



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 12 pages and an Information Booklet of 6 pages (i to vi) with a Ratio Sheet on page i. Please check that your question paper is complete.
2. Read the questions carefully.
3. Answer the questions in the space provided.
4. It is in your own interest to write legibly and present your work neatly.
5. You may **not** use red or green 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:

| | Possible marks | Actual marks | Marker signature | Moderator signature |
|--|----------------|--------------|------------------|---------------------|
| Question 1: Analysis of published financial statements (60 minutes) | 50 | | | |
| Question 2: Budgeting (35 minutes) | 27 | | | |
| Question 3: Reconciliations (25 minutes) | 23 | | | |
| TOTAL | 100 | | | Checker |

QUESTION 1 ANALYSIS OF PUBLISHED FINANCIAL STATEMENTS
(50 marks, 60 minutes)

1.1 The process of analysing the financial results of a company provides all interested parties with the answers to numerous questions.

Match the financial indicator in Column A with the best question it would answer from Column B.

| Column A | | Answer | Column B | |
|----------|---------------|--------|----------|---|
| 1.1.1 | Profitability | | A | Is the business able to pay all of its debts? |
| 1.1.2 | Liquidity | | B | To what extent is the business financed by borrowed funds? |
| 1.1.3 | Solvency | | C | Are the shareholders earning a good yield on the money they invested in the business? |
| 1.1.4 | Return | | D | How well is the business controlling its operational expenses? |
| 1.1.5 | Gearing | | E | Is the business able to pay all of its short term debts easily? |

(5)

1.2 The financial statements reflect figures for two consecutive years. Explain why the shareholders would find this a most useful practice.

(1)

1.3 Refer to the Statement of Comprehensive Income (Income Statement) and the highlights provided.

1.3.1 The Annual Report reveals that the revenue for the year ended June 2013 increased by 10,7%. Prove that this information is correct by providing an appropriate calculation.

Calculation:

(2)

1.3.2 Calculate the percentage increase in the EPS for the year ended June 2013 and explain whether shareholders would be happy with this situation.

| |
|--------------|
| Calculation: |
| |
| Comment: |
| |

(5)

1.3.3 A friend of yours has been offered shares in Clover Ltd, at R15,00 per share. Would you encourage him to go ahead with the transaction? Quote two financial indicators, to support his decision and comment on each.

(4)

1.4 Refer to the Statement of Financial Position (Balance Sheet) and the financial indicators provided.

1.4.1 Calculate the value of the current assets on 30 June 2013.

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|--------------|
| Calculation: |
| |

(1)

1.4.2 Calculate the value of the inventories on 30 June 2013.

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|--------------|
| Calculation: |
| |

(2)

1.4.3 If production was halted due to unforeseen labour unrests, how long would Clover's present stocks of dairy products last?

Calculation:

(3)

1.4.4 What caused the greatest change in the liquidity situation from 2012 to 2013? Quote figures to support your answer.

(2)

1.4.5 Provide an evaluation of the company's liquidity situation. Explain, quoting three financial indicators in support of your answer.

(6)

1.5 Refer to the Governance, Risk and Compliance Report and the extract from the Chairman's Report.

1.5.1 The King Code says that there should be a greater emphasis by a company on the non-financial aspects of its performance. As such it introduced the concept of a 'triple bottom line'. What is meant by this phrase?

(3)

1.5.2 Rising prices and large scale unemployment are two of the major problems facing South African business at the moment. What innovations have Clover introduced that have enabled the company to stay competitive. Explain how these initiatives will benefit the company's compliance to the triple bottom line.

(4)

1.5.3 These initiatives meant that Clover Ltd had to make significant increases in capital goods. How were most of these new technologies financed? Quote figures to support your answer.

(2)

1.5.4 What impact did the above decision have on the gearing of the company and is this a cause for concern? Provide a calculation to support your answer.

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|--------------|
| Calculation: |
|--------------|

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(4)

1.5.5 The Chairman of Clover, Mr Werner Buchner, declared to the Board that he is a supplier of raw milk to Clover Ltd. In your opinion, what personal attribute or characteristic is Mr Buchner displaying by declaring this?

(1)

1.5.6 Why is it important for this information to be mentioned; and what information should auditors look for in order to ensure that the interests of shareholders are protected and not disadvantaged by this situation? Explain in detail two types of evidence.

- _____

- _____

- _____

(5)

QUESTION 2 BUDGETING

(27 marks, 35 minutes)

Refer to the Information Booklet for information relating to the accounting records of Cartons and Crates. Jack Millar, the owner, would like to resolve the poor cash flow situation.

2.1 Explain the importance of comparing the budgeted figures in the cash budget with the actual figures achieved for the same period.

(1)

2.2 Calculate the values marked (A) to (F).

A

B

C

D

E

F

(8)

2.3 Refer to the figures supplied for 'Cash received from debtors'. Are customers adhering to the credit terms of the business? Provide a calculation to support your answer.

Calculation:

Answer

(4)

2.4 Study the figures provided for 'Wages & Salaries'. The employees are only going to be given an increase in January 2015. Considering that the number of employees has not changed during this period, explain why you think the figures appear as they do.

(1)

2.5 What is the percentage increase in the budgeted 'Sundry expenses' from September to October? Comment on the manner of budgeting for Sundry expenses and whether or not this is a realistic percentage increase.

Calculation:

Answer

- ---

- ---

(3)

2.6 Jack Millar is concerned about the cash situation of his business. It appears that raising a loan did not solve the cash flow problems. Apart from improving debtors' collections, how can the business improve the cash situation without borrowing further funds? Make a study of the budget and identify three other areas which in your opinion require attention. Explain fully.

- _____

- _____

- _____

(6)

2.7 Jack's son turned 18 in September 2014 and Jack had promised him a car for his birthday. As Cartons and Cases was his own business he decided to buy one of the business's sales vehicles that had a carrying value of R189 000 on 30 September 2014.

2.7.1 Give two reasons why this could be seen as a good decision by Jack.

- _____
- _____

(2)

2.7.2 Explain whether you think this transaction was ethically correct and what possible repercussions this decision might have for the business. Provide two reasons to support your opinion.

- _____

- _____

(2)

QUESTION 3 RECONCILIATIONS**(23 marks, 25 minutes)****PART A BANK RECONCILIATION**

Questions 3.1 through to 3.7 are multiple choice type questions. Choose the most correct answer for each of the following. Mark an 'X' over the letter of your choice. **Refer to the individual entries provided in the Bank Reconciliation Statement given in the Information Booklet.**

- 3.1 The information that lead to entry no. **i** of the Bank Reconciliation Statement is:
- A A debit balance on the bank statement at the beginning of June 2014.
 - B A credit balance on the bank statement at the beginning of June 2014.
 - C A debit balance on the bank statement at the end of June 2014.
 - D A credit balance on the bank statement at the end of June 2014. (1)
- 3.2 A possible transaction that lead to entry no. **ii** of the Bank Reconciliation Statement is:
- A A deposit of R30 000, by a debtor, made directly into the bank account of Falala Fashions.
 - B A refund of R30 000, by a creditor, made directly into the bank account of Falala Fashions.
 - C A deposit of R30 000 made by Falala Fashions, after the bank had already closed its books for the month.
 - D A deposit of R30 000 by Ferodo Fashions deposited into the account of Falala Fashions in error. (1)
- 3.3 Entry no. **iii** has been dealt with incorrectly. This advertisement was never produced. Which account will be debited and which account will be credited to rectify this error?
- | | | | | |
|---|-----|-------------|-----|-------------|
| A | Dr. | Bank | Cr. | Advertising |
| B | Dr. | Advertising | Cr. | Bank |
| C | Dr. | Bank | Cr. | City Press |
| D | Dr. | City Press | Cr. | Bank |
- (1)
- 3.4 Refer to entry no. **iv**.
- How should the accountant deal with cheque 992 in the financial statements of the business?
- A Subtract R44 250 from Bank in the Cash and Cash Equivalents note and add back R44 250 to Trade Creditors in the Trade and other payables note.
 - B Add back R44 250 to Bank in the Cash and Cash Equivalents note and subtract R44 250 from Trade Creditors in the Trade and other payables note.
 - C Subtract R44 250 from Bank in the Cash and Cash Equivalents note and subtract R44 250 from Trade Creditors in the Trade and other payables note.
 - D Add back R44 250 to Bank in the Cash and Cash Equivalents note and add back R44 250 to Trade Creditors in the Trade and other payables note. (1)

- 3.5 A possible transaction that lead to entry no. **v** on the Bank Reconciliation Statement is:
- A A cheque issued for R1 750 was incorrectly recorded in the bank statement as R7 150.
 - B A cheque issued for R7 150 was incorrectly recorded in the bank statement as R1 750.
 - C A cheque issued for R1 750 was incorrectly recorded in the CRJ as R7 150.
 - D A deposit of R5 400 was incorrectly entered by the bank. (1)

- 3.6 The correct balance of the bank account in the ledger of Falala Fashions **vi** should be:
- A R17 100 (favourable)
 - B R17 100 (unfavourable)
 - C R6 600 (favourable)
 - D R6 600 (unfavourable) (1)

- 3.7 The information that lead to entry no. **vii** of the Bank Reconciliation Statement should be:
- A A debit balance in the bank account at the beginning of June 2014.
 - B A credit balance in the bank account at the beginning of June 2014.
 - C A debit balance in the bank account at the end of June 2014.
 - D A credit balance in the bank account at the end of June 2014. (1)

PART B DEBTORS

- 3.8 Refer to the information provided in the Information Booklet. Take all Mr West's queries and concerns into consideration and prepare a reconciliation of his account at 30 April 2014:

RECONCILIATION OF MR WEST'S ACCOUNT

| Correction of Errors | Amount |
|--------------------------------|--------|
| Debit Balance as per statement | 5 980 |
| | |
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| | |

(8)

3.9 The school is refusing to register Jessica West for the final IEB examinations, because her account is in arrears. Comment on this strategy and suggest how this situation could be handled in an ethical way.

(2)

3.10 Hollyoake High School has prepared an age analysis of outstanding school fees at the end of every month. What is the reason for this routine practice?

(1)

3.11 Study the monthly Age Analysis from January to April 2014.

3.11.1 What does the R5 000 000 charged at the beginning of January represent?

(1)

3.11.2 What does the R13 500 charged during January represent?

(1)

3.11.3 Explain whether the parents are paying back the school fees in the time allowed.

(1)

3.11.4 What advice would you give the bursar regarding their debtors' collection policy? Provide two points.

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- ---

(2)

| |
|----|
| |
| 23 |

Total: 100 marks