PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This question paper consists of 14 pages and an Information Booklet of 9 pages (i – ix) with a Ratio Sheet on page ii. Please check that your question paper is complete.

2. Read the questions carefully. A glossary of terms and mark allocation is provided on page 2.

3. Answer the questions in the space provided. Show workings in brackets.

4. It is in your own interest to write legibly and to present your work neatly.

5. You may **not** use green or red 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 1: Creditors' Reconciliation (24 minutes)</th>
<th>Possible Marks</th>
<th>Actual Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learning Outcome: Financial Information</td>
<td>LO 1 – Analyse and interpret Bank, Debtors and Creditors reconciliations</td>
<td>20</td>
</tr>
</tbody>
</table>

| Question 2: Manufacturing and inventory (36 minutes) | |
|---------------------------------------------------| |
| Learning Outcome: Managerial Accounting | LO 2 – Prepare, present, analyse and report information for a manufacturing enterprise by compiling a production cost statement | 30 |

| Question 3: Analysis of published financial statements (60 minutes) | |
|---------------------------------------------------| |
| Learning Outcome: Financial Information | LO 1 – Analyse published financial statements and audit reports of companies | 50 |

**TOTAL 100**
## GLOSSARY

<table>
<thead>
<tr>
<th>WORD</th>
<th>MEANING</th>
<th>MARK ALLOCATION GUIDE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compare</td>
<td>To point out or show similarities and differences</td>
<td>2 marks per point</td>
</tr>
<tr>
<td>Defend</td>
<td>To give a positive reason why the statement is correct</td>
<td>2 marks per point</td>
</tr>
<tr>
<td>Define</td>
<td>To give the precise meaning of …</td>
<td>2 marks per point</td>
</tr>
<tr>
<td>Describe</td>
<td>To explain the main characteristics of something</td>
<td>1 mark per point</td>
</tr>
<tr>
<td>Discuss</td>
<td>To write about something in detail</td>
<td>2 marks per point</td>
</tr>
<tr>
<td>Explain</td>
<td>To make clear so that the reader understands what is being said</td>
<td>2 marks per point</td>
</tr>
<tr>
<td>Identify</td>
<td>To give the essential characteristics of …</td>
<td>1 mark per point</td>
</tr>
<tr>
<td>Justify</td>
<td>To prove or give reasons or conclusions using a logical argument</td>
<td>2 marks per point</td>
</tr>
<tr>
<td>List</td>
<td>To present a list of names or facts</td>
<td>1 mark per point</td>
</tr>
<tr>
<td>Name</td>
<td>To state something, to list, to give, to identify, to mention</td>
<td>1 mark per point</td>
</tr>
<tr>
<td>Predict</td>
<td>To explain what is going to happen</td>
<td>2 marks per point</td>
</tr>
<tr>
<td>Quote</td>
<td>Refer to, using evidence from</td>
<td>1 mark per point</td>
</tr>
<tr>
<td>Strategy</td>
<td>To present a systematic plan of action</td>
<td>2 marks per point</td>
</tr>
<tr>
<td>State</td>
<td>To present information without discussion</td>
<td>1 mark per point</td>
</tr>
<tr>
<td>Substantiate</td>
<td>To give reasons for this action</td>
<td>2 marks per point</td>
</tr>
<tr>
<td>Suggest</td>
<td>To propose an explanation of a solution by way of a plan or a suggestion</td>
<td>2 marks per point</td>
</tr>
</tbody>
</table>
QUESTION 1  CREDITORS' RECONCILIATION  (20 marks, 24 minutes)

Refer to the Information Booklet for information relating to the accounting records of Bell Beadworx, a small factory that produces beaded jewellery. The owner, Leonie Bell, is concerned that the statement received from a supplier Tladi Trading (Pty), Ltd differs significantly from their account in the Creditors' Ledger. She suspects the bookkeeper, Ashton Millar, of incompetence. She would like to issue him with a written warning, but realises that the situation should first be investigated thoroughly.

Required:

Study and reconcile the documents and records provided in the Information Booklet and below. You will need to analyse and compare the documents and records very carefully to determine the information you will need.

1.1 After comparing and analysing the Statement, Invoice and Cheque given in the Information Booklet, you are required to update the following account in the Creditors' Ledger with any relevant entries, including the payment on 5 July 2011.

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>Fol</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Balance</td>
<td>b/d</td>
<td></td>
<td></td>
<td>12 990</td>
</tr>
<tr>
<td>6 June</td>
<td>Invoice 4343 (7918)</td>
<td>CJ</td>
<td>3 780</td>
<td></td>
<td>16 770</td>
</tr>
<tr>
<td>9</td>
<td>Cheque 1978</td>
<td>CPJ</td>
<td>12 990</td>
<td></td>
<td>3 780</td>
</tr>
<tr>
<td>12</td>
<td>Debit note 43 (190)</td>
<td>CAJ</td>
<td>378</td>
<td></td>
<td>3 402</td>
</tr>
<tr>
<td>22</td>
<td>Invoice 4349 (7923)</td>
<td>CJ</td>
<td>1 311</td>
<td></td>
<td>4 713</td>
</tr>
</tbody>
</table>

1.2 Prepare the Creditor's Reconciliation Statement to reconcile Tladi Trading (Pty) Ltd's statement balance and the amount owing by Bell Beadworx on 30 June 2011.

<table>
<thead>
<tr>
<th>CREDITOR'S RECONCILIATION STATEMENT ON 30 JUNE 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as per statement from Tladi Trading (Pty) Ltd</td>
</tr>
<tr>
<td>Amount owing</td>
</tr>
</tbody>
</table>

(7)
1.3 Write a brief report to Leonie explaining whether or not she should consider Ashton to be incompetent and/or guilty of fraudulent activities, and whether the accounting systems are at fault in any way. Give THREE good reasons for your opinion, mentioning any relevant discoveries you may have made in your investigation.

Report:
Investigation into creditors' records for Bell Beadworx

Signed
For Indepth Investigations CC

Date

(6)

20
QUESTION 2  MANUFACTURING AND INVENTORY  (30 marks, 36 minutes)

Refer to the information sheet for information relating to the accounting records of Sechaba's Socks, a factory producing multi-coloured cotton socks.

Required:

2.1 Explain why the weighted average method of inventory valuation is the most suitable for this business.

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__________________________________________________________________________  (2)

2.2 Sechaba is concerned that Brandon has manipulated the movement of stock and the value of the closing stock of raw materials for June 2011.

2.2.1 Analyse the stock records (information point 1) and check the calculations to determine TWO ways in which Brandon has done this.

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2.2.2 Should the direct raw material costs be increased or decreased to fix this error, and by how much?

__________________________________________________________________________  (3)
2.2.3 Suggest why Brandon would want to manipulate the value of closing stock.

2.3 Sechaba currently sells his socks at R15 per pair. A new sock supplier has started producing similar socks at R13 per pair. Sechaba would like to reduce his price to R12,50 and become more competitive, but realises that this would not be profitable enough based on the current costs.

2.3.1 Using the correct raw material amounts, complete the production cost statement for June 2011.

Sechaba's Socks
Production cost statement for the month ended 30 June 2011

<table>
<thead>
<tr>
<th>Direct Costs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of finished goods produced</td>
<td>63 200</td>
</tr>
</tbody>
</table>

2.3.2 Complete the trading statement for June 2011.

Sechaba's Socks
Trading statement for the month ended 30 June 2011

<table>
<thead>
<tr>
<th>Sales</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.3.3 If total fixed costs are R17 120 per month and the correct variable cost per unit is R8,12, what is the lowest price at which Sechaba could sell each pair of socks and break even at his current production levels?
2.3.4 Sechaba has several **other** options he could use to decrease costs and **maintain** his current profits. Consider these options and suggest the most viable. Give two reasons in support of your answer. Provide figures from the question to support your opinion.

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2.4 Sechaba has agreed to allow one of his workers to use the machinery over weekends to make socks to sell when he returns to his home in Zimbabwe over Christmas. The worker will pay a rental of R300 per weekend. Sechaba is not sure how he would account for this income – as operating income in his Income Statement, or in some way in the Production Cost Statement. Suggest how you think this income should be treated, and why.

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(2)

30
QUESTION 3  ANALYSIS OF PUBLISHED FINANCIAL STATEMENTS  (50 marks, 60 minutes)

Refer to the Information Booklet for information relating to the accounting records of Woolworths Holdings Ltd.

Required:

3.1  Why would Woolworths have highlighted the use of Masuga paper for their annual report (see page vii)?

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3.2  Refer to the Group Review on page vii and the Group Statements on page viii. Consider the returns generated by Woolworths Holdings Limited.

3.2.1  Show how the return on ordinary shareholders' equity for 2010 was calculated and then comment on the return earned by ordinary shareholders for 2009 and 2010, giving TWO relevant points/observations.

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__________________________________________________________________________ (4)
3.2.2 There has been a significant increase in the share price. Give TWO possible reasons for this.

3.3 Refer to the Group Statement of Financial Position (Balance Sheet) on page viii. The current ratio in 2009 was 1,68 : 1, and the acid test ratio was 1,1 : 1.

3.3.1 Calculate the current ratio for 2010.

3.3.2 Calculate the acid test ratio for 2010.

3.3.3 What has caused the change in the liquidity situation from 2009 to 2010? Quote the relevant figures to support your answer.
3.3.4 Refer to the changes in liabilities and cash shown on the balance sheet, and your answer to Question 3.3.3. Comment on the wisdom of the decision resulting in these changes.

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3.4 Refer to Corporate Governance and the Report of the Independent Auditors on page vii. The audit committee consists of four independent, non-executive directors.

3.4.1 What is the purpose of the audit committee being made up of 'non-executive' directors?

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3.4.2 Who are the external auditors of Woolworths Holdings Limited?

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3.5 3.5.1 The audit report refers to the International Financial Reporting Standards (IFRS). The directors are responsible for ensuring that the financial statements are prepared in accordance with IFRS. What is the purpose of these standards?

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________________________________________________________________________ (2)
3.5.2 Individual directors' fees and audit fees are disclosed (shown) in the published financial statements of Woolworths Holdings Limited, as required by IFRS. Why is this necessary?

(1)

3.6 Woolworths makes provision for loss of inventory (see Note 17 on page viii).

3.6.1 Considering the nature of the business, suggest any THREE kinds of inventory losses Woolworths needs to provide for.

(6)
3.6.2 Calculate and comment on the percentage provision for loss of inventory used by Woolworths.

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(2)

3.6.3 What basic accounting principle is being complied with when providing for loss of inventory? Explain.

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3.7 Refer to Note 32 on page viii and the Analysis of Shareholders on page ix. What amount would have been received by Liberty Life in the form of dividends from Woolworths Holdings Ltd on 28 September 2009? (Give your answer in Rands.)

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(3)
3.8 Refer to Note 39.1, the Directors Report and Chairman's Report on page ix. Two of your friends, Ryan and John, are debating the strategy Woolworths should pursue regarding the different segments. Ryan has suggested that Woolworths should discontinue the Food and Country Road segments and focus only on SA Clothing, whereas John disagrees.

3.8.1 Give TWO reasons, showing calculations or quoting figures, to support Ryan's argument.

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3.8.2 Suggest why John does NOT support Ryan's opinion by explaining the importance of keeping both these segments.

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__________________________________________________________________________
3.8.3 If you were a director of Woolworths, what possible strategy would you suggest to solve one of the problems experienced by Country Road?

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Total: 100 marks