

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 10 pages and an Information Booklet of 8 pages (i–viii) with a separate Formula Sheet. 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 to 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 decimal 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: Company Analysis (48 minutes)	40			
Question 2: Reconciliations (36 minutes)	30			
Question 3: Budgets (36 minutes)	30			
TOTAL	100			

QUESTION 1 COMPANY ANALYSIS**(40 marks; 48 minutes)**

- 1.1 Truworths acquired Office, a fashion footwear chain based in the UK, in December 2015. When agreeing on a selling price, one of the factors that they would have considered would be book value of Office. Which item in the financial statements gives the book value of a company?

_____ (1)

- 1.2 Truworths paid R4,8 billion for goodwill and intangible assets that would not have formed part of the book value of Office. Discuss why they would pay this much more than the book value. In your discussion mention two items that would be considered besides trademarks and software.

 _____ (2)

- 1.3 1.3.1 Calculate the following figures for **2015**: (Show your calculations.)

	Rm
Inventories:	
Current assets:	
Cash and cash equivalents:	

(3)

- 1.3.2 Read the extract from the director's report. Describe in your own words the purpose of the Credit Act.

 _____ (1)

- 1.3.3 The Credit Act in a way controls to whom and how businesses can sell goods. Explain whether you think the Credit Act is ethical.

 _____ (2)

1.3.4 In the Information Booklet you are given **four** liquidity ratios relating to Truworths. By discussing each of these ratios explain whether the liquidity of Truworths **improved** or **deteriorated** from 2015 to 2016.

(4)

1.3.5 Discuss in detail **two reasons** which could have caused the liquidity of Truworths to improve or deteriorate.

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- ---

(4)

1.4 Show how the return on capital employed of 2016 was calculated at 37,64%.

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(4)

1.5 Truworths chose to finance their purchase of Office by increasing their loans. Give two reasons why they could have chosen to borrow money rather than to issue more share capital.

- ---
- ---

(2)

- 1.6 The purpose of a non-current asset is to generate an income. Truworths had a 330% increase in their non-current assets. By studying the Statement of Comprehensive Income identify areas of **profitability** that have possibly been affected by their purchase of Office.

1.6.1 **Discuss three of these areas, showing a calculation for each area.**

- _____
- _____
- _____

(3)

1.6.2 **Based on the information, discuss whether the decision to buy Office was beneficial for Truworths.**

- _____

- _____

(2)

- 1.7 1.7.1 Truworths' shares were selling at 8 769 cents on 30 June 2016. Explain, **quoting** information/ratios, whether you would have advised someone to buy them **at that price** and **on that date**.

(2)

1.7.2 Explain what would cause the difference between the traded share price and the NAV.

(2)

1.7.3 As a long term shareholder of Truworths' shares, would you be happy with the dividends declared on 30 June 2016? Give two reasons.

(2)

- 1.8 Explain one other thing that is included in the published financial statements, besides the Director's Report, Auditor's Report, Balance Sheet, Income Statement and Cash Flow Statement. Explain why this item is included.

(2)

- 1.9 List an area in Truworths that would be audited by the internal auditors and state what their purpose would be in auditing this area. Also give 2 audit evidences they would use when auditing this particular area.

Area: _____

Purpose: _____

Audit evidence 1: _____

Audit evidence 2: _____

(4)

40

QUESTION 2 RECONCILIATIONS**(30 marks; 36 minutes)****PART A**

- 2.1 Calculate the amounts that should be shown in the 90 days and 60 days blocks in the debtors' age analysis. Use the amounts given in the statement.

90 days	60 days

(5)

- 2.2 By looking at the statement, do you think Caylum is managing his creditors well? Give two points.

- _____

- _____

(2)

- 2.3 Explain what the purpose of a creditors' reconciliation is, and why it is important to do it before any payment to a creditor is made.

- _____

- _____

(2)

PART B

- 2.4 Looking at the information in the Bank Reconciliation Statement:

- 2.4.1 Explain what entry should not be recorded in the Reconciliation Statement and what should have happened to that entry.

- _____

- _____

(2)

- 2.4.2 Calculate the correct bank account balance as shown in the General Ledger of 31 October 2017. State whether it is a debit or credit balance.

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(4)

- 2.4.3 If the financial year of A Smooth Finish ends on 30 November 2017, state how cheque 153 that was issued to a creditor will be dealt with in the financial statements.

(2)

PART C

- 2.5 Caylum was concerned and so he went through the Creditors Statement from Precision Parts Company as well as his business's October 2017 Bank Statement because:

- He remembers authorising EFTs during October 2017 to pay Precision Parts Company what they were owed.
- He does not remember ever hearing of the business Pristine Parts Company and could not contact them on the phone number shown on their invoice.
- None of his workers remembered buying from Pristine Parts Company and their invoice font and layout looked very similar to that of Precision Parts Company.

- 2.5.1 How much money was paid out to Pristine Parts Company during October 2017?

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(1)

- 2.5.2 Because Betty is the only one paying creditors, explain in detail what fraud you think she might have committed.

(3)

2.5.3 Explain in detail **two accounting controls** that Caylum needs to put in place to stop this type of fraud from taking place again.

- _____

- _____

(4)

2.6 Caylum was also concerned that the business's bank account was often in overdraft. Study the bank statement and the bank reconciliation statement and **explain why there is a problem with the deposits of money made into the bank AND why this was resulting in the business continually going into overdraft.**

- _____

- _____

(2)

2.7 Explain **three procedures** that should be followed by a business in order to keep control over cash deposits.

- _____

- _____

- _____

(3)

QUESTION 3 BUDGETS**(30 marks; 36 minutes)**

Round off cents to the nearest Rand.

- 3.1 Calculate the missing figures denoted by the letters "A" to "I". The "?" do not need to be calculated.

A	
B	
C	
D	
E	
F	
G	
H	
I	

(9)

- 3.2 Write down two items that could be included in the cost of services.

- _____
- _____

(2)

- 3.3 Calculate the rate of depreciation used on the industrial vacuum cleaner.

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(3)

- 3.4 Complete the Debtors' Collection Schedule for January 2018.

	Calculations	January 2018
November		
December		
January		–

(3)

- 3.5 Calculate the missing figures denoted by the letters "J" to "M". The "?" do not need to be calculated.

J	
K	
L	
M	

(5)

- 3.6 Ella is getting frustrated because the vacuums and carpet cleaners are being broken on a very regular basis. She knows that if she deducts the cost of repairs or the cost of new equipment off the workers' salaries, their motivation and attitude will deteriorate, so she cannot do this.

Suggest two things she can do to ensure the equipment lasts longer and to help prevent the workers from breaking the equipment.

- _____

- _____

(4)

- 3.7 Ella is considering expanding her business. Give three points she should consider when expanding, and explain whether you think she should expand or not.

- _____
- _____
- _____

Should they expand?

(4)

30

Total: 100 marks