCOUNTING: PAPER II

EXAMINATION NUMBER

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Time: 2 hours

100 marks

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This question paper consists of 14 pages and an Information Booklet of 9 pages (i – ix) with a Ratio Sheet on page ii. Please check that your question paper is complete.
2. Read the questions carefully. A glossary of terms and mark allocation is provided on page 2.
3. Answer the questions in the space provided. Show workings in brackets.
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. All calculations should be rounded off to **two decimal places**.
7. The allocation of marks and appropriate time to be taken for each question are as follows:

Question 1: Creditors' Reconciliation (24 minutes)		Possible Marks	Actual Marks
Learning Outcome	Assessment Standards		
LO 1 – Financial Information	<ul style="list-style-type: none"> • AS 4 – Analyse and interpret Bank, Debtors and Creditors reconciliations 	20	
Question 2: Manufacturing and inventory (36 minutes)		Possible Marks	Actual Marks
Learning Outcome	Assessment Standards		
LO 2 – Managerial Accounting	<ul style="list-style-type: none"> • AS 1 – Prepare, present, analyse and report information for a manufacturing enterprise by compiling a production cost statement 	30	
LO 3 – Managing Resources	<ul style="list-style-type: none"> • AS 1 – Validate inventories with specific reference to manufacturing enterprises 		
Question 3: Analysis of published financial statements (60 minutes)		Possible Marks	Actual Marks
Learning Outcome	Assessment Standards		
LO 1 – Financial Information	<ul style="list-style-type: none"> • AS 6 – Analyse published financial statements and audit reports of companies 	50	
TOTAL		100	

GLOSSARY

WORD	MEANING	MARK ALLOCATION GUIDE
Compare	To point out or show similarities and differences	2 marks per point
Defend	To give a positive reason why the statement is correct	2 marks per point
Define	To give the precise meaning of ...	2 marks per point
Describe	To explain the main characteristics of something	1 mark per point
Discuss	To write about something in detail	2 marks per point
Explain	To make clear so that the reader understands what is being said	2 marks per point
Identify	To give the essential characteristics of ...	1 mark per point
Justify	To prove or give reasons or conclusions using a logical argument	2 marks per point
List	To present a list of names or facts	1 mark per point
Name	To state something, to list, to give, to identify, to mention	1 mark per point
Predict	To explain what is going to happen	2 marks per point
Quote	Refer to, using evidence from	1 mark per point
Strategy	To present a systematic plan of action	2 marks per point
State	To present information without discussion	1 mark per point
Substantiate	To give reasons for this action	2 marks per point
Suggest	To propose an explanation of a solution by way of a plan or a suggestion	2 marks per point

QUESTION 1 CREDITORS' RECONCILIATION (20 marks, 24 minutes)

Refer to the Information Booklet for information relating to the accounting records of Bell Beadworx, a small factory that produces beaded jewellery. The owner, Leonie Bell, is concerned that the statement received from a supplier Tladi Trading (Pty), Ltd differs significantly from their account in the Creditors' Ledger. She suspects the bookkeeper, Ashton Millar, of incompetence. She would like to issue him with a written warning, but realises that the situation should first be investigated thoroughly.

Required:

Study and reconcile the documents and records provided in the Information Booklet **and below**. You will need to analyse and compare the documents and records **very carefully** to determine the information you will need.

- 1.1 After comparing and analysing the Statement, Invoice and Cheque given in the Information Booklet, **you are required to** update the following account in the Creditors' Ledger with any relevant entries, **including the payment on 5 July 2011**.

**Creditors' Ledger of Bell Beadworx
Tladi Trading (Pty) Ltd**

Date	Details	Fol	Debit	Credit	Balance
2011 June	1	Balance	b/d		12 990
	6	Invoice 4343 (7918)	CJ	3 780	16 770
	9	Cheque 1978	CPJ	12 990	3 780
	12	Debit note 43 (190)	CAJ	378	3 402
	22	Invoice 4349 (7923)	CJ	1 311	4 713

(7)

- 1.2 Prepare the Creditor's Reconciliation Statement to reconcile Tladi Trading (Pty) Ltd's statement balance and the amount owing by Bell Beadworx on 30 June 2011.

CREDITOR'S RECONCILIATION STATEMENT ON 30 JUNE 2011	
Balance as per statement from Tladi Trading (Pty) Ltd	
Amount owing	

(7)

QUESTION 2 MANUFACTURING AND INVENTORY (30 marks, 36 minutes)

Refer to the information sheet for information relating to the accounting records of Sechaba's Socks, a factory producing multi-coloured cotton socks.

Required:

2.1 Explain why the weighted average method of inventory valuation is the most suitable for this business.

(2)

2.2 Sechaba is concerned that Brandon has manipulated the movement of stock and the value of the closing stock of raw materials for June 2011.

2.2.1 Analyse the stock records (information point 1) and check the calculations to determine TWO ways in which Brandon has done this.

(4)

2.2.2 Should the direct raw material **costs** be increased or decreased to fix this error, and by how much?

(3)

2.2.3 Suggest why Brandon would want to manipulate the value of closing stock.

(2)

2.3 Sechaba currently sells his socks at R15 per pair. A new sock supplier has started producing similar socks at R13 per pair. Sechaba would like to reduce his price to R12,50 and become more competitive, but realises that this would not be profitable enough based on the current costs.

2.3.1 Using the **correct** raw material amounts, complete the production cost statement for June 2011.

Sechaba's Socks
Production cost statement for the month ended 30 June 2011

Direct Costs	
Cost of finished goods produced	63 200

(5)

2.3.2 Complete the trading statement for June 2011.

Sechaba's Socks
Trading statement for the month ended 30 June 2011

Sales	

(3)

2.3.3 If total fixed costs are R17 120 per month and the correct variable cost per unit is R8,12, what is the **lowest price** at which Sechaba could sell each pair of socks and break even at his current production levels?

(4)

**QUESTION 3 ANALYSIS OF PUBLISHED
FINANCIAL STATEMENTS**

(50 marks, 60 minutes)

Refer to the Information Booklet for information relating to the accounting records of Woolworths Holdings Ltd.

Required:

3.1 Why would Woolworths have highlighted the use of Masuga paper for their annual report (see page vii)?

(2)

3.2 Refer to the Group Review on page vii and the Group Statements on page viii. Consider the returns generated by Woolworths Holdings Limited.

3.2.1 Show how the return on ordinary shareholders' equity for 2010 was calculated and then comment on the return earned by ordinary shareholders for 2009 and 2010, giving TWO relevant points/observations.

(4)

3.2.2 There has been a significant increase in the share price. Give TWO possible reasons for this.

(4)

3.3 Refer to the Group Statement of Financial Position (Balance Sheet) on page viii. The current ratio in 2009 was 1,68 : 1, and the acid test ratio was 1,1 : 1.

3.3.1 Calculate the current ratio for 2010.

(2)

3.3.2 Calculate the acid test ratio for 2010.

(2)

3.3.3 What has caused the change in the liquidity situation from 2009 to 2010? Quote the relevant figures to support your answer.

(2)

3.3.4 Refer to the changes in liabilities and cash shown on the balance sheet, and your answer to Question 3.3.3. Comment on the wisdom of the decision resulting in these changes.

(2)

3.4 Refer to Corporate Governance and the Report of the Independent Auditors on page vii. The audit committee consists of four independent, non-executive directors.

3.4.1 What is the purpose of the audit committee being made up of 'non-executive' directors?

(2)

3.4.2 Who are the external auditors of Woolworths Holdings Limited?

(1)

3.5 3.5.1 The audit report refers to the International Financial Reporting Standards (IFRS). The directors are responsible for ensuring that the financial statements are prepared in accordance with IFRS. What is the purpose of these standards?

(2)

3.6.2 Calculate and comment on the percentage provision for loss of inventory used by Woolworths.

(2)

3.6.3 What basic accounting principle is being complied with when providing for loss of inventory? Explain.

(2)

3.7 Refer to Note 32 on page viii and the Analysis of Shareholders on page ix. What amount would have been received by Liberty Life in the form of dividends from Woolworths Holdings Ltd on **28 September 2009**? (Give your answer in Rands.)

(3)

3.8.3 If you were a director of Woolworths, what possible strategy would you suggest to solve one of the problems experienced by Country Road?

(3)

50

Total: 100 marks