

ACCOUNTING: PAPER II

Time: 2 hours

100 marks

INFORMATION BOOKLET

$\frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross Profit}}{\text{Cost of sales}} \times \frac{100}{1}$	$\frac{\text{Net Profit}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net profit before tax + interest expense}}{\text{Average capital employed}} \times \frac{100}{1}$	
Current assets : Current liabilities		(Current assets – inventories) : Current liabilities
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Cost of sales}}{\text{Average inventories}}$
$\frac{\text{Average inventories}}{\text{Cost of sales}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Closing inventories}}{\text{Cost of sales}} \times \frac{365 \text{ or } 12}{1}$	Current assets – Current liabilities
Non-current liabilities : Shareholders' equity		Total assets : Total liabilities
$\frac{\text{Profit after tax}}{\text{No. shares in issue}}$		$\frac{\text{Ordinary share dividends}}{\text{No. shares in issue}}$
$\frac{\text{Fixed cost}}{\text{(selling price per unit – variable cost per unit)}}$		$\frac{\text{Total ordinary shareholders' equity}}{\text{No. shares in issue}}$

QUESTION 1 ANALYSIS OF PUBLISHED FINANCIAL STATEMENTS**Information relating to Illovo Sugar Limited****China to become largest sugar importer**

BEIJING – China is likely to become the world's largest sugar importer by 2020 as consumption grows along with incomes, said Commonwealth Bank of Australia (CBA) yesterday. CBA said increased urbanisation and a Westernisation of diets would see sugar consumption rising rapidly in countries with low rates of sugar consumption per person, such as China.

[Reuters, *The Witness*, 19 January 2012]

The following information was extracted and adapted from the annual report of Illovo Sugar Limited for the year ended 31 March 2012.

Group profile

Illovo ... is Africa's biggest sugar producer and has extensive agricultural and manufacturing operations in six African countries. The group produces raw and refined sugar for local, regional, EU, USA and world markets from sugar cane supplied by its own agricultural operations and from independent outgrowers who supply cane to Illovo's factories.

Income statement for the year ended 31 March 2012

	March 2012 Rm
Revenue (Sales)	9 173
Cost of sales	<u>(5 667)</u>
Gross profit	<u>5 667</u>
Operating profit	<u>1 349</u>
Profit before taxation	951
Taxation	<u>(345)</u>
Profit for the year	<u>606</u>
Earnings per share (cents)	132

Statement of financial position (balance sheet) as at 31 March 2012

	March 2012 Rm	March 2011 Rm
ASSETS		
Non-current assets	6 900	6 440
Property, plant and equipment (tangible assets)	5 328	4 984
Cane roots	1 216	1 088
Other non-current assets	356	368
Current assets	4 511	3 396
Inventories	619	525
Growing cane	1 347	1 156
Trade and other receivables	878	769
Other current assets	277	228
Cash and cash equivalents	1 390	718
Total assets	11 411	9 836
EQUITY AND LIABILITIES		
Shareholders' equity	6 465	5 975
Non-current liabilities	2 530	991
Current liabilities	2 416	2 870
Short-term borrowings (current portion of loan)	384	934
Trade and other payables	1 454	1 556
Bank overdraft	185	61
SARS (Income tax)	142	97
Other current liabilities	251	222
Total liabilities	4 946	3 861
Total equity and liabilities	11 411	9 836

Key production and market statistics

96% of senior management completed our Anti-Bribery and Corruption training assessment module.

Recipes for sustainability

Removed of all its sucrose-containing moisture, residue cane fibre called bagasse, is routed to the factory boilers where it is used to generate electricity for our own milling, agriculture and other operations [producing 89% of our energy requirements], and in Swaziland, is exported commercially into the national power grid, ultimately to comprise around 15% of that country's total electricity supply by 2015.

The following press release was found on Illovo's website (<<http://www.illovo.co.za>>):

30 November 2012

ILLOVO QUALIFIES FOR 2012 SRI INDEX

The JSE has announced that Illovo Sugar Limited has qualified for its 2012 Socially Responsible Investment (SRI) Index. This is the sixth consecutive year that the company has qualified for inclusion in the Index. Launched in 2004, the Index serves to focus attention on the triple bottom line performance (environment, social and governance) of companies listed on the FTSE/JSE All Share Index, for the purposes of promoting responsible investment into emerging markets, such as South Africa.

QUESTION 2 BUDGETING**Information relating to Bunce Traders****Cash budget for the three months ending on 31 January 2014**

	November	December	January	Total
Cash receipts	89 600	105 600	83 200	278 400
Cash sales	60 000	72 000	48 000	180 000
Collections from debtors	29 600	33 600	35 200	9 400
Cash payments	(77 500)	(87 500)	(82 500)	(247 500)
Payments to creditors	50 000	60 000	40 000	150 000
Administrative expenses	2 500	2 500	2 500	7 500
Marketing expenses	5 000	5 000	7 500	17 500
Rent expense	20 000	20 000	20 000	60 000
Interest expense			12 500	12 500
Cash surplus (deficit)	12 100	18 100	700	30 900
Cash balance at beginning	4 900	17 000	35 100	38 300
Cash balance at end	17 000	35 100	35 800	69 200

Debtors' collection schedule

	Credit sales	November	December	January
September sales	26 000			
October sales	28 800	20 160		
November sales	32 000	8 000	22 400	
December sales	38 400		9 600	26 880
January sales	?			6 400
		29 600	33 600	35 200

Additional information:

1. Sales
 - 1.1 Goods are marked up by 100% on cost.
 - 1.2 Some of the goods are sold directly to the public for cash, the remainder being sold to retailers on credit. All these customers are very sensitive to price changes.
 - 1.3 A trade discount of 20% is given to retailers.

- 1.4 25% of debtors are expected to pay within the month of sale, 70% paying the next month to comply with the credit terms of 30 days from the statement date, and the balance is expected to be written off as bad in the following month.
- 1.5 No settlement discounts are given.
2. The interest rate on loan is 9% p.a. The interest is payable quarterly.
3. Assets are depreciated by R40 000 p.a.
4. R2 500 will be paid in January for an advertisement to be placed in February.
5. Dean Bunce, the owner of Bunce Traders, is considering expansion. He is considering another property in addition to the existing property they are currently renting. Some of the factors he is considering are:
 - (a) Neighbouring premises can be bought for R500 000 or rented at R10 000 per month.
 - (b) The business does not have investments to finance the purchase. They could take out a 25-year mortgage bond at an interest rate of 9% p.a.
 - (c) Annual sales at present are R920 000, but can be increased by 50% if the new premises are acquired. Dean expects to maintain the same mark-up % he had budgeted for in the past.

QUESTION 3 RECONCILIATIONS**Information relating to Gorham Stores**

The Debtors Clerk of Gorham Stores fell ill at the end of October 2013 before completing the entries of debtors P. Jadhu and J. Robertson.

Information:

- Debtors are sent a statement at the end of each month and are expected to pay the closing monthly amount reflected in the statement within 30 days of the date of statement.
- On the last day of each month, debtors are charged interest of 12% p.a. on overdue accounts.
- The following two Debtors' Ledger accounts are incomplete as at 31 October 2013.

P. Jadhu DL25


Date		Details	Debit	Credit	Balance
2013 Aug	12	Invoice 803	3 000,00		3 000,00
	13	Credit note 51		100,00	2 900,00
	18	Receipt 698 (cheque received)		2 900,00	nil

J. Robertson DL26

Date		Details	Debit	Credit	Balance
2013 Aug	10	Invoice 80	3 600,00		3 600,00
Sep	12	Credit note 54		1 300,00	2 300,00
	20	Invoice 005	3 500,00		5 800,00
	30	Interest on overdue account	23,00		5 823,00
Oct	25	Credit note 57		2 400,00	3 423,00
	26	Invoice 854	1 700,00		5 123,00

- P. Jadhu bought goods for R3 750 on 26 October 2013 as per invoice 817.

5. Bank statement for Gorham Stores downloaded on 31 October 2013:

			
Tran. CCYY-MM-DD	Date	Transaction Description/Narrative	Payments Deposits Balance
		Statement Opening Balance	R9 400
2013-08-03		IB payment to Ranjith Dealers	R 10 000 –R600
2013-08-16		IB payment to Hochstadter Traders	R 13 500 –R14 100
2013-08-18		Cash deposit	R2 900 –R11 200
2013-08-30		Unpaid cheque – P. Jadhu, reference 18/8	R2 900 –R14 100
2013-08-31		Cash deposit	R40 000 R25 900
2013-08-31		Service fees	R170 R25 730
2013-09-01		Deposit – L. Bierman, reference DL12	R1 500 R27 230
2013-09-15		IB payment to Hochstadter Traders	R8 700 R18 530
2013-09-20		IB Payment to Telkom	R800 R17 730
2013-09-20		Deposit – L. Bierman, reference DL12	R3 800 R21 530
2013-09-25		Deposit – P. Jadhu, reference DL 25	R2 900 R24 430
2013-09-30		Cash deposit	R35 000 R59 430
2013-09-30		Service fees	R170 R59 260
2013-10-29		IB payment to Ranjith Dealers	R15 000 R44 260
2013-10-29		Deposit – J. Robertson, reference DL26	R2 300 R46 560
2013-10-31		Cash deposit	R42 000 R88 560
2013-10-31		Service fees	R170 R88 390
		Statement Closing Balance	