

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 RECONCILIATION

(20 marks, 25 minutes)

Thabo's Café is situated in the south of Johannesburg. Thabo sells basic food items to customers for cash only; however, he does buy stock for cash and on credit. Recently Thabo decided to enter into a credit arrangement with CBS (Conti Bread Suppliers), his bread supplier, on 1 June 2015.

Thabo does not employ any other staff. He is solely responsible for managing the business's bank account and all other accounting records. He keeps a basic record of all his financial information. Thabo received his statement of account from CBS for August 2015. On closer inspection he found discrepancies between the statement received from CBS and his internal creditors' records.

Statement received from CBS:

				
Thabo's Café Mr Thabo Mulefe Side road / Vivienne Street Johannesburg 2091 (011) 601 5442			Date of Statement: 31 August 2015 Account Number: XX 21	
Date	Details	Debit	Credit	Balance
01/08/15	Balance b/f			865,40
04/08/15	Invoice B55	116,25		981,65
05/08/15	Credit Note 245		31,66	949,99
07/08/15	Receipt 72 – payment Thank You		300,00	649,99
07/08/15	Discount		24,00	625,99
12/08/15	Invoice B82	1 340,67		1 966,66
14/08/15	Invoice B91	256,13		2 222,79
20/08/15	Receipt 99 – payment Thank You		250	1 972,79
26/08/15	Invoice B121	184,56		2 157,35
27/08/15	Credit Note 288		84,22	2 073,13
Debtors' Age Analysis of outstanding debt				
90 + days	60 days	30 days	Current	
Credit Terms: <ul style="list-style-type: none"> • All debt to be settled within 30 days after the date of the statement (i.e. the month after purchase). • An 8% settlement discount on payments is given if payments are made within the month of purchase. 				

Additional Information:

1. Of the balance of R865,40 owing to CBS by Thabo's Café on 01/08/15, R684 was from June purchase and the rest from July.
2. Credit note 245 on 05/08/15 was for goods bought on 04/08/15.
3. The balance as per Thabo Café's creditors' ledger is R1 034,94 as at 31/08/15. After careful comparison of the statement, the Creditors' Control account and CBS's creditors' ledger in the books of Thabo's Cafe, **the following problems were found on the statement:**
 - Invoice B82 in the statement was not for credit purchases made by Thabo's Café.
 - The discount allowed on 07/08/15 should not have been given.
 - The actual value of the credit note allowed on 27/08/15 is R94,18.

The following problems were discovered in the books of Thabo's Café:

- Invoice B55 was incorrectly recorded in the books as R416,25.
- The debit note on 05/08/15 was entered as R43,22. This is not the correct value of the credit note which was received from CBS.
- The cash payment on 20/08/15 and invoice B121 were only entered into the Creditors' Ledger. They were not entered into the appropriate journals.

QUESTION 2 ANALYSIS OF PUBLISHED FINANCIAL STATEMENTS
(50 marks, 60 minutes)

PART A

The following information has been adapted from the annual published financial statements for the year ending 31 March 2015 of Eskom Holdings SOC Limited (Eskom).

Eskom is South Africa's primary electricity supplier. In terms of the memorandum and articles of association, the authorised share capital is 1 000 shares of R1 each. 1 share is in issue, at R1 and belongs to the Government of the Republic of South Africa, represented by the Department of Public Enterprises (DPE). All unissued share capital is also under the DPE's control.

The company generates, transmits and distributes electricity through municipalities to sectors within South Africa as well as to others within the Southern African Development Community region.

Extract from the published financial statements section entitled:

Ensuring Eskom's financial sustainability

Eskom has sufficient liquidity to meet its current liability requirements. Eskom remains confident that the remaining funding for the current capacity expansion programme (which includes wind turbines) can be raised, but this must be balanced against the negative outlook from the rating agencies. **Accounts receivable are mostly owed by municipalities, who ensure legal access to electricity for all paying people residing within its boundaries.**

Extract from the Independent Auditors Report

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Eskom Holdings SOC Limited as at 31 March 2015, in accordance with International Financial Reporting Standards and the Companies Act of South Africa.

Financial Indicators:	Targets	Actual	Actual
	2017/2018	2014/2015	2013/2014
Debt Equity	3.70 : 1	2.60 : 1	2.06 : 1
Current Ratio	–	0.88 : 1	0.54 : 1
Acid Test Ratio	–	?	0.26 : 1
Debtors average collection period (in days)	–	132 days	128 days
Solvency Ratio	1.24 : 1	?	1.34 : 1
Gross Profit on turnover	–	49.96%	52.83%
Operating Profit on turnover		10.03%	8.50%

Condensed group income statement

for the year ended 31 March

	2015 Rm	2014 Rm
Revenue	?	128 775
Primary energy cost	(68 688)	(60 120)
Energy losses (technical / non-technical)*	(1 124)	(628)
Gross Profit	69 694	68 027
Other Income	962	1 126
Other Operating Expenses	(56 658)	(58 213)
Operating Profit before net finance (cost)/income	13 998	10 940
Net finance (cost)/income	(4 772)	(3 901)
Finance income	2 475	1 985
Finance costs	?	(5 886)
Net profit before tax	9 226	7 039
Income Tax	(2 137)	(1 856)
Profit for the year	7 089	5 183

*These losses include losses due to illegal connections and meter tampering

Condensed group statement of financial position

at 31 March

	2015 Rm	2014 Rm
Assets		
Non-current assets	439 869	378 775
Property, plant and equipment	430 807	370 358
Investments	318	296
Future fuel supplies	8 744	8 121
Current assets	65 124	53 249
Inventories	28 870	27 704
Trade and other receivables	16 578	14 925
Cash and cash equivalents	19 676	10 620
Total assets	504 993	432 024
Equity		
Capital and reserves attributable to owner	119 784	109 139
Liabilities		
Non-current liabilities	310 915	224 446
Loans	310 915	224 446
Current liabilities	74 294	98 439
Trade and other payables	54 036	76 259
Loans	20 258	22 180
Total liabilities	385 209	322 885
Total equity and liabilities	504 993	432 024

PART B Problem Solving

This section is NOT related in any way to Part A.

Falcon Ltd. and Microdot Ltd. are both telecommunications companies within South Africa who are listed on the Johannesburg Stock Exchange. Both companies supply networks, telephones, mobile phones and Internet-linked computers to households and the business market.

Overview of Companies:

<p>Falcon Ltd. Established in 2001. An existing, loyal customer base has ensured that a stable Net Profit margin is achieved annually. The company is in strong financial health. No new shares have been issued in the past 2 years, but due to excess funds, shares have been repurchased in the last financial year.</p>	<p>Microdot Ltd. Established in 2013. Substantial expansion has been under way due to the demand from customers. Funding has been sourced through loans and issuing of shares. In the past year 300 000 shares were issued.</p>
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Ratio analysis as at the end of the last two financial periods ending in 2015 and 2014:

Falcon Ltd.			Microdot Ltd.		
Ratio	30 June '15	30 June '14	Ratio	31 Aug '15	31 Aug '14
EPS	5 620 c	4 882 c	EPS	889 c	720 c
DPS	2 097 c	1 855 c	DPS	192 c	130 c
NAV	9 064 c	8 240 c	NAV	3 694 c	3 212 c
Market Value	9 746 c	9 522 c	Market Value	3 546 c	2 987
ROSHE	22.68%	22.43%	ROSHE	17.65%	16.11%
Solvency	1.12 : 1	1.35 : 1	Solvency	0.56 : 1	0.48 : 1
Turnover	R 56.83m	R52.33m	Turnover	R4.61m	R3.8m
Net Profit Margin	4.65%	4.58%	Net Profit Margin	3.67%	2.31%

QUESTION 3 ASSET MANAGEMENT (30 marks, 35 minutes)

Fresh Store is a small retail shop based in the centre of Cape Town. All goods are sold for cash. They have recently become concerned over possible stock losses of Duracell AA 6-pack battery units on one of its shelves that is situated at the back of the store. They have another shelf at the front of the store, by the tellers, that stocks the similar Energizer AA 6-pack battery units. The price of these batteries had recently increased greatly.

Images below represent the products mentioned.



Note:

- They use the perpetual inventory system for recording their stock and also the FIFO method of stock valuation.
- They maintain a **constant stock level** of 300 battery pack units on each shelf.
- In order to do this, twice during the month (at the end of the 15th and 30th day of the month), they count how many units they have left on each shelf and then they buy units to replace the balance.

Below is information relating to the shelves in question, for the period 1 to 30 June 2015:

	Shelf at the back of the store Duracell 6-pack unit		Shelf at the front of the store Energizer 6-pack unit	
	Units	R	Units	R
Opening Stock 1 June 2015	300 units at R32 each	9 600	300 units at R32 each	9 600
Purchases				
- 15 June	228 units at R42 each	9 576	280 units at R42 each	11 760
- 30 June	286 units at R48 each	13 728	270 units at R48 each	12 960
Donations of stock				
- 16 June	–	–	50 units at cost	?
Closing Stock 30 June 2015	300 units	?	300 units	?

All the AA 6-pack Duracell and Energizer units are sold at R78,00 each. The following table shows the number of units actually sold as per the cash register tapes.

For the period of:	Duracell	Energizer
	Units	Units
1 – 15 June	212	278
16 – 30 June	264	215

LAY-OUT: FRESH STORE

