

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
(50 marks, 60 minutes)

The following information was extracted and adapted from the annual report of Clover Industries Limited for the year ended 30 June 2013.

OVERVIEW

Clover Industries Limited produces and distributes (for itself and other fast moving consumer goods companies) a diverse range of dairy and consumer products. Clover was converted from a co-operative society into a public company in 2003.

DAIRY PRODUCT HIGHLIGHTS:




Milk: Clover is the **market leader** in fresh milk. Their latest innovation is the investment in technology that has enabled them to **extend the shelf life of their core range of fresh milk to 18 days**. A focus on this innovation has **allowed Clover to grow its fresh milk faster than the market**.

Butter: Clover is the **largest manufacturer of butter in the country** with a 39,2% market share. A new innovative tub has been launched to create a better shelf presence. The **tub** is also a **cost saving** exercise, saving at least R1 million annually.

Cream: Clover cream is **ultra-pasteurised to ensure a superior quality product with an extended shelf life**.

Cheese: Clover feta cheese is the 2nd largest brand in the market. Their aim is to become the number one player on the feta cheese market.

FINANCIAL HIGHLIGHTS

- 10.7%  Revenue
Increased to R8,0 billion
- 5.4%  Operating Profit
Increased to R391,4 million
- 12.7%  Total dividend per share
Increased to 32 cents

GOVERNANCE, RISK & COMPLIANCE

The Board recognises that good corporate governance is essential to protect and balance the interests of all its stakeholders. The Group is committed to the principles of transparency, fairness, integrity and accountability in its dealings with all stakeholders. The Board endorses the King Code of Governance Principles for South Africa 2009 and is satisfied that Clover has conformed throughout the reporting period to all principles of the Code.

EXTRACT FROM THE CHAIRMAN'S REPORT

"... As was the case with John Bredin, our previous chairman, I am not independent in terms of King III, since I also supply raw milk to Clover. In the opinion of the Board, it is in the interest of the Group to maintain a close relationship with its raw milk suppliers ..."

[Mr Werner Buchner]

Financial indicators	June 2013	June 2012
Earnings per share	?	117,2
Dividend per share	32,0c	28,4c
Current ratio	1,70 : 1	1,32 : 1
Acid-test ratio	1,20 : 1	0,99 : 1
Stock turnover	?	9,85 times
Return on shareholder's equity	11,96 %	11,08%
Net asset value per share (NAV)	1 167,65c	1 058,56c
Market closing price on JSE on 30 June	R17,45	R13,65
Debt/Equity ratio	?	0,11:1
Number of shares in issue	181 218 149	

Statement of Comprehensive Income/ Income Statement for the year ended 30 June 2013		
	June 2013 R m	June 2012 R m
Revenue (Sales)	7 996	7 224
Cost of sales	(5 840)	(5 233)
Gross profit	2 156	1 991
Other operating income	62	15
Operating expenses	(1 827)	(1 635)
Operating profit	391	371
Interest income	10	29
Interest expense	(56)	(52)
Profit before tax	345	348
Tax	(105)	(138)
Profit for the year	240	210

Statement of Financial Position (Balance Sheet) on 30 June 2013		
	June 2013 R m	June 2012 R m
ASSETS		
Non-current assets	?	1 527
Property, plant and equipment	1 518	1 168
Other non-current assets	?	359
Current assets	?	2 337
Inventories	?	602
Trade and other receivables	995	1 000
Other current assets	?	25
Cash and cash equivalents	718	712
Total assets		3 864
EQUITY & LIABILITIES		
Shareholder's equity	2 116	1 896
Share capital	726	684
Retained income	1 390	1 212
Non-current liabilities	873	207
Current liabilities	1 445	1 761
Trade and other payables	1 234	1 317
Short term borrowings	173	421
SARS (Income tax)	17	6
Other current liabilities	21	17
Total liabilities		1 968
Total equity and liabilities		3 864

QUESTION 2 BUDGETING**(27 marks, 35 minutes)**

Jack Millar is the owner of 'Cartons and Cases', a popular furniture store in Randburg. He would like to resolve the poor cash flow situation his business experienced at the end of October 2014 and has asked you to help him achieve a turnaround in this area. He has provided you with the budgeted and actual figures for the Cash Budgets of September and October 2014.

CASH BUDGET OF 'CARTONS AND CASES' FOR SEPTEMBER AND OCTOBER 2014

	SEPTEMBER 2014		OCTOBER 2014	
	Budget	Actual	Budget	Actual
Cash receipts				
Cash sales (40% of total sales)	720 000	840 000	360 000	378 000
Cash from debtors	864 000	624 000	(A)	920 000
Rent income	(F)	(F)	49 680	49 680
Fixed deposit	360 000	360 000	–	–
Sundry incomes	?	?	?	?
Loan: FNB	300 000	300 000	–	–
Sale of old vehicle	189 000	120 000	–	–
TOTAL RECEIPTS	?	?	?	1 352 680
Cash payments				
Payments to creditors	960 000	960 000	(B)	1 200 000
Wages and salaries	144 000	180 000	144 000	108 000
Fixed deposit (Capitec)	–	–	(C)	(C)
Drawings	150 000	210 000	150 000	168 000
Sundry expenses	504 000	456 000	514 080	?
Interest on loan	3 000	3 000	3 000	3 750
TOTAL PAYMENTS	1 761 000	1 809 000	?	?
Surplus (Deficit)	720 200	483 200	(675 400)	(757 070)
Opening bank balance	(432 000)	(432 000)	(D)	51 200
Closing bank balance	288 200	51 200	(E)	(705 870)

Additional information:

- Debtors collection:
 - All debtors are expected to settle their debts in the month following the transaction thereby taking advantage of the 5% discount allowed for prompt payment.
- The business uses the fixed base stock method.
- The mark-up percentage used for budgeting purposes is 60%.
- All purchases of trading stock are done on credit.
- Creditors' accounts are settled in full within 30 days (i.e. month after purchase).
- The loan was taken out on 1 September 2014 at an interest rate of 12% p.a. (payable monthly) in order to assist with cash flow problems.
- Half of the fixed deposit which matured in September 2014 will be reinvested at Capitec Bank in October 2014.
- The monthly rent is due to increase by 15% on 1 October 2014.
- In the past, when a Cartons and Crates sales team vehicle was up for renewal, the regular driver of the vehicle was given first option to purchase the vehicle at the carrying value. No deposit was necessary and the employee could arrange to have the outstanding balance deducted off his monthly salary in monthly instalments over a 12 month period.

QUESTION 3 RECONCILIATIONS**(23 marks, 25 minutes)**

This question consists of two parts and each part must be seen independently of the other.

PART A BANK RECONCILIATION

The accountant of Falala Fashions drew up the following Bank Reconciliation Statement at the end of June 2014, the end of the firm's financial year:

BANK RECONCILIATION STATEMENT ON 30 JUNE 2014

Entry no.		R
i	Favourable balance as per bank statement	52 500
ii	Outstanding deposit	30 000
	Outstanding cheques:	
iii	No. 632 dated 17 December 2013 (Advertisement in City Press)	10 500
	No. 975 dated 14 July 2014	50 250
iv	No. 992 dated 4 August 2014 (Payment to a creditor)	44 250
v	Credit amount wrongly debited	5 400
vii	Balance as per bank account	? vi

PART B DEBTORS


Karen Khumalo is the bursar at Hollyoake High School, a relatively new school in the northern suburbs of Johannesburg. She has noticed that the school is experiencing some difficulty with the collection of school fees. The principal has asked her to look into what the problems are and how they can be resolved.

There has been a high staff turnover in the finance department recently and as a result the financial records are in disarray. Karen has received a number of irate calls from parents stating that their accounts are incorrect.

Information:

- Hollyoake High School operates on a **three term** system.
- The budgeted income from school fees for 2014 is calculated at R15 000 000. (i.e. 500 students @ R30 000 p.a. each) This income is necessary to cover all necessary expenses.
- On 1 January, all 500 students are billed for the Term 1 fees.
- All other sundry expenses for textbooks and other sundries are billed on a monthly basis as and when they occur.
- The Debtors Collection policy of Hollyoake High School states:
 - All **annual fees (R30 000)** that are settled in full by 31 January, will receive a discount of R1 500,00 for prompt payment.
 - Fees are payable per term in advance. No discount will apply to families who choose to exercise the payment per term option.
 - Any sundry billing to school accounts for outings and books, etc. must be settled in the month in which the transaction occurred.
 - Interest may be charged on overdue accounts from May of any year.
- Mr Mike West, a very supportive parent of the school, is disputing the amount owed by him and has demanded that the school sort his account out immediately. (A copy of the incorrect statement sent to Mr West is reflected on the next page.) Mr West insists that his account is not in arrears of R5 980 at all: in fact, he is convinced that his account has been prepaid to the amount of R15 500. He has queried the following matters relating to his account:

- Mr West provided evidence that he had paid his **annual fees** via EFT on 30 January after subtracting the discount to which he is entitled.
- He thinks Mr North's payment was posted to his account in error and this has to be reversed.
- The cost of the Science textbook is in fact R250 and not R50 as shown on the statement.
- The billing for concussion testing was an error, as his daughter does not play rugby. Whilst this charge was reversed, the incorrect amount was reversed. She will also not be attending the rugby camp.
- The credit for the undelivered Life Orientation book was incorrectly treated on the statement.

Mr M West P O Box 2398 Hollyoake Manor 2398	HOLLYOAKE HIGH SCHOOL 		STATEMENT	
			Date	30 April 2014
			Account number	F0041
WEST, Jessica – Grade 12 W				
		Debit	Credit	Balance
16-01-2014	Term 1 – 2014 School Fees	10 000,00		10 000,00
25-01-2014	Life Orientation Text book	150,00		10 150,00
25-01-2014	Physical Science Textbook	50,00		10 200,00
31-01-2014	Payment: Mr H. North		10 000,00	200,00
31-01-2014	Payment: Mr M. West		400,00	(200,00)
02-02-2014	Concussion Testing	320,00		120,00
02-02-2014	Reversal of Concussion testing		640,00	(520,00)
19-03-2014	Civvies Days	75,00		(455,00)
25-03-2014	School photographs	70,00		(375,00)
04-04-2014	Payment: Mr M. West		145,00	(520,00)
16-04-2014	Rugby camp	1700,00		1 180,00
25-04-2014	Art stationery levy	350,00		1 530,00
26-04-2014	Payment: Mr M. West		350,00	1 180,00
30-04-2014	IEB Examination Fee	4 650,00		5 830,00
30-04-2014	Credit: Life Orientation book not received	150,00		5 980,00

HOLLYOAKE HIGH SCHOOL
MONTHLY AGE ANALYSIS FOR TERM 1 of 2014

Date of analysis	Amount due	Current	30 days	60 days	90 days	90+ days
01-01-2014	5 000 000	5 000 000				
31-01-2014	4 513 500	13 500	4 000 000			
28-02-2014	3 031 050	28 350	2 700	3 000 000		
31-03-2014	2 053 520	46 500	5 670	1 350	2 000 000	
30-04-2014	1 039 135	27 000	9 300	2 835	0	1 000 000