



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2018

ACCOUNTING: PAPER II

Time: 2 hours

100 marks

INFORMATION BOOKLET

QUESTION 1 BUDGETS

(33 marks; 40 minutes)

Amzi Manufacturers Ltd is a small company that produces computer components and employs 200 (direct) workers on their production lines.

On 1 February 2019 they will introduce robotic arms (machines) into the production process. As a result, 90 workers will be retrenched*. Their last day will be 31 January 2019. Their severance pay*, calculated as four months of their normal wage, will be paid on 1 February. Ten of the remaining factory workers will be trained and promoted to supervise the production line.

On 1 August 2019, Amzi will introduce more robotic arms. Another 90 direct workers will be retrenched, and another 10 will be trained and promoted to supervise the production line.

The robotic arms can produce three times the number of components the workers produce on the production line. The company is limited by their sales as they only manufacture what they can sell.

Amzi Manufacturers Ltd

Cash budget for the three months January–March 2019

	January	February	March
RECEIPTS			
Cash sales	330 000	A	375 000
Cash received from debtors	1 775 000	B	1 887 000
Loan: Best Bank	5 100 000	–	–
Total receipts	7 205 000	?	2 262 000
PAYMENTS			
Direct labour			
• Normal wages	700 000	350 000	350 000
• Overtime	175 000	–	–
• Severance pay	–	C	–
Direct materials			
• Cash purchases	D	68 000	74 000
• Payments to creditors	60 720	66 240	E
Factory overheads	310 000	F	351 000
Robotic arms (machines)	5 100 000	–	–
Administration costs	?	?	?
Selling and distribution costs	242 000	245 000	249 000
Interest on loan	–	38 250	37 931
Best Bank loan repayments	–	G	G
Provisional income tax	–	551 040	–
Total payments	6 870 720	?	1 198 271
Surplus/deficit	334 280	(1 274 230)	1 063 729
Balance at beginning of month	235 020	?	(704 930)
Balance at end of month	H	?	358 799

Glossary

Retrenched: to lose a job because the business no longer needs the worker.

Severance pay: money the worker receives when he/she is retrenched.

Additional information for the Debtors Collection Schedule

- Cash sales are a set percentage of total sales.
- A percentage of credit sales is collected in the month following the sale.
- A percentage of credit sales is collected in the second month after the sale.
- 20% of credit sales is collected in the third month following the sale.
- There are no bad debts.
- January's sales will be 10% higher than December's sales.

Other additional information

1. The company keeps a constant amount of stock. 60% of direct materials are bought on credit. This is repaid the following month in order to utilise the 8% discount for early payment.
2. There is a 12% monthly increase for factory overheads for February.
3. The full amount of the cost of the robotic arms to be bought in January is R5 100 000. A loan to pay for them will be taken out on 15 January to give the company time to install the robotic arms. The replaced workers' last day will be 31 January, and the robotic arms will take over production on 1 February 2019. The loan repayment and interest for the month will be paid on the 15th of every month, starting on 15 February 2019. The loan will be paid back in equal instalments over 10 years, the expected lifespan of a robotic arm.

QUESTION 2 COMPANY ANALYSIS

(42 marks; 50 minutes)

GROUP STATEMENT OF COMPREHENSIVE INCOME on 30 June

	2017 R'billion	2016 R'billion
Revenue	41,2	35,6
Cost of sales	(21,3)	(17,7)
Gross profit	19,9	17,9
Other operating income	0,3	1,9
Operating expenses	(11,9)	(10,8)
Selling and distribution expenses	(6,7)	(6,0)
Administrative expenses	(2,8)	(2,6)
Other operating expenses	(2,4)	(2,2)
Operating profit	8,3	9,0
Investment income	0,3	0,3
Financing cost	(2,4)	(3,2)
Profit before tax	6,2	6,1
Tax	(1,1)	(1,8)
Net profit for the year	5,1	4,3



Aspen is the largest pharmaceutical company listed on the JSE. The Group has 25 manufacturing facilities at 17 sites on six continents including Latin America, Asia, Europe, Russia, Australia and the USA, exports to over 150 countries, and employs more than 10 000 employees.

Article on Aspen

Aspen and Steinhoff are two multinational companies listed on the JSE. There are similarities between these two companies: they have both acquired/bought a large number of other multinational companies, they both are very highly geared and they have both been the subject of investigation by foreign authorities.

In 2016 Aspen was fined €5,2m by the Italian Competition Authority for hiking cancer drug prices between 300% and 1 500%.

Saad (the founder of Aspen) said that the price rises were fully justified as they had not risen for over 40 years. All drug companies face the same dilemma: the tension between a responsibility to provide life-saving drugs at a reasonable price, and the need for the company to make a profit.

Analysts said that the real issue was not the fine itself but "the potential damage to Aspen's reputation" since it did not disclose the fine until it was in the news. They say Aspen must sharpen its disclosure. For example, it ought to distinguish between what part of its growth is due to acquisitions and what part comes from existing sales.

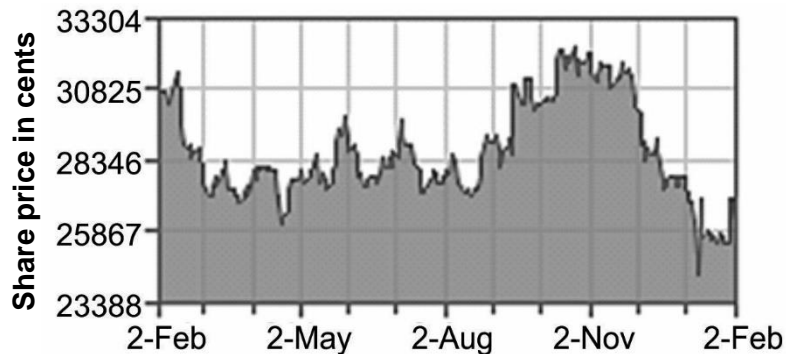
[Summary from <<https://www.moneyweb.co.za>> and <[financialmail.co.za](https://www.financialmail.co.za)>, June 22 – June 28, 2017]

GROUP STATEMENT OF FINANCIAL POSITION
as at 30 June

	2017 R'billion	2016 R'billion
ASSETS		
Non-current assets	78,2	?
Current assets	38,1	37,8
Inventories	13,6	B
Receivables and other current assets	13,6	12,1
Cash and cash equivalents	10,7	C
Total assets	116,3	E
EQUITY AND LIABILITIES		
Shareholders' equity	43,1	D
Retained income	41,1	?
Share capital	1,9	1,9
Share-based compensation reserve ^[1]	0,1	0,1
Non-current liabilities	38,4	40,8
Current liabilities	34,8	A
Borrowings	18,9	?
Trade and other payables	10,3	8,3
Amounts owing to sellers for acquisitions	5,6	1,9
Total equity and liabilities	116,3	?

^[1] As a way to encourage productivity, they have a share scheme for selected managers. Shares are awarded based on the performance of their managers, the business and the growth in the Aspen share price.

GRAPH OF ASPEN'S SHARE PRICE FOR 1 YEAR: February 2017–February 2018
ASPEN 1 Year



RATIOS FOR THE YEAR ENDED 30 JUNE

	2017	2016
Return on shareholders' funds	11,83%	10,12%
Earnings per share	1 123,4 cents	945,4 cents
Dividends per share	287 cents	248 cents
Net asset value	9 453,7 cents	9 320,5 cents
Debt : Equity	?	0,96 : 1
Acid test ratio	0,7 : 1	1,1 : 1
Current ratio	1,09 : 1	1,8 : 1
Debtors collection period	120 days	121 days
Stock turnover rate	?	1,23 times

QUESTION 3 RECONCILIATIONS**(25 marks; 30 minutes)**

Ed's Animal Clinic has been in operation for four months, from 1 August 2018. Their year-end is 30 November. Instead of hiring a qualified bookkeeper, the owner's wife, Nancy, agreed to do the books of the business, but she has made several incorrect accounting entries and is not effectively managing their debtors.

Ed's Animal Clinic buys most of their medical supplies from Vet Med, who is their only creditor.

Errors and omissions relating to November 2018's bookkeeping entries for their creditor, Vet Med:

1. Vet Med granted Ed's Animal Clinic a discount of R57. Nancy credited this R57 in the Creditors Ledger Account of Vet Med.
2. The amount of invoice number 147 on the Creditors Statement was R10 760. This amount was incorrectly shown as R10 670 in the Creditors Ledger.
3. Ed's Animal Clinic returned flea powder costing R160 to Vet Med as it had passed its expiry date. This entry was omitted from their Creditors Statement.
4. Nancy recorded a payment of R7 000 to Vet Med in the Creditors Ledger. This cheque was dated 3 January 2019. This did not appear in the Creditors Statement.
5. Nancy phoned through an order to Vet Med for medical supplies amounting to R1 400. She immediately recorded this order in the Creditors Ledger. However, this entry was not on the statement received from Vet Med. These supplies have not yet been delivered and have not been paid for.

Information relating to the Debtors Age Analysis of Paws Rescue Centre, Ed's Animal Clinic's biggest customer, on 30 November 2018.

Ed's Animal Clinic has agreed to allow their debtors 90 days credit. Interest is charged on amounts owing after that period. Paws Rescue Centre has a credit limit of R30 000.

The following information was incorrectly recorded or omitted from the Debtors Ledger of Paws Rescue Centre:

6. Invoice 60 for R13 200 dated 15 September was omitted.
7. A credit note dated 27 October was shown as R7 500 instead of the correct amount of R5 700.
8. An EFT for R20 020 paid by Paws Rescue Centre on 25 November had not been transferred to the debtors account.
9. Interest of R538 on all accounts still outstanding after 90 days had not been added on 30 November.