

ACCOUNTING: PAPER II

Time: 2 hours

100 marks

INFORMATION BOOKLET

$\frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross Profit}}{\text{Cost of sales}} \times \frac{100}{1}$	$\frac{\text{Net Profit}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net profit before tax + interest expense}}{\text{Average capital employed}} \times \frac{100}{1}$	
Current assets : Current liabilities		(Current assets – inventories) : Current liabilities
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Cost of sales}}{\text{Average inventories}}$
$\frac{\text{Average inventories}}{\text{Cost of sales}} \times \frac{365 \text{ or } 12}{1}$	$\frac{\text{Closing inventories}}{\text{Cost of sales}} \times \frac{365 \text{ or } 12}{1}$	Current assets – Current liabilities
Non-current liabilities : Shareholders' equity		Total assets : Total liabilities
$\frac{\text{Profit after tax}}{\text{No. shares in issue}}$		$\frac{\text{Ordinary share dividends}}{\text{No. shares in issue}}$
$\frac{\text{Fixed cost}}{\text{(selling price per unit – variable cost per unit)}}$		$\frac{\text{Total ordinary shareholders' equity}}{\text{No. shares in issue}}$

QUESTION 1 ANALYSIS OF PUBLISHED FINANCIAL STATEMENTS**Information relating to Edcon Holdings (Pty) Ltd**

Edcon (Pty) Ltd is the leading clothing, footwear and textiles (CFT) retailing group in South Africa trading through a range of retail formats. The first Edgars store was opened on 6 September 1929 in Joubert Street, Johannesburg. Since then, the Company has grown to ten retail brands trading in over 1000 stores in South Africa, Botswana, Namibia, Swaziland and Lesotho.

[<www.edcon.co.za>]

**Extracts from the annual report for the year ended 31 March 2012****Extract from the Independent Auditor's Report****Director's Responsibility for the Financial Statements**

The Group's directors are responsible for the preparation and fair presentation of these Group Financial Statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of the Group Financial Statements are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Group Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Group Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence, about the amounts and disclosures in the Group Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Group Financial Statements, whether due to fraud or error.

Internal control

The Board is responsible for our systems of financial and operational internal control and the executive directors are relied on to ensure that management continues to maintain accounting records and systems of internal control that are appropriate to the achievement of our business strategies.

Financial Statements and Accounting Practices

The directors are of the opinion, based on the information and explanations given by management and the internal auditors that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the audited group financial statements. However, any system of internal financial control can provide only reasonable, and not absolute assurance against material misstatement or loss.

Statement of Income (Income Statement) for the year ended 31 March

	2012 Rm	2011 Rm	2010 Rm
Revenue – retail sales / Sales	24 664	22 716	21 888
Cost of sales	(15 642)	(14 332)	(13 848)
Gross profit	9 022	8 384	8 040
Other income	565	490	473
Operating expenses	(7 114)	(6 458)	(6 393)
Operating profit	2 473	2 416	2 120
Financing costs / Interest expense	(4 468)	(4 620)	(3 544)
Loss before taxation	(1 995)	(2 204)	(1 424)
Taxation	(4)	561	370
Loss for the period	(1 999)	(1 643)	(10 054)

Statement of Financial Position (Balance Sheet) on 31 March

	2012 Rm	2011 Rm	2010 Rm
ASSETS			
Non-current assets	21 675	21 193	2 663
Current assets	14 679	14 136	12 510
Inventories	3 170	2 626	2 402
Trade and other receivables	10 A	9 195	8 983
Cash and cash equivalents	B	2 315	1 125
Total assets	36 354	35 329	33 768
EQUITY AND LIABILITIES			
Shareholders' equity	3 527	4 760	5 752
Non-current liabilities	25 137	33 454	29 809
C	8 349	5 299	5 548
Total equity and liabilities	36 354	35 329	33 768

Statement of Cash Flows (Cash Flow Statement)

	2012 Rm	2011 Rm	2010 Rm
Cash flows from operating activities	D	1 325	1 777
Operating cash inflow before changes in working capital	3 691	3 622	3 352
Working capital movement	(1 603)	(69)	952
Cash inflow from operating activities	2 088	3 553	4 304
Finance costs / Interest paid	(2 928)	(2 131)	(2 159)
Taxation paid	(145)	(97)	(368)
Cash utilised in investing activities	(694)	(374)	(353)
Cash effects of financing activities	447	250	(650)
(Decrease) / increase in cash and cash equivalents	(1 232)	1 201	774
Cash and cash equivalents at the beginning of the period	E	1 125	379
Cash and cash equivalents at the end of the period	1 083	2 315	1 125

Notes to the financial statements for the year ended 31 March

	2012	2011	2010
	Rm	Rm	Rm
10. Trade and other receivables			
Trade receivables	10 867	9 586	9 825
Provision for impairment of receivables/Provision for bad debts	(865)	(733)	(1 126)
Net trade receivables/debtors	10 002	8 853	8 699
Other receivables	424	342	284
	10 426	9 195	8 983

Sales and marketing

We introduced one of the market's first loyalty programs, which allowed loyalty card holders to accumulate points for purchases made. The Thank U rewards programme was launched across all of our stores in February 2012, migrating existing card customers to the programme and recruiting new customers in store. By the end of fiscal year 2012, we had 6 million plus members, with over 60% of our sales earning Thank U points. The Thank U programme provides us with a strategic platform to better understand our customer needs from which we will implement major in store promotions and provide customers with personalised offers through digital channels.

Additional information:

Stock is replaced by the following retailers on average as indicated below.

Shoprite	42 days
Pick 'n Pay	26 days
Truworths	55 days
Woolworths	41 days

QUESTION 2 BUDGETING**Information relating to Koala Clothing**

Koala Clothing is a South African business that imports upmarket designer clothing from Australia and then sells them to clothing retailers in South Africa. Any stock not bought by them is sold directly to the public in a small shop attached to the storage warehouse.

- Koala Clothing has been lucky to get their stock into two major retailers, Truewomans and Forshe's
- Mike, the owner of Koala Clothing, is concerned about the cash flow of the business and the fact that the value of the rand has dropped 20% in the last two months.

The following projections have been made on 30 September 2013.

1. The schedule below is based on the assumption that no bad debts will be written off. Debtors are expected to settle their accounts within 30 days.
2. A fixed base stock of R700 000 is maintained and stock is replaced in the month it is sold. Stock is marked up by 50% on the cost price.
3. 30% of stock is bought for cash, the remainder being bought on credit. Supplier's terms of 60 days are adhered to.
4. R600 will be paid to MWeb for internet costs in October. R200 of this is to settle the amount owing on 30 September 2013.
5. They have equipment costing R220 000. They have agreed to trade-in an old computer (with a cost price of R 15 000; book-value of R4 500) on 1 October 2013 for R3 600. They will buy a new computer for R12 600, and pay the amount owing in cash the same day. Equipment is depreciated by 20% on cost.

The following Debtors Collections Schedule has been prepared by the accountant for the next three months of October, November and December.

	Total sales	Credit sales	October	November	December
August	315 000	283 500	56 700	-	-
September	320 000	288 000	218 880	57 600	-
October	371 250	334 125	-	253 935	66 825
November	450 000	305 000	-	-	231 800
December	520 000	468 000	-	-	-
			275 580	311 535	298 625

The following debtors' transactions for September 2013 must still be analysed:

- 18 Sept Elegants was given a 10% credit for shop-soiled goods sold to them on 30 August for R24 000.
- 20 Sept Truewomans paid back R60 000 of what they owed.
- 30 Sept An invoice for R2 500 made out to The Designers was incorrectly posted to the Debtors' Ledger of Elegants.

The Designers is a relatively new debtor who started buying from Koala Clothing in June. The other debtors have all been customers for a number of years.

3. Their January 2014 Cash Journals

Cash receipts journal of Khaya Lala – January 2014

CRJ12

Doc	Day	Details	Fol	Analysis of receipts	Bank	Current income	Debtors control	Sundry accounts		
								Amt	Details	F
Rec 122	5	Cash		5 300	5 300	5 300				
Rec 123	14	Cash		4 000		4 000				
Rec 124	17	Cash		6 000	10 000	6 000				
EFT	19	P Stride			8 200		8 200			
EFT	20	T Weldon			7 500		7 500			
Rec 125	22	Cash		6 830	6 830	6 830				
Rec 126	29	Cash		7 500	7 500	7 500				
					45 330	29 630	15 700			

Cash payments journal of Khaya Lala – January 2014

CPJ9

Doc	Day	Name of payee	Fol	Bank	Communication costs	Food	Sundry accounts		
							Amount	Details	F
EFT	12	Vodacom		550	550				
Ch 217	25	Pick n Pay		9 500		9 500			
Ch 218	30	Cash		12 000			12 000	Wages	
EFT	31	Z Nkosi		17 500			17 500	Salaries	
				39 550	550	9 500	29 500		

Note: No errors were made by the Bank. Any discrepancies, errors or omissions were made by Khaya Lala.