



NATIONAL SENIOR CERTIFICATE EXAMINATION
SUPPLEMENTARY EXAMINATION – MARCH 2018

ACCOUNTING: PAPER II

Time: 2 hours

100 marks

INFORMATION BOOKLET

QUESTION 1 COMPANY ANALYSIS

(40 marks; 48 minutes)

TRUWORTHS

STATEMENT OF FINANCIAL POSITION on 30 June

	2016 Rm	2015 Rm
ASSETS		
Non-current assets	7 996	1 857
Property, plant & equipment	2 205	1 058
Goodwill	1 805	358
Intangible assets	3 631	229
Other non-current assets	355	260
Current assets	9 065	?
Inventories	2 072	?
Trade and other receivables	5 281	4 637
Cash and cash equivalents	1 712	?
Total assets	17 061	?
EQUITY AND LIABILITIES		
Total equity	8 625	7 504
Non-current liabilities	5 846	?
Current liabilities	2 590	1 460
Total liability and equity	17 061	?

**Additional Information
relating to Office:**

Truworhts acquired Office, a UK fashion footwear chain, in December 2015. It has 110 stores in the UK, Ireland and Germany.

Goodwill: The established reputation of a business regarded as a quantifiable asset and calculated as part of its value when it is sold.

Trademarks and computer software are both intangible assets.

Office only has cash sales (not credit), but came with high creditors.

**STATEMENT OF COMPREHENSIVE INCOME
for the year ending 30 June**

	2016 Rm	2015 Rm
Sales	16 654	11 290
Cost of sales	(7 837)	(5 060)
Gross profit	8 817	6 230
Other income	274	259
Trading expenses	(6 240)	(4 116)
Depreciation	(345)	(221)
Employment costs	(1 916)	(1 186)
Rent expense	(1 822)	(1 102)
Trade receivable costs	(1 092)	(960)
Other operating costs	(1 065)	(674)
Trading profit	2 851	2 373
Interest received	1 288	1 063
Dividends received	15	7
Finance costs	(208)	(6)
Profit before tax	3 964	3 437
Income tax	(1 129)	(977)
Net profit for the year	2 817	2 460

Extract from Director's Report

Our biggest challenge has been managing the impact of the new Credit Act. Truworhts supports the principle of these regulations which are aimed at ensuring that consumers are not over-indebted through unaffordable credit agreements.

However, we believe that the requirement to provide documented proof of income (either bank statements or salary/wage slips) for new credit agreements is unreasonably restricting our ability to open new accounts and to grow credit sales, while also denying access to credit to many otherwise creditworthy customers.

Article on debt in South Africa

The poor state of the economy is clearly visible in our growth rate showing that a growing number of consumers are getting over-indebted.

"Of 19 million credit active consumers in South Africa, 11 million had impaired credit records, three months plus in arrears. More than half of all consumers owe 75% or more of their income to creditors", Debt Rescue said.

Debt Rescue identified three areas where outstanding debt is most prevalent among South Africans:

- Personal loans (94%)
- Credit cards (84%)
- Store cards (76%)

"One of the items that we consider to be an essential – a home mortgage – came in stone last at 19%," Roets said.

[Source: <<https://businesstech.co.za>>]

		2016	2015
Traded share price on JSE			
Period-end	(cents per share)	8 769	8 649
High	(cents per share)	11 250	9 732
Low	(cents per share)	7 504	6 489
Share performance			
Net Asset Value	(cents per share)	2 032	1 791
Dividends declared	(cents per share)	452	405
Earnings per share	(cents per share)	667	591

RATIOS

	2016	2015
Return on capital employed	37,64%	44,13%
Return on shareholders' funds	34,93%	32,78%
Debt : equity ratio	0,68	0,03
Current ratio	3,5 : 1	5 : 1
Acid test ratio	2,7 : 1	4,25 : 1
Debtors collection period	106 days	134 days
Stock turnover rate	3,26 times	4,71 times

Extract from the King Code:

The Audit Committee should be responsible for overseeing of Internal Audit.

QUESTION 2 RECONCILIATIONS

(30 marks; 36 minutes)

This question has **three parts**, all related to a panel beating business called A Smooth Finish, owned by Caylum Descamps. Betty runs the office. She orders parts, does the payments (though Caylum authorises the payments against the invoices), and she does the bank reconciliation at the end of the month. She does not do a creditors' reconciliation as she says it is a waste of time.

PART A

The following statement is from one of A Smooth Finish's creditors, Precision Parts Company.

PRECISION PARTS COMPANY			PO Box 677 Boksburg 0180		
			Tel: 012 758 0773		
			31 October 2017		
A Smooth Finish		Credit limit:	R50 000		
Postnet Suite 1099		Payment terms:	30 days		
Silverton 0070		Interest on overdue accounts:	10% per month		
DATE			Debit	Credit	Amount
July 2017	15	Invoice 174	12 000		12 000
Aug 2017	1	Receipt 99		5 700	6 300
		Discount allowed		300	6 000
	4	Invoice 181	9 000		15 000
	6	Credit note 27		1 200	13 800
	29	Invoice 192	3 500		17 300
Sept 2017	3	Receipt 108		3 500	13 800
	12	Invoice 201	4 800		18 600
	30	Invoice 207	5 900		24 500
		Interest	250		24 750
Oct 2017	14	Invoice 219	6 200		30 950
	31	Interest	1 380		32 330
90 days		60 days	30 days		Current
?		?	R10 950		R7 580

PART B

Bank Reconciliation Statement on 31 October 2017

Balance as per bank statement	– 6 464
Outstanding deposit (13 October 2017)	12 430
Outstanding deposit (20 October 2017)	15 550
Outstanding cheques:	
No. 111 (dated 17 April 2017)	5 600
No. 152 (dated 23 November 2017)	4 360
No. 153 (dated 5 December 2017)	6 700
Balance as per bank account	?

PART C

A Smooth Finish's October 2017 Bank Statement:



Certified Bank

PO Box 314445
MARSHALLTOWN 2710

31 October 2017

A Smooth Finish
Postnet Suite 1099
Private Bag X10
Silverton 0070

Statement No. 01
VAT Reg No.

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BANK STATEMENT / TAX INVOICE

CHEQUE ACCOUNT

ACCOUNT NUMBER 41 467 987 9

Details	Debit	Credit	Date	Balance
BALANCE BROUGHT FORWARD			09 30	2 430.00
EFT TO PRISTINE PARTS COMPANY	9 400.00		10 01	-6 970.00
CASH DEPOSIT		7 400.00	10 01	430.00
CASH DEPOSIT FEE	148.00		10 01	282.00
INTEREST APPLICABLE	8.00		10 05	274.00
CHEQUE 147	3 054.00		10 05	-2 780.00
EFT TO CITY OF TSHWANE	4 300.00		10 07	-7 080.00
CHEQUE 150	6 120.00		10 07	-13 200.00
CASH DEPOSIT		17 000.00	10 25	3 800.00
CASH DEPOSIT FEE	340.00		10 25	3 460.00
EFT TO PRISTINE PARTS COMPANY	6 800.00		10 28	-3 340.00
CHEQUE 148	2 800.00		10 28	-6 140.00
CASH DEPOSIT		9 200.00	10 28	3 060.00
CASH DEPOSIT FEE	184.00		10 28	2 876.00
EFT TO PRISTINE PARTS COMPANY	11 300.00		10 30	-8 424.00
DIRECT DEPOSIT BY N. STEELE		2 000.00	10 30	-6 424.00
CASH DEPOSIT FEE	40.00		10 30	-6 464.00

Other Information:

- The deposit made on 1 October was recorded in A Smooth Finish's CRJ on 22 September 2017.
- The deposit made on 25 October was recorded in the CRJ on 29 September 2017.
- The deposit made on 28 October was recorded in the CRJ on 6 October 2017.

QUESTION 3 BUDGETS

(30 marks; 36 minutes)

A Clean Sweep is a cleaning business owned by Ella Broom. She runs five cleaning teams and has contracts to clean residential houses as well as office blocks. Each team is responsible for certain contracts that they then clean on a daily/weekly or monthly basis. Every team has a vehicle and a set of cleaning equipment allocated to them.

PROJECTED INCOME STATEMENT FOR A CLEAN SWEEP

	November 2017	December 2017	January 2018
Service income	C	D	763 182
• Residential services	A	?	?
• Commercial services	B	?	?
Cost of services		134 600	142 676
• Residential services		26 920	?
• Commercial services		107 680	?
Gross profit		572 050	620 506
Operating expenses		(522 110)	(534 610)
Wages and contributions		323 680	F
Rent expense		E	9 810
Advertising		?	G
Vehicle expenses		45 750	45 750
Insurance		7 500	H
Depreciation		21 900	21 950
Office expenses		?	I
Bad debts (5% of residential services)		6 710	6 961
Other		?	?
Operating profit		49 940	85 896
Interest expense		(3 455)	(3 315)
Net profit		46 485	82 581

Additional information

- 60% of the services are paid for in cash in the month of the service being offered.
- The remaining amount is collected as follows:
 - 25% of residential and commercial services in the month following the services;
 - 15% of commercial services in the 2nd month; and
 - 10% of residential services.
 - 5% of residential services are also written off as bad debts in the 2nd month following the service.
- They expect that their services will be in the ratio of 4 : 1 between residential and commercial.
- A Clean Sweep uses a mark-up of 425% on cost of services.
- The rent expense is increasing by 9% on 1 January.
- The wages and contributions expense is made up of the gross wages and contributions. The contributions are:
 - pension contribution (15%)
 - medical aid contribution (20%)
 - UIF contribution (1%)
 - The pension contribution is going up to 18% of the gross wages in January.
 - The workers will only be getting their increase in March.
- Anna, a worker, has requested that part of her December wage (R4 000) not be given in December, but given to her with January's wage. Ella agreed to this.
- A Clean Sweep is planning to buy a new industrial vacuum cleaner at the beginning of January for R7 500 cash. The % rate of depreciation remains the same throughout the budgeted period.
- Depreciation is calculated at 12% per annum on vehicles.
- A six-month contract was taken out to advertise in a magazine starting on 1 November 2017. The total amount of R12 000 was paid for this contract on 1 November 2017. The other advertising is paid by monthly debit orders to a total of R13 000 per month.
- There will be a 10% increase for insurance on 1 January.
- A Clean Sweep is planning to buy stationery worth R3 250 on account with The Book Co in January. Stationery is classified as an office expense. All the other office expenses are cash.
- Some vehicle expenses are paid for with cash and the rest are put on the account at Tip Top Garage. The ratio of cash to credit spending on the vehicle expenses is 1 : 5.
- The Book Co and Tip Top Garage are the only creditors that A Clean Sweep has. Ella pays both accounts on the last day of every month.

An extract from the CASH BUDGET FOR A CLEAN SWEEP

	January 2018
Payments	(???)
Cleaning materials	145 900
Wages and contributions	J
Advertising	K
Rent expense	9 810
Payment to creditors	L
Vehicle expenses	M
Insurance	8 250
Office expenses	24 550
Other	??
Vacuum cleaner	7 500
Surplus for the month	167 772
Balance at the beginning of the month	20 028
Balance at the end of the month	187 800