



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 11 pages and an Information Booklet of 7 (i – vii) pages 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 **one decimal place**.
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 (36 minutes)	30			
Question 3: Reconciliations (24 minutes)	20			
TOTAL	100			Checker

**QUESTION 1 ANALYSIS OF PUBLISHED
FINANCIAL STATEMENTS**

(50 marks, 60 minutes)

Refer to the information sheet for information relating to the accounting records of Telkom Ltd.

Required:

- 1.1 Refer to the Scope of Telkom Ltd's Business Code of Ethics (page ii in the Information Booklet). If an employee does not act ethically in the course of his/her work, what consequences for the employee could violation of the Business Code of Ethics result in? Suggest any ONE course of action the business might take.

(2)

- 1.2 Refer to the Audit and Risk Committee Report on page ii of the Information Booklet.

- 1.2.1 Why would PCS Luthuli (Chairman of the Audit and Risk Committee) have to be a non-executive director of Telkom Ltd?

(2)

- 1.2.2 How does the role of Ernst & Young differ from the role of the Audit and Risk Committee as described in the report in your Information Booklet?

(2)

- 1.3 Determine the missing information and amounts labelled A to P in the Information Booklet on pages iii and iv. Write your answers in the space provided below. Give amounts in Rm (millions of Rands).

Note: The current ratio on 31 March 2011 was 1 : 1.

A	R	m
B		
C	R	m
D		
E		
F		
G	R	m
H	R	m
I	R	m

J	R	m
K	R	m
L	R	m
M		
N		
O	R	m inflow/outflow
P	R	m

(17)

- 1.4 Refer to the Statement of Income on page iii. Which item explains how it is possible that a net profit of only R1 565m was made, yet the Cash Generated from Operating Activities (in the Statement of Cash Flows on page iv) was much higher at R6 142m?

(1)

- 1.5 Consider the dividends declared and paid by Telkom.

- 1.5.1 Use the relevant information provided in the Financial Statements to recreate the Ordinary Share Dividends account in the General Ledger of Telkom Ltd for the year ended 31 March 2011. Amounts may be shown in Rm.

Ordinary share dividends

2010 June	18			2011 March	31		
2011 March	31						

(6)

1.5.2 Calculate the earnings per share (EPS) for the year ended 31 March 2011 if there are 520 783 900 ordinary shares. (Remember that figures on the financial statements are shown in millions of Rands.)

(3)

1.5.3 Refer to the Dividends Policy on page iv in the Information Booklet. Do the dividends for the year ended 31 March 2011 reflect this policy? Explain.

Yes/no: _____

Explanation: _____

(2)

1.6 Telkom shares closed at R37,00 on the Johannesburg Stock Exchange (JSE) on 31 March 2011.

1.6.1 Calculate the net asset value per share (NAV) on 31 March 2011.

(3)

1.6.2 As a potential investor, would you invest in Telkom shares at the market price on 31 March 2011? Explain, providing relevant figures to support your answer.

Yes/no: _____

_____ (2)

1.6.3 As an existing shareholder, would you be satisfied with your investment in Telkom shares? Apart from the share price, refer to TWO different pieces of information to support your answer, quoting relevant figures.

Yes/no: _____

- _____

- _____

_____ (4)

- 1.7 1.7.1 Calculate the return on capital employed before tax for the year ended 31 March 2011, if the average capital employed was R42 546m.

(3)

- 1.7.2 Why is there such a big difference between the Operating Profit and Profit Before Taxation?

(1)

- 1.7.3 During 2011 the loan was paid off and a new loan was taken out. Do you think it was wise to take out the new loan? Give a reason for your answer.

Yes/no: _____

Reason: _____

(2)

QUESTION 2 BUDGETING

(30 marks, 36 minutes)

Refer to the information sheet for information relating to the accounting records of Beutillicious. Jane, the owner, is concerned that her actual cash inflow is not nearly what she had budgeted for, and her bank account is now in overdraft.

Required:

Consider the budgeted debtors' collection schedule, the actual collections received from debtors for this period and the additional information provided.

2.1 Evaluate debtors' collections by comparing the percentage of debtors expected to settle in the month of purchase and the actual percentage for August.

Expected:
Actual:
Comment:

(6)

2.2 Suggest TWO reasons why the actual collections from debtors are not the same as the budgeted collections.

- _____

- _____

(4)

2.3 Calculate the average debtors' collection period for the three months 1 August to 31 October 2012. (Note: This period is for 90 days, not 365 days).

(5)

2.4 Jane has decided to write off B Miller's outstanding balance of R1 250 from June as a bad debt and blacklist him nationally. Explain whether you think this is ethical business practice.

(2)

2.5 Jane would like to implement stricter credit terms and intends to charge all debtors with unpaid balances interest.

2.5.1 She plans to implement her new strategy with immediate effect. A letter will go out to debtors with their statement that will include the interest charges. Is this ethical? Explain.

(2)

2.5.2 Evaluate her choice of strategy, mentioning TWO other relevant points.

(4)

- 2.6 2.6.1 Complete the cash budget of Beautilicious for November 2012, taking into account her plans to increase sales.

	October 2012 (Actual)	November 2012 (Budgeted)
Cash receipts	45 375	?
Debtors' collections	29 375	*
Cash sales	16 000	15 000
Cash payments	(55 500)	*
Cash purchase of stock	13 000	*
Creditors' payments	15 000	*
Administrative expenses	20 000	20 000
Marketing expenses	7 500	12 500
Cash surplus/deficit	(10 125)	(8 900)
Opening bank balance	8 225	*
Closing bank balance	(1 900)	*

(6)

- 2.6.2 Suggest an additional step she could take to prevent the predicted overdraft at the end of November.

(1)

30

QUESTION 3 RECONCILIATIONS

(20 marks, 24 minutes)

Study the bank statement and cash journals of Bhagaloo Traders (Pty) Ltd together with the additional information for the month ended 29 February 2012.

Required:

3.1 Calculate the correct balance in the bank account on 29 February 2012, showing the amounts to be entered in the business's accounting records.

-12 350

(3)

3.2 Prepare the Bank Reconciliation Statement on 29 February 2012.

Bank balance as per bank statement	2 100
Outstanding deposit	
Outstanding cheques	
Bank balance as per bank account	

(5)

3.3 The financial year end is 29 February 2012, and once the financial statements have been prepared, the accounting records will be audited.

3.3.1 Why will the auditor be interested to see that the Bank Reconciliation Statement has been prepared in Question 3.2?

(2)

3.3.2 What audit evidence can the auditor obtain to verify that cheque 753 to Kelvin Suppliers has actually been issued?

(2)

3.4 After contacting the bank it was discovered that the deposit made on 10 February 2012 was not actually deposited on the 10th. What has happened to it and why should the internal auditor be concerned about this?

(2)

3.5 What control could Bhagaloo Traders implement to ensure that deposits are actually made when they are recorded?

(2)

3.6 Consider the internet transfer into the account of Bhagaloo Traders on 20 February 2012 and invoice 2098. After a careful analysis of the deposit and the invoice which it was settling, you realise you will need to contact the debtor, D Rosevear. Suggest what you will need to discuss with him.

(2)

3.7 Since the year-end is 29 February, how should cheque 755 be treated in the financial statements?

(2)

20

Total: 100 marks