PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This question paper consists of 10 pages and an Information Booklet of 7 pages (i–vii) 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 to 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:

<table>
<thead>
<tr>
<th>Question</th>
<th>Possible marks</th>
<th>Actual marks</th>
<th>Marker signature</th>
<th>Moderator signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question 1: Budgets and Problem Solving (41 minutes)</td>
<td>34</td>
<td>34</td>
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<tr>
<td>Question 2: Reconciliations (35 minutes)</td>
<td>30</td>
<td>30</td>
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<td></td>
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<tr>
<td>Question 3: Company Analysis (44 minutes)</td>
<td>36</td>
<td>36</td>
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<tr>
<td>TOTAL</td>
<td>100</td>
<td>100</td>
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</table>
QUESTION 1 BUDGETS AND PROBLEM SOLVING (34 marks; 41 minutes)

Study the cash budget and information given for Sandton Sky Hotel in the Information Booklet and then answer the questions.

1.1 Explain, giving two points, how a cash budget is used as a management tool.


(2)

1.2 Explain why you think they have budgeted for so few hotel guests during December, which is in the middle of the holiday period, and yet their budgeted food and beverage sales have increased during the same month.


(2)

1.3 Complete the Creditors Payment Schedule below:

<table>
<thead>
<tr>
<th>Credit Purchases</th>
<th>2016 DECEMBER</th>
<th>2017 JANUARY</th>
</tr>
</thead>
<tbody>
<tr>
<td>October R60 400</td>
<td>R12 080</td>
<td>–</td>
</tr>
<tr>
<td>November</td>
<td></td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Total payment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(3)

1.4 Calculate the numbers designated by the letters A–I. Please note that you do not have to calculate the amounts with a "?", as there are no marks assigned to these.

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

(9)
1.5 Explain one control they can implement to make their gym equipment last longer.

1.6 When Paul walked into the gym, he discovered three people using the gym who were not paying guests at the hotel. Explain in detail to Paul one solution to this problem.

1.7 The main reason Sandton Sky Hotel is in overdraft by the end of the year is because they have so few bookings in December. Come up with two alternative solutions to bring in money over December.

1.8 Paul is adamant about implementing power-saving alternatives over the next five years.

1.8.1 Calculate the impact that the three cost-saving initiatives he has researched would have on the electricity expense over the next year should they be implemented.

<table>
<thead>
<tr>
<th>Savings from LED lights:</th>
<th></th>
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<tbody>
<tr>
<td></td>
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<tr>
<td>Savings from air-conditioning thermostats:</td>
<td></td>
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<td></td>
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<tr>
<td>Savings from solar geysers:</td>
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</tbody>
</table>

(2)
1.8.2 Explain whether you would advise Paul to go ahead with the three cost-saving initiatives. In your explanation you need to show how long it will take for the savings to cover the costs of the initiatives together. You also need to mention one factor not linked to the costs.

<table>
<thead>
<tr>
<th>Calculation</th>
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</thead>
<tbody>
<tr>
<td>Savings:</td>
</tr>
<tr>
<td>Costs:</td>
</tr>
<tr>
<td>Other factor:</td>
</tr>
<tr>
<td>Advice:</td>
</tr>
</tbody>
</table>

(5)
QUESTION 2  RECONCILIATIONS  

(30 marks; 35 minutes)

Study the information and statements for Longs and Shorts in the Information Booklet and then answer the questions.

2.1  Why is it important to send a statement of account to a customer every month on the same day of the month?

____________________________________________________________________________________ (2)

2.2  After taking Lerato's points into consideration, draw up the corrected age analysis.

<table>
<thead>
<tr>
<th>Current</th>
<th>30 days</th>
<th>60 days</th>
<th>90 days</th>
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(4)

2.3  80% of all Longs and Shorts' sales are on credit.

2.3.1  Do you think the owner, Mrs Jones should reconsider allowing debtors 90 days credit?

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________ (2)

2.3.2  Looking at both the current and acid-test ratios, do they indicate that Longs and Shorts have the ability to pay off their current debts without experiencing liquidity problems and do these ratios represent a good situation for Longs and Shorts to be in?

____________________________________________________________________________________

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____________________________________________________________________________________ (4)

2.3.3  Mrs Jones realises that since her terms for the debtors are 90 days, she cannot charge them interest for taking 90 days to pay. Suggest an alternative solution to encourage her debtors to pay earlier. This solution may not be to give discounts for early payments.

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________ (1)
2.4 Refer to the bank reconciliation statement and information from the bank statement to answer the following questions:

2.4.1 There is an incorrect entry in the bank reconciliation statement. State what it is.

__________________________________________ (2)

2.4.2 Calculate the corrected bank balance in the bank account of Longs and Shorts on 31 October 2016 after taking into account the incorrect entry and additional information. Also state whether this is a debit or credit balance in the bank account.

__________________________________________ (7)

2.4.3 Calculate the balance on the bank statement on 31 October 2016 and state whether it is a negative or a positive balance.

__________________________________________ (5)

2.4.4 Explain how there could be two outstanding deposits, and whether Mrs Jones should/should not be worried about them. Give reasons for each.

__________________________________________

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__________________________________________

__________________________________________ (3)

30
QUESTION 3 COMPANY ANALYSIS (36 marks; 44 minutes)

Study the information given about Verimark in the Information Booklet and then answer the following questions.

3.1 Calculate the number of shares that are in issue.

3.2 Calculate the shareholders' equity for 2015.

3.3 Calculate the amount of the final dividends that MJ van Straaten and his family will be receiving.

3.4 Comment on the dividend policy. In your comment explain why you think the dividend policy will be detrimental or good for the company in the long term.

3.5 Give one way in which the other shareholders could be disadvantaged by the CEO owning 65% of the shares. State one way in which this could be an advantage to them.

Advantage:

Disadvantage:
3.6 The King Code III states that the board should elect a chairman of the board who is an independent non-executive director. The CEO of the group should not also fulfil the role of chairman of the board. Explain why this is important.

(2)

3.7 3.7.1 Explain how the devaluation of the rand will affect Verimark's profitability. In your explanation state which account in the Statement of Comprehensive Income is affected the most.

(2)

3.7.2 The selling price of a Genesis Minimax vacuum cleaner is R800. It is mainly sold through TV commercials although there are some stores that stock Verimark products. If this vacuum cleaner was imported from the US for US$50 on 1 October 2015 it would have cost R693,50 and Verimark would have made a 15.36% mark-up.

[Source: <www.verimark.co.za/products/genesis.minimax>]

Explain, by showing calculations, the impact of the devaluation of the rand on Verimark's sales if they were to import the same vacuum for US$50 on 8 January 2016.

(2)
3.8 MJ van Straaten, the CEO, stated in his report that to counter the negative effects of the rand, Verimark will improve its margins and maximise operational efficiencies as well as cost containment in the year ahead.

3.8.1 By studying the introductory information and Statement of Comprehensive Income, give two examples of how Verimark can improve its margins and maximise operational efficiencies as well as cost containment in the year ahead.

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(4)

3.8.2 Explain how increasing the pace of new products introduced will affect Verimark's profitability.

(2)

3.9 Use the information in the Information Booklet and the amounts you have previously calculated to fill in the missing amounts in the Statement of Financial Position on 28 February 2015. Please note that you do not have to calculate the amounts with a "?", as there are no marks assigned to these.

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<thead>
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3.10 Verimark has a massive distribution network to get those products ordered online and through the TV commercials to the customers. The directors have tasked the internal audit committee to audit the distribution network to see if they can cut costs and also make it more efficient.

3.10.1 How would the purpose of the external auditor's audit differ from this audit?
3.10.2 Provide two pieces of audit evidence that the internal auditors could use to audit the distribution network.

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(2)

3.11 3.11.1 Explain one cause of the market price of shares falling/decreasing.

____________________________________________________________________________________

(1)

3.11.2 If you were tasked with getting the market price of the share to improve, what two strategies would you implement?

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____________________________________________________________________________________

(4)

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____________________________________________________________________________________

3.12 After everything you have calculated and read about Verimark Holdings Ltd, give one advantage of investing in Verimark, and one disadvantage.

Advantage:

____________________________________________________________________________________

Disadvantage:

____________________________________________________________________________________

(2)

Total: 100 marks