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TOTAL
MARKS

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NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2022

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, an Information Booklet of 7 pages (i–vii) and a Formula Sheet of 1 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 to present your work neatly.
5. You may **not** use red or green ink. **You may use a pencil, but please use a sharp, dark pencil.**
6. All calculations should be rounded off to **two decimal places**.
7. The allocation of marks and appropriate time to be spent on each question are as follows:

	Possible marks	Actual marks	Marker signature	Moderator signature
Question 1: Budgets (41 minutes)	34			
Question 2: Company Analysis (56 minutes)	47			
Question 3: Reconciliations (23 minutes)	19			
TOTAL	100			

QUESTION 1 BUDGETS**[34 marks; 41 minutes]**

1.1 Complete the Creditor's Payment Schedule below relating to Ink Solution.

Creditor's Payment Schedule for November 2022

	Ink and toner cost for the month	November
August 2022	*	*
September 2022	*	2 646
October 2022	11 000	*
		10 446

(4)

1.2 Complete the cash budget for November 2022. Show your calculations.

Cash Budget of Relax 'n Rent for November 2022

Receipts	258 920
Machine rental income	144 000
Per page income	114 920
Payments	Do not calculate
Creditors payment: Ink Solution	10 446
Creditors payment: Copy Ink Ltd for the old equipment	*
Creditors payment: Copy Ink Ltd for the new equipment	26 950
Technician costs	*
Water and electricity	*
Salary: Sihle Bhengu	50 000
Salary: Mrs Bhengu	*
Phone charges and WIFI	Do not calculate
Office supply purchases	*
Donations	*
Cash surplus / deficit	100 734
Balance at the beginning of the month	379 020
Balance at the end of the month	479 754

(11)

- 1.3 1.3.1 Using the statement from Copy Ink Ltd, complete the Equity and Liabilities part of the Statement of Financial Position as at 31 October 2022.

Extract from the Statement of Financial Position at 31 October 2022

EQUITY AND LIABILITIES	
Shareholder's Equity	436 320
Non-current liabilities: Copy Ink Ltd	*
Current liabilities	Do not calculate
Ink Solution	6 020
Copy Ink Ltd	*
Total equity and liabilities	Do not calculate

(2)

- 1.3.2 Name the GAAP principle that dictates which figure, from the statement from Copy Ink Ltd, you used to complete the liabilities section above.

_____ (1)

- 1.4 Calculate the cost of the new equipment.

(3)

- 1.5 1.5.1 Calculate the debt equity ratio on 1 November 2022 should Relax 'n Rent buy the new machines.

(3)

- 1.5.2 **Based on the debt equity ratio** calculated in Question 1.5.1, do you think that Copy Ink Ltd should sell the new equipment to Relax 'n Rent on credit?

 _____ (1)

- 1.5.3 Relax 'n Rent has a 200% return on equity. Explain why Relax 'n Rent has such a high return on shareholder's equity.

 _____ (1)

- 1.5.4 Besides the gearing, explain two other factors that Copy Ink Ltd should look at before granting Relax 'n Rent more credit, then explain why you would advise Copy Ink Ltd to sell them/not sell them the new equipment.

- _____

- _____

Would you advise Copy Ink Ltd to sell them the new equipment? Yes / No

_____ (4)

- 1.6 Sihle has a suspicion that one of the technicians is charging him for going out to businesses to service or fix the machines, but is not actually going there. He is charging for jobs he did not do. Discuss a control measure Sihle can implement to stop this from happening.

_____ (2)

- 1.7 Sihle has hired you as an external auditor. Explain in detail why you would allow, or not allow, Mrs Bhengu's salary to remain in the Statement of Comprehensive Income.

_____ (2)

QUESTION 2 COMPANY ANALYSIS**[47 marks; 56 minutes]**

Study the information given for Italtile Ltd, and then answer the following questions.

- 2.1 In their financial statements, Italtile published a seven-year review. Discuss the value of this compared to just showing the latest two years.

(2)

- 2.2 Study the seven-year review then answer the following questions:

- 2.2.1 Explain why the mark-up fluctuates from year to year.

(1)

- 2.2.2 Discuss whether the directors would be pleased with the **2021** gross profit and mark-up. Motivate with two calculations.

(3)

- 2.2.3 Comment on whether Italtile's operating expenses are being well controlled.

(2)

2.3 Italtile has an extensive property portfolio. Discuss two detailed advantages for Italtile to own most of the property on which their shops and distribution facilities are built.

- _____

 - _____

- (4)

2.4 Refer to the financial ratios given and calculate the missing figures in the **2020** Statement of Financial Position. Do not calculate the "?". Show your calculations in the blocks.

	Rm
A	
B	
C	
D	

(5)

2.5 2.5.1 Calculate the stock turnover rate for **2021**, then write a detailed comment on whether this would be a satisfactory rate for Italtile.

(5)

2.5.2 The current ratio has dropped from 4,6 : 1 in 2019 to 2,28 : 1 in 2021. Explain, providing a reason, whether this is an improvement or not.

(2)

- 2.6 2.6.1 Analyse the cash flow movement shown in the seven-year review, and explain whether this is a good or bad way of handling their cash.

(3)

- 2.6.2 Write down two examples of the investing activities that Italtile has that were mentioned in the case study.

- ---
- ---

(2)

- 2.7 2.7.1 Calculate the return on shareholder's equity for **2021**, and then comment on whether the directors of Italtile would be happy with the return.

(7)

- 2.7.2 Although the EPS was 141 cents, the DPS was only 106 cents. Discuss whether the shareholders would be pleased with the 106 cents, or whether they should have received a DPS of 141 cents.

(2)

2.7.3 Explain what the Net Asset Value represents and why the share price is so much higher than it.

(2)

2.8 Read the extract from the auditor's report, then answer the following questions.

2.8.1 What is the purpose of the external auditor's report?

(1)

2.8.2 Write down two pieces of audit evidence they would obtain to verify the water and electricity amount in the Statement of Comprehensive Income.

(2)

2.9 Read the extract from the Corporate Governance report. Italtile is not allowed to count this as one of their corporate social responsibility programmes as, by law, these programmes are not allowed to benefit their employees or their families.

Explain the difference between Corporate Governance and a Corporate Social Responsibility programme. Then discuss whether Italtile should be spending time and effort on their Employee Wellness Programme if it does not count towards their corporate social responsibility programme.

(4)

QUESTION 3 RECONCILIATIONS**[19 marks; 23 minutes]**

3.1 Explain the importance of a Debtors' Age Analysis.

(2)

3.2 Use the information in the information book to make corrections to the Debtors' Age Analysis. The Debtors' Age Analysis does not need to be totalled.

Incorrect/incomplete Debtors' Age Analysis drawn up on 31 October 2022.

120 + days	90 days	60 days	30 days	Current
16 000	3 500	89 400	120 350	92 680

(7)

3.3 In adjustment 1, Santa's sled was damaged and this caused a problem between Dazzling Designs and MegaSpend Mall. Jemma realised that something similar could happen again at any one of the malls that they decorate. Discuss what she can do to prevent this from becoming an issue in the future.

(2)

3.4 3.4.1 Some of Dazzling Design's repeat cash customers are asking to open accounts. Discuss one reason as to whether Jemma should allow them to open accounts or not.

(1)

3.4.2 If Dazzling Designs were to open accounts for them, write down three terms and conditions that Dazzling Designs should put on their contracts.

(3)

- 3.5 Compare the statement from Authentic Wood to their account in Dazzling Design's Creditors' Ledger. Use the additional information to complete the Creditor's Reconciliation statement below.

	Creditor's Reconciliation
Incorrect balance	106 810
	Do not calculate

(4)

19

Total: 100 marks