



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 8 pages (i to viii) 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 decimals 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: Reconciliation (25 minutes)	20			
Question 2: Analysis of Published Financial Statements (60 minutes)	50			
Question 3: Asset Management (35 minutes)	30			
TOTAL	100			Checker

QUESTION 1 RECONCILIATION

(20 marks, 25 minutes)

Refer to the information of Thabo's Café and its creditor, Conti Bread Suppliers, in the Information Booklet.

1.1 Explain why Thabo's Café's Current ratio is unlikely to change as a result of them buying stock on credit from CBS, while their Acid Test ratio could change.

(2)

1.2 Explain the advantage, both in terms of liquidity and profitability, of Thabo's Café's decision to buy on credit from CBS.

(2)

1.3 Thabo does not understand why reconciliations are important. Explain to him the purpose of reconciliations and name two areas, other than debtors and creditors reconciliations, where a business would find reconciliations helpful.

The purpose of doing reconciliations:

Two other areas where a reconciliation could be done:

- ---
- ---

(3)

1.4 Refer to the Debtors' Age Analysis on the Statement received from CBS.

1.4.1 Why does the statement refer to the '**Debtors'** Age Analysis' if this is a statement received from Thabo's Café's creditor?

(1)

1.4.2 CBS has not completed the Debtors' Age Analysis. Complete it for them based on the statement received, **before** taking into consideration the additional information.

Debtors' Age Analysis of outstanding debt			
90 + days	60 days	30 days	Current

(3)

1.5 Thabo is concerned that the statement received from CBS indicates that he owes more than what he anticipated. He has asked you to assist him with this problem and reconcile the statement received with his ledger account for August 2015. (Assume that all entries prior to August were done correctly.)

1.5.1 Calculate the corrected balance on the statement received.

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(5)

1.5.2 Correct the Creditors' Ledger in the books of Thabo's Café.

Balance as per ledger on 31/08/2015	R1 034,94

(3)

1.5.3 Explain why Thabo's Café should not have been given the R24 discount on 07/08/15.

(1)

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

PART A

2.1 For each of the following statements, circle the most correct answer. You should circle only one answer.

2.1.1 Eskom is considered to be a _____ company.

- A Public
 - B Private
 - C Non-Profit
 - D Closed
- (1)

2.1.2 The document required to form a company is the:

- A Directors' report
 - B Auditors' report
 - C Memorandum of Incorporation
 - D Corporate Governance report
- (1)

2.1.3 Another name used for the Income Statement is:

- A Statement of future income
 - B Statement of comprehensive income
 - C Statement of summarised profits
 - D Statement of operating costs
- (1)

2.1.4 As per the cash flow statement, investing activities refer to ...

- A sourcing cash through loans or the sale of shares
 - B purchasing and disposing of tangible assets that generate a return
 - C the inflow and outflow of cash linked to business operations
 - D the movement of cash linked to tax and dividends payments
- (1)

2.1.5 The opinion expressed by the independent auditors in their report to Eskom is:

- A Unqualified
 - B Unqualified with exception/Disclaimer
 - C Qualified
 - D Reserved
- (1)

2.1.6 Who is responsible for the preparation and fair representation of the financial statements of a company?

- A Shareholders
 - B External Auditors
 - C Senior Financial Management
 - D Company Directors
- (1)

2.2 Public Companies need to publish three financial statements. Explain why it is important to consider all three financial statements when analysing a company's financial reports.

(3)

2.3 Refer to the Extract from the Independent Auditors Report. Explain the importance of each of the three sections below to the readers of this report.

2.3.1 'These financial statements present fairly, in all material respects'

(1)

2.3.2 'In accordance with International Financial Reporting Standards'

(1)

2.3.3 'And the Companies Act of South Africa'

(1)

2.4 Considering that the cost of electricity to the consumer increased by 35%, and the amount of electricity sold in 2015 is 0.6% more than in 2014, comment on why you think the Gross Profit margin decreased in 2015 from 2014.

(2)

2.5 Refer to the extract entitled 'Ensuring Eskom's financial sustainability' and the Condensed group income statement when answering this question.

2.5.1 The non-technical loss of energy has increased drastically since 2014. Eskom has discovered an illegal connection that supplies an entire township with electricity. Considering that access to electricity is a human right, what do you suggest Eskom do to solve this problem?

(2)

2.5.2 Explain, with reference to the debt owed by municipalities, how the illegal connections of electricity impact on Eskom's cash flow and liquidity.

(2)

2.5.3 Referring to the relevant financial indicators, do a calculation and comment on whether you agree with the liquidity analysis mentioned in the extract titled 'Ensuring Eskom's financial sustainability'.

Calculation:

(5)

2.6 Repairs and maintenance in 2015 amounted to R17 billion. Calculate what percentage of total operating expenses this is and explain why it might be so high.

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(2)

2.7 It is calculated that executive directors' salaries for 2015 increased by 28.87% since 2014. Comment on this increase, in terms of Eskom's profitability, by calculating or extracting appropriate numbers from the published annual financial statements.

(3)

2.8 Explain why 'future fuel supplies' is found under Non-current assets in the Statement of financial position.

(1)

2.9 It is given that Eskom's cost of borrowing is averaged at 6.7%:

2.9.1 Provide workings to show that Return on Capital employed is 4.31% for the 2015 year-end.

(6)

2.9.2 Comment on Eskom's gearing as at 31 March 2015 in the light of their solvency, as well as their forecasted risk. (Return on Capital employed for 2014 was 2.21%.)

(4)

PART B – Problem Solving

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

You have been given R50 000 to purchase shares on the stock exchange and, with the assistance of a stock broker, you have narrowed down your choices to either Falcon Ltd. or Microdot Ltd. This money was given to you on the condition that it will remain in a form of investment until your 30th birthday, so you would like to consider long-term investment options. Based on the information provided you need to select which company you will invest in, and substantiate your answer by calculating or quoting, and discussing five (5) ratios in detail, in the bullet points provided below.

- _____

- _____

- _____

- _____

- _____

Your final decision: _____ (11)

QUESTION 3 ASSET MANAGEMENT

(30 marks, 35 minutes)

Refer to the Information Booklet for information relating to Fresh Store.

3.1 Define the perpetual inventory system **and** explain why Fresh Store might use it.

(2)

3.2 Calculate the total **number of battery 6-pack units** that were lost/stolen during the first half, and the second half of the month.

Date	Duracell units	Energizer units	Total
From 1 to 15 June			
From 16 to 30 June			

(5)

3.3 The store manager is unaware of whether the value of the stock lost/stolen calculated above is acceptable or of concern. He was advised by the asset manager to apply the concept of materiality and leave this information off his report to the finance department:

3.3.1 Explain what the asset manager was referring to when he spoke of the concept of materiality in this regard.

(1)

3.3.2 Comment on whether you agree with this concept being applied in this case.

(1)

3.4 Look at the diagram of the shop layout in the Information Booklet:

3.4.1 Explain who you think is most likely to have stolen the stock and why.

(2)

3.4.2 Referring to your answer in Question 3.4.1, explain in detail three control measures you would put in place to stop loss of stock through theft. Keep in mind that this is a small business.

1. _____

2. _____

3. _____

(3)

3.5 **Fifty packs (units)** of Energizer 6-pack batteries were donated to Xolweni High School on 16 July. The store owner decided to write this off as part of his personal drawings for the month. Many of the students had no way to complete their homework or study for tests as a result of power outages and had only battery-powered lamps at their disposal.

3.5.1 Calculate the cost of the 50 packs that were donated, based on the FIFO and weighted average methods. (It can be assumed that 2 units of Energizer 6-pack batteries were stolen between 1 and 15 June.)

FIFO	WEIGHTED AVERAGE

(7)

3.5.2 The store owner who donated the Energizer AA batteries has instructed the finance department to change the method of stock valuation for the **donations** of stock to the Weighted Average method. Comment on how ethical this decision is.

(1)

3.6 Using the FIFO method:

3.6.1 Calculate the cost of sales of Duracell 6-pack battery units between 1 and 15 June 2015.

(1)

3.6.2 The stock turnover rate of Duracell 6-pack battery units is 0,63 times between 1 and 15 June. Show how this amount was calculated.

(6)

3.7 Comment on whether company policy of buying stock of Duracell AA 6-pack batteries twice a month is sufficient.

(1)

30

Total: 100 marks