

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 | |
| $\frac{\text{Profit after tax}}{\text{No. shares in issue}}$ | $\frac{\text{Ordinary share dividends}}{\text{No. shares in issue}}$ | |
| $\frac{\text{Fixed cost}}{(\text{selling price per unit} - \text{variable cost per unit})}$ | $\frac{\text{Total ordinary shareholders' equity}}{\text{No. shares in issue}}$ | |

QUESTION 1 ANALYSIS OF PUBLISHED FINANCIAL STATEMENTS

(50 marks, 60 minutes)

The following information was extracted and adapted from the integrated report of Adcock Ingram Holdings Limited for the year ended 30 September 2013

PROFILE

Adcock Ingram is a leading South African manufacturer, marketer and distributor of healthcare products. The Group enjoys almost 10% share of the private pharmaceutical market in South Africa with a strong presence in Over-the-Counter (OTC) brands. The Group is South Africa's largest supplier of hospital and critical care products.

HIGHLIGHTS

- The purchase of Cosme Laboratories, an Indian pharmaceutical sales and marketing business, was concluded in January 2013. This acquisition supported the growth in turnover.
- Departure from stated dividend policy and no final dividend declared in 2013.
- Shareholder approval pending for a possible merger with Chilean pharmaceutical group (CFR Pharmaceuticals)

TURNOVER



18% to
R5,446 million

EPS



18% to
356.4 cents

INDEPENDENT AUDITORS REPORT

OPINION

In our opinion, the financial statements present fairly, in all material respects the financial position of Adcock Ingram Holdings Limited at 30 September 2013 and its financial performance and cash flows for the year ended in accordance with the International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Ernst & Young Inc.

Ernst & Young Inc.

Registered Auditor

Chartered Accountant (SA)

26 November 2013

EXTRACT FROM INTERNET ARTICLE:

<<http://www.moneyweb.co.za/moneyweb-industrials/r56m-paid-out-to-adcock-directors-without-authoris>>

Author: Antoinette Slabbert

19 March 2014 16:05

"R5.6 million in directors fees were paid out to Adcock Ingram directors without the necessary authorisation from shareholders in the financial year 2013 and the same amount is due for payment in the current year. Brian Joffe, who took the reins as chairman of Adcock Ingram last month, told Moneyweb that the oversight, while it shouldn't happen, sometimes happens in big companies. He does not view it as an indication that corporate governance at Adcock is lacking."

| Financial indicators | September 2013 | September 2012 |
|---|-----------------------|-----------------------|
| Earnings per share | 356,4 | 424,9 |
| Dividend per share (No final dividend declared in 2013) | 102,74 | 208,03 |
| Current ratio | 1,18 : 1 | 1,89 : 1 |
| Acid-test ratio | 0,64 : 1 | 1,26 : 1 |
| Stock turnover | 2,55 times | 2,75 times |
| Return on shareholder's equity | 16,35% | 21,14% |
| Net asset value per share (NAV) | 2 245,62c | 2 109,95c |
| Debt/Equity ratio | 0,04 : 1 | 0,06 : 1 |
| Number of shares in issue | 168 327 585 | |

| Statement of Comprehensive Income/ Income Statement for the year ended 30 September 2013 | | |
|---|-------------------------------|-------------------------------|
| | September 2013 R m | September 2012 R m |
| Turnover | 5 446 | 4 599 |
| Cost of Sales | (3 209) | (2 505) |
| Gross profit | 2 237 | 2 094 |
| Other operating income | 15 | 27 |
| Selling and distribution expenses | (700) | (572) |
| Marketing expenses | (212) | (209) |
| Research and development expenses | (105) | (82) |
| Fixed and administrative expenses | (330) | (364) |
| Operating profit | 905 | 894 |
| Interest income | 25 | 18 |
| Interest expense | (83) | (27) |
| Profit before tax | 847 | 885 |
| Tax | (247) | (168) |
| Profit for the year | 600 | 717 |

| Statement of Financial Position (Balance Sheet) on 30 September 2013 | September 2013 R m | September 2012 R m |
|---|-------------------------------|-------------------------------|
| ASSETS | | |
| Non-current assets | 3 412 | 2 443 |
| Property, plant and equipment | 1 766 | 1 560 |
| Other non-current assets | 1 646 | 883 |
| Current Assets | 3 406 | 2 839 |
| Inventories | 1 558 | 956 |
| Trade and other receivables | 1 619 | 1 320 |
| Other current assets | 66 | 70 |
| Cash and cash equivalents | 163 | 493 |
| Total Assets | 6 818 | 5 282 |
| EQUITY & LIABILITIES | | |
| Shareholder's equity | 3 780 | 3 560 |
| Share capital | 520 | 564 |
| Retained income | 3 260 | 2 996 |
| Non-current Liabilities | 159 | 222 |
| Current Liabilities | 2 879 | 1 500 |
| Trade and other payables | 1 340 | 984 |
| Bank overdraft | 1 308 | - |
| Short term borrowings | 136 | 431 |
| Other current liabilities | 95 | 85 |
| Total liabilities | 3 038 | 1 722 |
| Total equity and liabilities | 6 818 | 5 282 |

| Abridged Statement of Cash Flows for the year ended 30 September 2013 | September 2013 R m | September 2012 R m |
|--|-----------------------------------|-----------------------------------|
| Cash flows from operating activities | (28) | 458 |
| Cash flows from investing activities | (1 165) | (534) |
| Acquisition of Cosme Laboratories | (822) | |
| Purchase of other property, plant and equipment | (720) | |
| Proceeds from disposal of fixed assets | 377 | |
| Cash flows from financing activities | (443) | (535) |
| Repurchase of shares | (44) | |
| Increase in borrowings | 27 | |
| Repayment of borrowings | (426) | |
| Net change in cash and cash equivalents | (1 636) | (611) |

QUESTION 2 BUDGETING/PROJECTED INCOME STATEMENTS**(27 marks, 35 minutes)**

Amy Stewart is the owner of *Design Max*, a fashionable interior decorating store in Parkhurst, Johannesburg. *Design Max* sells the latest imported and locally made curtaining and furniture material and also offers customers interior decorating consultations in the comfort of their home. Amy has provided you with the projected and actual figures of the Income Statements for March and April 2014, in the hope that you could assist her in understanding the reasons for the store's less than satisfactory results.

**PROJECTED AND ACTUAL INCOME STATEMENTS
FOR THE TWO MONTHS ENDED 30 APRIL 2014**

| | March 2014 | March 2014 | April 2014 | April 2014 |
|-------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | PROJECTED | ACTUAL | PROJECTED | ACTUAL |
| | R | R | R | R |
| Sales (net) | 1 305 000 | 1 050 000 | 1 435 500 | 1 102 500 |
| Cost of Sales | (870 000) | (840 000) | (957 000) | (918 750) |
| Gross Profit | 435 000 | 210 000 | 478 500 | 183 750 |
| Other income | 47 050 | 38 525 | 47 050 | 40 025 |
| Income from services rendered | 25 000 | 27 500 | 25 000 | 29 000 |
| Rent income | 22 050 | 11 025 | 22 050 | 11 025 |
| Gross operating income | 482 050 | 248 525 | 525 550 | 223 775 |
| Operating expenses | (269 250) | (290 150) | (278 745) | (308 150) |
| Salaries & wages | 158 250 | 158 250 | 167 745 | 158 250 |
| Sundry expenses | 20 000 | 38 000 | 20 000 | 40 000 |
| Telephone | 22 500 | 37 500 | 22 500 | 52 500 |
| Bad debts | 20 425 | 27 250 | ? | 27 462 |
| Discount allowed | 19 575 | 15 750 | ? | 16 538 |
| Advertising | 15 000 | 5 000 | 15 000 | 5 000 |
| Insurance | 13 500 | 8 400 | 13 500 | 8 400 |
| Operating profit/loss | 212 800 | (41 625) | 246 805 | (84 375) |
| Interest expense | (2 100) | (2 100) | (2 100) | (1 500) |
| NET PROFIT/LOSS | 210 700 | (43 725) | 244 705 | (85 875) |
| | | | | |
| Calculation of cost of sales | PROJECTED | ACTUAL | PROJECTED | ACTUAL |
| | R | R | R | R |
| Opening stock | 500 000 | 500 000 | 500 000 | 500 000 |
| + Purchases | 770 000 | 690 000 | 837 000 | 738 750 |
| + Carriage on purchases | 100 000 | 150 000 | 120 000 | 180 000 |
| – Closing stock | (500 000) | (500 000) | (500 000) | (500 000) |
| Cost of sales | 870 000 | 840 000 | 957 000 | 918 750 |

Additional information:

- The periodic stock system is used.
- 60% of sales are on credit.
- 50% of debtors pay in the month of the sale to take advantage of a 5% settlement discount.
- 40% of debtors pay in the month following the date of the sale.
- 7% of debtors pay in the second month following the date of the sale.
- It is expected that 3% of debtors will be written off in the third month following the date of the sale.
- Stock levels are maintained at a value of R500 000.
- Cash purchases are 40% of total purchases.
- Creditors allow the business only 30 days credit, with no settlement discounts being given for early payments.
- All calculations to be rounded to the nearest Rand.

QUESTION 3 RECONCILIATIONS**(23 marks, 25 minutes)**

This question consists of two parts and each part must be seen independently of the other.

PART A CREDITORS RECONCILIATION

Study the following information, relating to the transactions of Hobart Animal Clinic with their creditor, VIP Pet Supplies:

| STATEMENT OF ACCOUNT VIP PET SUPPLIES | | | | | |
|--|----|---------------------|---|----------|-----------|
| | | | September 2014 | | |
| Hobart Animal Clinic P.O Box 142638 Bryanston 2074 | | | 19 Northumberland Road Northgate 2162 | | |
| Terms: 30 days less 5% | | | Credit Limit: R75 000 | | |
| | | Details | Debit | Credit | Balance |
| Sept | 01 | Account Rendered | | | 43 155,00 |
| | 07 | Return | | 1 215,00 | 41 940,00 |
| | 12 | Purchases | 4 410,00 | | 46 350,00 |
| | 17 | Payment – Thank you | | 6 750,00 | 39 600,00 |
| | 26 | Purchases | 15 750,00 | | 55 350,00 |
| | 28 | Return | | 630,00 | 54 720,00 |
| | 29 | Purchases | 2 250,00 | | 56 970,00 |

Creditors' Ledger of Hobart Animal Clinic

| VIP Pet Supplies | | | | | |
|------------------|-------------------------|-------|-----------|-----------|-----------|
| Date | Details | Folio | Debit | Credit | Balance |
| Sept 1 | Balance | b/d | | | 43 155,00 |
| 8 | Payment – Cheque no. 52 | CPJ | 6 750,00 | | 36 405,00 |
| 26 | Invoice 772 | CJ | | 15 750,00 | 52 155,00 |
| 28 | Returns | CAJ | | 630,00 | 52 785,00 |
| 29 | Invoice 785 | CJ | | 22 500,00 | 75 285,00 |
| 30 | Payment – Cheque no. 58 | CPJ | 36 000,00 | | 39 285,00 |

Additional information:

When examining the statement together with the ledger account, the following differences were noted:

- 3.1 VIP Pet Supplies had erroneously recorded a return on 7 September that was made by another customer, HAC Traders, in Hobart Animal Clinic's account.
- 3.2 VIP Pet Supplies were not able to deliver the goods ordered by Hobart Animal Clinic on 12 September, as they did not have sufficient stock at that time. This invoice will need to be reversed.
- 3.3 The entry on 28 September 2014 was incorrectly recorded by the accounts clerk of Hobart Animal Clinic.
- 3.4 The entry on 29 September 2014 was incorrectly recorded by the accounts clerk of Hobart Animal Clinic.
- 3.5 The payment of R36 000,00 made by Hobart Animal Clinic on 30 September 2014 is still to be recorded by VIP Pet Supplies.

PART B DEBTORS' AGE ANALYSIS

Ace Auto Spares (Pty) Ltd is a popular motor spares dealership in Benoni. They distribute a wide range of auto parts, spares and accessories to fix or accessorise vehicles. Debtors are expected to settle by the end of the month following the sales transaction month. You are provided with the Debtors' age analysis for April and May 2014.

ACE AUTO SPARES

AGE ANALYSIS ON 30 APRIL 2014

| Debtor | Credit limit | Present balance | April (Current) | Mar (30 days) | Feb (60 days) | Jan (90 days) | Over 90 days |
|--------------------|--------------|-----------------|-----------------|---------------|---------------|---------------|----------------|
| B. Webb | 12 000 | 10 164 | | | | | 10 164 |
| T. Kolotsi | 8 000 | 7 720 | 4 970 | 640 | 1 980 | 330 | |
| R. Lee | 3 000 | 2 356 | | 2 070 | | 286 | |
| D. Chen | 6 000 | 6 060 | 3 620 | 1 340 | 1 100 | | |
| M. Arendse | 4 500 | 4 300 | 3 730 | 570 | | | |
| Total owing | | R30 800 | R12 320 | R4 620 | R3 080 | R616 | R10 164 |
| % owing | | 100% | 40% | 15% | 10% | 2% | 33% |

ACE AUTO SPARES

AGE ANALYSIS ON 30 MAY 2014

| Debtor | Credit limit | Present balance | May (Current) | April (30 days) | Mar (60 days) | Feb (90 days) | Over 90 days |
|--------------------|--------------|-----------------|---------------|-----------------|---------------|---------------|--------------|
| B. Webb | 12 000 | | | | | | |
| T. Kolotsi | 8 000 | 6 415 | | 4 970 | 640 | 805 | |
| R. Lee | 3 000 | 4 095 | 2 970 | | 1 125 | | |
| D. Chen | 6 000 | 5 190 | 0 | 3 620 | 1 340 | 230 | |
| M. Arendse | 4 500 | 5 000 | 3 240 | 1 760 | | | |
| Total owing | | R20 700 | R6 210 | R10 350 | R3 105 | R1 035 | |
| % owing | | 100% | 30% | 50% | 15% | 5% | |