



Name :

ACCOUNTING - PRELIMINARY EXAMINATION- PAPER 2 – SESSION 2

DATE :	2 AUGUST 2023	GRADE :	12
EXAMINER :	S. MEYER	TIME :	2 HOURS
MODERATOR :	S. ELIAS/J.POWELL H. RAMLALL	TOTAL :	100

INSTRUCTIONS TO CANDIDATES :

1. This **ANSWER BOOKLET** consists of **14** pages and an **INFORMATION BOOKLET** of **8** pages. Please check that your paper is complete.
2. Read the questions carefully and answer all questions in the spaces provided on the answer booklet.
3. It is in your interests to write legibly and present your work neatly.
4. Show all calculations in brackets and **round off to two decimals**.
5. You may **not** use red or green ink. **You may use pencil, but please use a soft, dark pencil.**
6. No abbreviations are allowed.
7. The allocation of marks and approximate time to be taken for each question is as follows:

		Time	Possible Mark	Actual Mark
1.	Budgets; VAT	50 min	40	
2.	Company Analysis	50 min	40	
3.	Reconciliations	20 min	20	
		120 min	100	

QUESTION 1 **BUDGETS / VAT** **40 MARKS; 50 MIN**

This question consists of **THREE** parts, Part A, Part B and Part C. The three parts must be seen independently of each other.

PART A **20 marks; 26 min**

Refer to the information relating to Bestmed Pharmacy.

1.1 Complete the Debtors Collection Schedule below.

Credit		March 2023	April 2023
sales			
February 2023	540 000	297 000	-
March 2023	*	*	*
April 2023	825 000	-	316 800

Calculations:

5

1.2 Calculate the amount of bad debts to be written off on **30 April 2023**.

	1

1.3 Complete the extract of the Cash Budget below.

Extract from the Cash Budget of Bestmed Pharmacy		
March 2023		April 2023
Receipts		
Cash Sales	*	1 925 000
Cash receipts from debtors		
Rent	*	*
Payments		
Cash purchases of stock	959 400	*
Payments to creditors	270 750	*
Drawings	20 000	20 000
Rates and taxes	*	*

Use the space provided to show appropriate calculations.

1.4 Provide the following amounts as they would appear on the **Projected Statement of Comprehensive Income**:

1.4.1 Discount allowed for March 2023.

	1

1.4.2 Rent income for March 2023.

	1

20

PART B **[12 marks; 14 min]**

Information relating to Quella Stores.

Study the Cash Budget of Quella Stores for April and May 2023, together with the actual results achieved for April and May 2023 to answer the questions that follow.

Note: All goods are sold for cash and all goods are purchased on credit.

1.5 Explain the importance of comparing the budgeted figures with the Actual Figures achieved for the same period.

	1

1.6 The owner is of the opinion that the accountant of Quella Stores did a good job controlling the budget for **May 2023**. By comparing the actual to the budgeted figures for May 2023, comment on how efficiently the budget was controlled.

Quote **TWO** figures from the given information to substantiate this viewpoint.

•	
•	2

1.7 By what percentage did the actual cash sales for April 2023 exceed the amount budgeted for the same period?

	1

1.8 Quella Stores operate with a fixed base level of stock and they add a 50% profit mark-up on cost price to all goods sold. All stock is purchased on credit and paid in full at the end of the month in which it was purchased. No stock was donated or taken by the owner.

1.8.1 Did they maintain the fixed-base level of stock? Supply an appropriate calculation to support your choice.

Yes _____ No_____

	2

1.8.2 Supply **TWO** consequences of not maintaining a fixed base of stock and indicate the effect this could have on the profit earnings of the business.

•	
•	2

1.9 Would the shop assistants be satisfied with their salary payments for APRIL and MAY?

Quote appropriate figures to substantiate your choice above.

• APRIL	
• MAY	4

12

PART C: VAT **8 marks; 10 min**

Answer the following questions with regard to **Delham Ltd**:

1.10 If VAT input is greater than VAT output, it means that the business (**owes SARS money or SARS owes the business money**). Which one is correct ?

	1

1.11 Calculate the amount of VAT that is payable to SARS for the two-month period ended 30 April 2023.

	6

1.12 Rachel uses the money collected for VAT to pay business expenses. She does not have sufficient cash to make the VAT payments on the due dates. What would you say to Rachel?

	1

8

40

QUESTION 2**COMPANY ANALYSIS****40 MARKS; 50 MIN**

You are provided with the financial information of Shoprite for 2022 and 2021. Study this information given and answer the questions that follow.

Consider the Auditors opinion below, as written by PricewaterhouseCooper's:

- 2.1 What type of auditor is PricewaterhouseCoopers to Shoprite? (1)

- 2.2 Is this Auditors report favourable or unfavourable? (1)

- 2.3 PricewaterhouseCoopers has been the auditors for Shoprite for 40 years. Name one benefit and possibly one concern that may arise as a result of this. (2)

Benefit:

Concern:

- 2.4 Select the description that best suite the analysis type below. (5)

		Which letter is the best match?	Description	
2.4.1	Profitability		A	To decide how financing impacts the leverage / risk of a business.
2.4.2	Solvency		B	To determine how well the business uses its funds.
2.4.3	Liquidity		C	To determine whether a new control measure has worked.
2.4.4	Return		D	To understand the impact of working capital.
2.4.5	Gearing		E	To determine overall ability of a business to pay off their debts.

- 2.5 Shoprite communicates via their AFS that their overall profitability has increased by 18%. What does Shoprite hope the shareholders will think about the business by reporting on profitability? (1)

- 2.6 Comment on whether Shoprite's 18% growth (**Article A**) from 2021 to 2022 is good or bad by referencing any two points found in the information. (2)

- 2.7 In 2021 and 2022 unforeseen and unavoidable circumstances hit Shoprite. Refer to **Article B** in your information booklet.

- 2.7.1 Briefly discuss how you think these events will impact profitability by stating **where** and **how** they should be treated in the financial statements. (2)

- 2.7.2 The large losses in 2021 and 2022 were indicated separately in the financial statement and a separate note was added to explain each loss. Which GAAP / IFRS principle was being applied in these instances? (1)

- 2.8 Consider this statement:

Shoprite saw more growth in their investment income than any other area in their Statement of Comprehensive Income.

- Provide proof of this, as well as a possible reason why their investment income value is so high in 2022. (2)

- 2.9 Shoprite has not been paying out a large % of its EPS as dividends. Explain why this might be the case and also indicate where the portion of the EPS which is not paid out as dividends can be seen in the financial statements. (2)

- 2.10 Calculate the % change in EPS from 2021 to 2022. (1)

- 2.11 Calculate the Return on Shareholder's Equity ratio for 2022. (3)

- 2.12 Consider how a long term shareholder of Shoprite might feel about your answers in 2.10 -2.11. Provide 2 reflection points for each of the following: (4)

EPS and DPS:

Return on Shareholder's Equity (RoSE for 2021: 22,6%):

2.13 Calculate the Solvency ratio for 2022. (1)

2.14 Discuss, in detail, whether Shoprite should be taking out more loans or issuing equity for their planned expansion in 2023. In your discussion, take into consideration the following aspects:

- The Gearing ratio and ROCE (return on capital employed) ratio for 2022.
- The cost of borrowing is 12% pa, whilst the cost of paying dividends on new shares is 3% per annum. (4)

- 2.15 Provide an in-depth analysis of the liquidity of Shoprite for 2022. Where possible, quote figures from your information booklet to support your analysis. (6)

[illegible]

- 2.16 Shoprite has a very large bank overdraft in 2022. Explain how the interest on this is different to the interest they might incur on other debt. Also indicate how they should go about settling this large overdraft without putting the business' cash flow at risk. (2)

QUESTION 3 **RECONCILIATIONS** **20 MARKS; 20 MIN**

A. RECONCILIATION

You are the internal auditor of Reset Zone (Pty) Ltd, a business that sells fitness equipment. The creditors list and creditors control accounts were prepared by the bookkeeper of this business. The postings from the journals have been done, but you have noticed a number of errors and omissions. Read the information relating to Reset Zone (Pty) Ltd in the information booklet and answer the questions that follow.

3.1. Refer to the information regarding errors and omissions in your information booklet. What entries need to be made to reconcile the Creditors List and the Creditors Control Account? Indicate the entries for each error / omission in the table below and calculate the reconciled balances after taking the discrepancies into account: (8)

	CREDITORS LIST		CREDITORS CONTROL LEDGER ACCOUNT	
	DR	CR	DR	CR
Opening balances	1 573	83 371		91 248
A				
B				
C				
D				
E				
F				
G			1 600	
TOTAL				

3.2 Is this an example of an internal or an external reconciliation? Why? (1)

3.3 During the course of your internal audit, you discover that the amount owed to FIT has been outstanding for 240 days. The bookkeeper explains that Reset Zone (Pty) Ltd usually waits until it receives a letter of demand from the lawyers before it pays its creditors. Is this good business policy? Why or why not? (2)

3.4. The directors of Reset Zone (Pty) Ltd are concerned about the way in which this business is managing its creditors. As the internal auditor, suggest **TWO** practical ways in which Reset Zone (Pty) Ltd can exercise good internal control over creditors. (2)

B. AGE ANALYSIS

This question is independent from section A.

You decided to draw-up an age analysis to answer Boipelo’s query.

Use the additional information “errors and omissions” to recalculate the amount owing by Boipelo on 30 June 2023 by completing a detailed age analysis.

Total	Current June	+ 30 days May	+ 60 days April	+ 90 days March

(7)

20