



ACCOUNTING: PAPER II

EXAMINATION NUMBER

--	--	--	--	--	--	--	--	--	--	--	--

Time: 2 hours

100 marks

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY

1. This question paper consists of 12 pages and an Information Booklet of 7 pages (i to 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 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 (30 minutes)	25			
Question 3: Reconciliations (30 minutes)	25			
TOTAL	100			Checker

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

Refer to the Information Booklet for information relating to the accounting records of Illovo Sugar Limited. Note that amounts are given in **millions of rands (Rm)**.

Required:

1.1 Earnings per share for 2011 was 112c, and dividends per share for 2012 were 66c.

1.1.1 Show how the earnings per share for 2012 of 132c was calculated. Base your calculation on 459 863 000 shares.

(3)

1.1.2 Comment on the earnings per share and dividends per share for **2012**, mentioning TWO points.

- _____

- _____

(2)

1.1.3 Explain whether shareholders would be happy with the dividend policy.

(2)

1.2 Sugar production in 2012 was lower than in 2011 as a result of drought conditions. However, revenues increased.

1.2.1 How is this possible, and what might have caused this?

(2)

1.2.2 What do you think the trend of Illovo Sugar Limited's share price will be in the future? Explain why.

(2)

1.3 Consider the assets listed in the Statement of Financial Position (Balance Sheet).

1.3.1 Why is growing sugar cane included as part of the assets of Illovo Sugar Limited?

(2)

1.3.2 Suggest why cane roots are included as non-current assets but growing cane is included as current assets.

(2)

1.4 The current ratio for 2011 was 1,18 : 1.

1.4.1 Calculate the current ratio for 2012.

(3)

1.4.2 How is it possible that both Cash and Cash Equivalents and the overdraft have increased?

(2)

1.4.3 Suggest why the current ratio has improved by more than 50% from 2011 to 2012, quoting figures for the specific item that is the biggest contributor to this improvement.

(2)

1.5 1.5.1 Calculate the return on average shareholders' equity for 2012.

(5)

1.5.2 Explain whether shareholders would be happy with this return.

(1)

1.6 The net asset value per share in 2011 was R12,99.

1.6.1 Explain why shareholders and investors calculate the net asset value of a share.

(2)

1.6.2 Calculate the net asset value per share on 31 March 2012. Base your calculation on 459 863 000 shares.

(3)

1.6.3 There were no new shares issued during the year. Suggest why the net asset value per share has increased in spite of this.

(1)

1.7 The debt : equity ratio for 2011 was 0,17 : 1.

1.7.1 Calculate the debt : equity ratio on 31 March 2012.

(3)

1.7.2 Has the gearing increased or decreased since 2011?

(1)

1.7.3 What two **other** items of information would the directors need to consider when deciding whether or not this change in gearing is a good idea?

(2)

1.7.4 When is it generally a good idea to use borrowed money rather than own money when wanting to expand business operations?

(2)

1.8 The chairperson's report includes the following:

<p>Corporate governance</p> <p>The directors and employees of Illovo strive to ensure that the company is managed in an efficient, accountable, responsible and moral manner and to this end the board subscribes to the principles contained in King III.</p>

1.8.1 As part of their commitment to good corporate governance, 96% of senior management completed the anti-bribery and corruption training. In future, the directors of Illovo might want to invite tenders from potential suppliers for a large supply of vehicles or equipment. What controls should the directors put in place to ensure good governance in this regard? Suggest TWO controls that are likely to be effective.

- ---

- ---

(4)

1.8.2 Give TWO examples (other than the anti-bribery training) of how Illovo subscribes to the principles of King III or good corporate governance, based on the information provided in the Information Booklet.

- _____

- _____

(4)

50

2.3 2.3.1 Calculate the projected mark-up % that is expected to be achieved.

(2)

2.3.2 Why is this not the same as the intended mark-up of 100% on cost?

(1)

2.4 Dean Bunce requires your advice.

2.4.1 Advise him on whether or not the expansion is financially beneficial as well as whether he should buy or rent if the business does expand. Show calculations in support of your suggestions.

(5)

2.4.2 Apart from the information you have used in your calculations, provide two other factors that he will need to take into account if he decides to expand.

- ---

- ---

(2)

QUESTION 3 RECONCILIATIONS

(25 marks, 30 minutes)

Refer to the Information Booklet for information relating to the accounting records of Gorham Stores.

Required:

- 3.1 Prepare the statement that can be sent to P. Jadhu on 31 October 2013 showing her transactions for the last 3 months. Note that her account in the Debtors' Ledger is incomplete, so you will need to take the additional information into account.

GORHAM STORES					
<www.gorhamstores.co.za>					
STATEMENT					
P. Jadhu			31 October 2013		
Date		Details	Debit	Credit	Balance
2013 Aug	12	Invoice 803	3 000,00		3 000,00
	13	Credit note 54		100,00	2 900,00
	18	Receipt 698 (cheque received)		2 900,00	nil
Payment due on 30 November 2013. Interest charged at 12% p.a. on amounts overdue.					

(3)

- 3.2 Complete the Debtors Ledger account of J. Robertson.

J. Robertson DL 26

Date		Details	Debit	Credit	Balance
2013 Aug	10	Invoice 807	3 600,00		3 600,00
Sept	12	Credit note 51 (inv 807)		1 300,00	2 300,00
	20	Invoice 810	3 500,00		5 800,00
	30	Interest on overdue account	23,00		5 823,00
Oct	2	Credit note 57 (inv 810)		2 400,00	3 423,00
	26	Invoice 854	1 700,00		5 123,00

(3)

3.5 In order to prevent cash flow problems, the owner of Gorham Stores is considering doing away with all sales on credit and selling for cash only. Explain what the owner must consider before taking this decision.

(2)

25

Total: 100 marks