



NATIONAL SENIOR CERTIFICATE EXAMINATION
NOVEMBER 2022

ACCOUNTING: PAPER II

Time: 2 hours

100 marks

INFORMATION BOOKLET

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

Sihle Bhengu started Relax 'n Rent (Pty) Ltd, a business that rents out printers and photocopy machines to schools and businesses. Sihle had lined up customers so was able to start earning an income from 1 November 2021, the beginning of his financial year.

Relax 'n Rent bought all the printers and photocopy machines (R1 350 000) for these customers on credit on 30 October 2021 from Copy Ink Ltd. Copy Ink Ltd agreed to charge simple interest of 8% p.a. for four years on the full amount (R432 000 interest in total for the four years). Relax 'n Rent will then pay the total amount off in equal instalments over 4 years. A debit order goes off Relax 'n Rent's bank account for this amount each month.

Each customer pays rent per machine and then they also pay a cost per page that is printed or photocopied.

Sihle contracts technicians to go to the businesses to fix the machines when necessary or replace the ink or toner.

Sihle did not put any capital into Relax 'n Rent.

INFORMATION A:**Relax 'n Rent****Statement of Comprehensive Income for the year ended 31 October 2022**

Operating income	1 891 200
Machine rental income	1 080 000
Per page income	811 200
Operating expenses	(1 177 200)
Technician costs	45 600
Ink and toner	132 000
Depreciation	270 000
Water and electricity	21 360
Salary: Sihle Bhengu	600 000
Salary: Mrs Bhengu	82 800
Phone charges and WIFI	21 240
Office supplies	4 200
Operating profit	714 000
Interest expense	(108 000)
Profit before tax	606 000
Taxation	(169 680)
Net profit for the year	436 320

Additional information

- All ink and toner is bought from Ink Solution on credit. The amount bought varies from month to month. Ink Solution is repaid as follows:
 - 60% is paid in the month following the purchase to receive a 5% discount.

- 25% is paid two months following the purchase to receive a 2% discount.
 - 15% is paid in the third month following the purchase.
2. Relax 'n Rent have found another 3 clients who have agreed to use their services from 1 November 2022. The potential impact of this is as follows:
- Sihle expects the November 2022 technician costs to be 60% higher than the average monthly technician costs in the previous financial year.
 - Sihle assumed he would be able to get the same terms and conditions from Copy Ink Ltd for the new equipment he needs to purchase. His plan is to buy it on 1 November 2022, and his first payment would be at the end of that month.
3. Sihle runs Relax 'n Rent from his house. He worked out that his house is about 160m². Out of this he uses about 40m² for Relax 'n Rent. This means that he can claim the above ratio of his house expenses as business expenses, thus reducing his tax. He expects the water and electricity account for the total house to be about R7 340 in November.
4. Sihle gives his wife R6 900 to buy food every month. She does not work for the business, but Sihle enters this money as a salary for her so that the business pays for their food.
- In October she only took two thirds of her salary. She will take the other third with her November salary.
5. Sihle has decided to donate the following in November to a struggling school:
- R14 000 cash
 - R500 office supplies
6. Relax 'n Rent use up R350 office supplies a month. All office supplies are replenished at the end of each month and paid for with cash.

Relax 'n Rent received the following statement from Copy Ink Ltd:

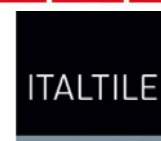
COPY INK LTD			
To: Relax 'n Rent		31 October 2022	
Customer number	10087695	Account number	8007596504
Account type	Instalment sale	Goods description	Photocopy printers
Commencement date	1 November 2021		
Instalment frequency	monthly		
Original capital amount	1 350 000		
Monthly instalment amount	?		
Original instalments	48		
Remaining instalments	36		
Outstanding capital balance	1 012 500		
Outstanding actual contract balance (including the interest)	1 336 500		

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

Italtile Limited is a retailer and manufacturer of tiles, bathroom ware and related products. They have an extensive property portfolio and also hold a controlling interest in:

- an importer and distributor of brassware and accessories,
- an importer of shower cubicles, laminated boards, cabinets, sanitaryware, décor and tiling tools,
- a key manufacturer of tile and sanitaryware, and
- an adhesive (glue) and related products manufacturer.

The Group's Distribution Centre sources imported products and provides warehousing and distribution facilities to the retail brands.



Adapted from the **ANNUAL REPORT FOR ITALTILE LIMITED**

Seven-year review for the year ended 30 June

	2021 Rm	2020 Rm	2019 Rm	2018 Rm	2017 Rm	2016 Rm	2015 Rm
Turnover	9 135	6 690	6 975	6 064	3 670	3 539	3 115
Cost of sales	(5 106)	(4 145)	(4 361)	(3 736)	(2 182)	(2 117)	(1 911)
Gross profit	4 029	2 545	2 614	2 328	1 488	1 422	1 204
Operating profit	2 554	1 502	1 797	1 518	1 063	1 047	905
Profit before 28% taxation	2 555	1 457	1 819	1 575	1 190	1 166	978
Mark-up	79%	61%	60%	62%	68%	67%	63%
Cash flows from/utilised in:							
• operating activities	1 397	255	674	979	609	306	443
• investing activities	(947)	(594)	(593)	(2 200)	(379)	(358)	(175)
• financing activities	1 081	860	1201	679	511	347	392

Statements of Financial Position

	2021 Rm	2020 Rm
ASSETS		
Non-current assets	5 483	?
Property, plant and equipment	4 866	4 359
Other non-current assets	617	?
Current assets	3 124	B
Inventories	1 164	897
Trade and other receivables	879	C
Cash and cash equivalents	1 081	860
Total assets	8 607	?
EQUITY AND LIABILITIES		
Equity	6 713	5 630
Non-current liabilities	526	D
Current liabilities	1 368	A
Total equity and liabilities	8 607	?

Financial ratios

	2021	2020	2019
Return on shareholders' equity	?	17,6%	23,0%
Earnings per share	141 cents	78 cents	103 cents
Dividends per share	106 cents	56 cents	91 cents
Net asset value	522 cents	433 cents	480 cents
Closing share price at year end	1 667 cents	1 150 cents	1 480 cents
Debt equity ratio	0,08 : 1	0,2 : 1	0,16 : 1
Current ratio	2,28 : 1	3,35 : 1	4,6 : 1
Acid test ratio	1,43 : 1	2,2 : 1	3,3 : 1
Debtors collection period	32 days	34 days	44 days
Stock turnover rate	?	3,9 times	5,1 times

Extract from the auditor's report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Corporate governance

Programmes helping employees manage their finances are available through Italtile's Employee Wellness Programme. Employees have access to qualified financial consultants who can assist with budgeting, saving, investments, debt counselling, wills and estate planning, home loans, insurance, personal tax, and vehicle finance.

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

Dazzling Designs is a business that decorates shopping centres and shops for all the major occasions like Valentine's day, Easter and Christmas. They can also do special occasions like parties and matric dances. It is owned by Jemma.

Their corporate clients (shops and shopping centres) are allowed accounts with them, while the other customers need to pay half upfront and half when Dazzling Designs fetch their decorations after the event.

Information to answer Question 3.2

Here is the Debtors' Age Analysis that was 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

After statements were sent to the debtors the following errors were discovered:

1. Jemma looked into the 120+ day debt and discovered that the R16 000 had been outstanding since December 2021. A Santa's sled had been damaged by children in MegaSpend Mall and the mall refused to pay to replace the sled. They said it was Dazzling Design's risk, and Dazzling Design said it was the mall's responsibility. Dazzling Design decided to write off the debt.
2. Dazzling Designs had a special running in August to decorate shops for international coffee day on 1 September. They granted them a 20% discount if they paid in September. Coffee Break contacted them to say they paid R29 280 on 27 September to settle their invoice (dated 5 August) but were not granted the discount.
3. Beachside Mall sent proof of their **payment of R20 000** on 29 October. This had not been recorded and was a part payment towards the following invoices:
 - 10 October for R18 700
 - 31 August for R12 800
 - 15 July for R2 300
4. An invoice for R25 300 dated 2 October had been omitted from the Debtors' Age Analysis.
5. A credit note for R13 000 dated 3 October had been omitted from the Debtors' Age Analysis. The Elves Gift Shop ordered decorations to sell for R45 000 and received the decorations and invoice on 29 September. The invoice included 20 Santa clocks that The Elves Gift Shop did not order. This was returned with a debit note on 3 October.

Information to answer Question 3.5

Dazzling Designs received the following statement from one of their creditors, Authentic Wood:

Authentic Wood					
Dazzling Designs Warehouse 5 North Pole Road			Statement no: DD39 Date: 31 October 2022		
Date		Transactions	Debit	Credit	Balance
2022					
July	25	Invoice D42	38 700		38 700
Aug	1	Credit note 08		8 200	30 500
	30	EFT		25 000	5 500
		Discount allowed		1 000	4 500
Sept	3	Invoice D49	42 100		46 600
	7	Invoice D53	15 960		62 560
Oct	1	Interest	270		62 830
	22	Invoice D65	43 980		106 810
Terms:		<ul style="list-style-type: none"> Discount granted on payments made within 30 days of statement. Interest charged at 6% interest per month over 30 days. 			

CREDITORS' LEDGER OF DAZZLING DESIGNS**AUTHENTIC WOOD****C1**

Date		Details / Document	Fol	Debit	Credit	Balance
July	25	Invoice D42	CJ		38 700	38 700
Aug	1	Debit note 16	CAJ	8 500		30 200
	27	EFT	CPJ	25 000		5 200
Sept	3	Invoice D49	CJ		42 100	47 300
Oct	22	Invoice D65	CJ		43 980	91 280
	30	EFT	CPJ	47 300		43 980

Additional information

- Credit note 08 was recorded incorrectly in the statement from Authentic Wood.
- Dazzling Designs did not record the discount they were entitled to when they paid on 27 August.
- Invoice D53 was issued to Ditzzy Design.
- The interest on 1 October must decrease by R18 because of the mistake with the credit note.
- The EFT on 30 October had not yet reflected on Authentic Wood's bank statement.