

**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      BUDGETS AND PROBLEM SOLVING**

**The following information relates to Sandton Sky Hotel.**

- Their main customers are executive businesspeople and traveling salespeople.
- All their rooms are the same size and all the room rentals are charged out at the same price.
- There is no variation in the price for different times or seasons of the year.
- Meals in the dining room are included in the room rental price, but beverages/drinks are excluded.
- The hotel has a gym and a swimming pool, and besides a small dining room for the residents, it also has a very popular restaurant.
- The gym equipment is seven years old and many pieces are broken and need to be replaced. The management have decided to replace a piece of equipment each month.

**Cash budget for Sandton Sky Hotel for November 2016 to January 2017**

	Nov 2016		Dec 2016	Jan 2017
	Budgeted	Actual	Budgeted	Budgeted
<b>RECEIPTS</b>				
Room rentals paid in cash	930 000	1 020 000	<b>C</b>	<b>D</b>
Restaurant and beverages sales	165 400	187 500	<b>E</b>	150 514
<b>Total receipts</b>	1 095 400	1 207 500	?	?
<b>PAYMENTS</b>				
Salaries	592 200	592 200	<b>F</b>	<b>G</b>
Electricity	55 800	81 600	27 900	41 850
Cash purchases of food and beverages	245 000	263 000	320 000	183 500
Payment to creditors	57 300	57 300	<b>H</b>	<b>I</b>
Admin and Internet	9 000	9 150	5 000	7 200
Security	25 000	25 000	25 000	25 000
Sundry other expenses	3 100	3 100	3 286	3 484
Maintenance	68 000	63 700	68 000	68 000
Replacement of gym equip	17 000	17 000	14 500	23 000
<b>Total payments</b>	(1 072 400)	(1 112 050)	?	?
Surplus/(deficit)	23 000	<b>A</b>	?	?
Beginning bank balance	33 400	33 400	?	?
End bank balance	56 400	<b>B</b>	?	?

**Additional information**

1. The budgeted amounts for November, December and January were drawn up in October and so were not influenced by what actually happened in November 2016.
2. It was budgeted that the rooms in November would be filled on average for 20 nights (two-thirds of the month); December only 10 nights and January is budgeted to be filled at an average of 15 nights.
3. It is budgeted that there will be an increase of 40% in beverage and restaurant sales in December 2016 and this would then drop from December to January 2017.
4. All staff receive a 40% Christmas bonus at the end of November. They receive their normal salary amount in December. They are going to get an 8% increase in January 2017.
5. Sandton Sky Hotel buys some of their food and beverages on credit. They buy nothing else on credit. They have negotiated the following terms to pay back creditors: 80% will be paid back in the month after purchase and will be given a 5% discount; the remaining 20% will be paid back in the next month. Credit purchases for November and December were R65 200 and R82 000 respectively.
6. Interest on overdraft is charged at 18% p.a. and is included in admin expenses.

**Information to answer Question 1.8**

Paul, the manager did some research into saving electricity costs. He found out the following:

- The total spent/estimated on electricity for the year ended December 2016 was R700 000. It is expected that the total electricity expense for 2017 will be R780 000.
- The accountant has estimated that of the hotel's electricity, 20% is lighting, 30% is used by the kitchen and miscellaneous items, 35% is used by the geysers for the showers and baths in the rooms, and the last 15% is used by the air conditioners all over the hotel.
- LED lights not only last much longer than their current light bulbs but use 75% less energy and produce less heat, therefore saving on air-conditioning costs. To replace the light fittings in the lounges and dining areas will cost R95 000. To replace the rooms with LED lights will cost R140 000.
- There are new thermostats available with motion sensors that will turn off the air-conditioning/heater when the guests are not in their rooms. The accountant estimates that this should save about 30% of what is currently being spent on air conditioners. To replace the current ones in the rooms will cost R102 500.
- Replacing all the geysers with solar energy geysers will cost a total of R640 000.

**QUESTION 2 RECONCILIATIONS**

**The following information relates to Longs and Shorts.**

Mrs Jones is the owner of Longs and Shorts, a clothing shop that sells jeans and shorts. It is a small shop, so besides herself, there is only a bookkeeper (Pam) and two sales staff, both who have access to the cash register if Mrs Jones is not around.

Pam prepared the following statement for debtor, Lerato de Villiers:

		<h2 style="margin: 0;">Longs and Shorts</h2> <h3 style="margin: 0;">Statement of account</h3>				
Lerato de Villiers 37 Olive Road Lyttelton		Account no: 5469821 Date of statement: 25 October 2016 Tel: 012 644 8989				
Date		Details/Document no.	Debit	Credit	Balance	
Sept	1	Account rendered			3 350,00	
	15	Invoice 983	3 400,00		6 750,00	
	17	Credit note 94		150,00	6 600,00	
Oct	8	Invoice 997	350,00		6 950,00	
	14	Invoice 1002	550,00		7 500,00	
			<b>Current</b>	<b>30 days</b>	<b>60 days</b>	<b>90 days</b>
			900	3 250	2 000	1 350
<b>TERMS: 90 days from date of statement</b>						

**Information:**

1. The opening balance was a result of two invoices issued. One for R1 350 from July and the other issued in August.
2. Lerato phoned Longs and Shorts in a temper saying that she does not owe R7 500 on her account, as:
  - Credit note 94 was for R510, not R150.
  - She made a direct deposit of R3 000 into the bank account of Longs and Shorts on 3 October.
  - She did not buy from Longs and Shorts on 8 October.

**The above claims were looked into and found to be true.**

3. Longs and Shorts have five suppliers. Two of them demand cash on delivery and the other three have granted them terms of 30 days, i.e. payment in the month after purchase.
4. The following ratios were calculated on 31 October 2016:
  - Current ratio: 2,9 : 1
  - Acid test ratio: 2,1 : 1

**Pam drew up the following bank reconciliation statement:**

**Bank reconciliation on 31 October 2016**

Balance as per bank statement	?
Outstanding deposit (20 October 2016)	10 990
Outstanding deposit (31 October 2016)	7 900
Outstanding cheques issued: No. 72 (26 March 2016)	480
No. 134 (26 October 2016)	15 320
No. 136 (24 November 2016)	4 870
Balance as per bank account	?

The balance in the bank account in the general ledger of Longs and Shorts on 31 October 2016, **before** the following information was taken from the bank statement on 31 October 2016, was a favourable balance of R3 130.

**The following entries were in the October 2016 bank statement, but have not yet been recorded in the journals:**

- A direct deposit of R1 300 made by a debtor in payment of his account.
- A cheque from debtor G Smith (dated 25 September 2016) was returned by the bank on 28 October 2016 with the notation r/d. The cheque of R2 800 was to pay off her debt of R3 000.
- A stop order for R2 500 for business insurance against fraud.
- Cheque 100 for R2 560, which was outstanding on the September bank reconciliation, had come through. This is the correct amount of the cheque but it had been incorrectly recorded in the CPJ in September as R2 650.

### QUESTION 3 COMPANY ANALYSIS

The following information relates to Verimark.

Verimark is a retail company that sources, develops and distributes unique, superior quality products in the houseware, exercise and fitness, health, DIY, automotive, educational toys and personal comfort categories. They have a massive distribution network for those products ordered online and through TV commercials. They also sell their products through their own Verimark stores and through shops like Game and Pick n Pay.



[Source: <www.verimark.co.za>]

#### Dividends

The board declared and approved a final dividend of R5 631 600 (5,2 cents per share) on 21 May 2015. This is in line with the dividend policy of 50% of profit attributable to shareholders of the company. There were no interim dividends issued.

Verimark Holdings Ltd did not buy or sell shares during the 2015 financial year.

#### Major shareholders

The Van Straaten Family Trust holds 63% of the issued share capital of the company. The beneficiaries of the trust are the CEO, MJ van Straaten and his family.

#### Group Statement of Comprehensive Income

For the year ended 28 February 2015

	<b>2015</b> <b>R'000</b>	<b>2014</b> <b>R'000</b>
Revenue	415 374	427 036
Cost of sales	(246 502)	(254 880)
<b>Gross profit</b>	<b>168 872</b>	<b>172 156</b>
Other operating income	2 358	9 531
Selling expenses	(38 858)	(38 137)
Other operating expenses	(115 000)	(121 865)
<b>Operating profit</b>	<b>17 372</b>	<b>29 685</b>
Investment income	2 376	4 107
Financing costs	(3 480)	(10 340)
<b>Profit before tax</b>	<b>16 268</b>	<b>23 452</b>
Tax	(5 010)	(5 791)
<b>Profit for the year</b>	<b>11 258</b>	<b>17 661</b>

#### Extract from the CEO's report

The continued depreciation of the rand has negatively impacted local importers and the South African retail sector in general for the past three years. 95% of the group's merchandise is imported and acquired on a US dollar denomination.

Economic conditions are expected to remain challenging in the coming year. Verimark will continue to place emphasis on increasing the pace of new products introduced, as well as improving its margins and maximising operational efficiencies as well as cost containment in the year ahead.

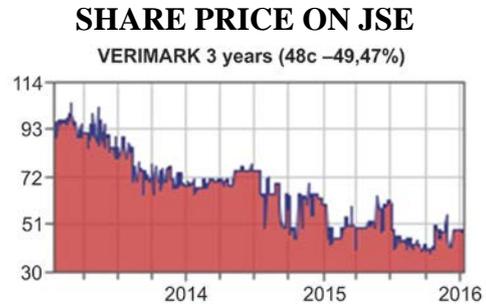
**Extract from the US dollar to South African rand exchange summary**

Date	Rand
8 January 2016	16.18

Date	Rand
1 October 2015	13.87

**Ratios, percentages and numbers**

	2015	2014
Net asset value	116 cents	110 cents
Current ratio		3,15 : 1
Acid test ratio		1,50 : 1



**Figures from the cash flow statement and notes for Verimark Holdings Ltd**

	2015 R'000
Increase/decrease in inventories	(13 876)
Increase/decrease in trade and other payables	1 021
Taxation paid	(5 650)

**Verimark Holdings Ltd  
Group Statement of Financial Position on 28 February 2015**

ASSETS	2015 R'000	2014 R'000
<b>Non-current Assets</b>	30 848	32 117
<b>Current Assets</b>	147 333	128 583
Inventories	<b>E</b>	<b>C</b>
Trade and other receivables	65 524	<b>D</b>
Prepaid taxation	510	0
Cash and cash equivalents	?	1 394
<b>Total Assets</b>	178 181	160 700
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>	?	118 874
<b>Non-current Liabilities</b>	<b>F</b>	1 006
<b>Current Liabilities</b>	48 468	<b>A</b>
Trade and other payables	34 471	<b>B</b>
Current portion of interest-bearing borrowings	1 422	1 320
Taxation payable	0	?
Bank overdraft	12 575	?
<b>Total Equity and Liabilities</b>	178 181	160 700