



NATIONAL SENIOR CERTIFICATE EXAMINATION  
NOVEMBER 2020

**ACCOUNTING: PAPER II**

Time: 2 hours

100 marks

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**INFORMATION BOOKLET**

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**QUESTION 1 CASH BUDGETS****(26 marks; 31 minutes)**

Lwandi owns a small shop selling books that she's named "Timeless Read".

**Actual income statement figures for December 2020**

Sales	327 600
Cost of sales	(252 000)
Gross profit	75 600
Operating expenses	(191 961)
Salaries	46 350
Marketing	3 600
Rent	59 800
Water and electricity	9 400
Other	?
Depreciation	1 680
Discount allowed	?
Trading stock deficit	?
Operating profit / (loss)	(116 361)
Interest expense	(2 000)
Net profit / (loss)	(118 361)

**Adjustments and additional information**

- December's sales increased by 4% from November.
- Timeless Read allows schools and libraries to buy books on credit. Credit sales equal 40% of all sales. All other customers are cash customers. There are no bad debts.
  - Timeless Read grants a discount to the debtors who pay in the same month as the sale.
  - Some debtors pay in the month following the sale.
  - 15% of debtors pay in the second month following the sale.
- Timeless Read maintains a fixed level of inventory. Lwandi has discovered that nearly all of her self-help books are being stolen. She calculated that this came to a fifth of all her monthly trading stock bought.
- All trading stock is bought on credit and is paid in the month following the purchase to be entitled to a 2% discount on early payment.
- One of the employees asked for a cash advance of R5 000 in December from her January salary. Lwandi agreed to this.
- The marketing expense is for a monthly newspaper advertisement of R1 450. The rest is for monthly radio advertising that is paid up-front on a quarterly basis (every three months). The next payment is due in January 2021.

**Facts Lwandi has discovered about the book industry:**

- Consumer books (books people chose to read for themselves for fun) are only 5% of the market, while textbooks are 95% of the market.
- Expected growth in consumer book sales is 3% p.a., while expected growth of electronic books is 57% p.a. Most electronic book sales are of novels. There are hardly any sales of children's books and factual books.
- The consumer market in South Africa is limited due to:
  - relatively high illiteracy
  - low income
  - few books published in African languages

**QUESTION 2 COMPANY ANALYSIS**

**(40 marks; 48 minutes)**

**Article A:** *Published Date: 2019-11-20 | Source: Stephen Gunnion*



Stor-Age Property Limited (Stor-Age) hires out lockable garage-like units for tenants to store possessions in. It is the largest self-storage property fund on the JSE. Its 50 SA properties are worth R4,2 billion, while its 16 properties in the UK operating under the Storage King brand are valued at R2 billion.

Following this week's £13,4m acquisition of Flexi Store Self Storage in the UK, the business said its portfolio would swell to 71 properties with a value of R6,4 billion. It said low gearing left it with headroom to pursue more development and acquisition opportunities that might arise.

[Source: <<http://www.inceconnect.co.za/article/stor-age-locks-up-a-strong-first-half>>]

Adapted from the **Statements of profit or loss for the year ended 31 March 2019**

	<b>2019 R'000</b>	<b>2018 R'000</b>
Property revenue	524 351	310 177
Other revenue	96 740	225 431
Management fees	11 065	22 053
Fair value adjustment to investment properties*	85 675	203 378
Operating expenses	(193 908)	(122 624)
Administration expenses	43 805	36 923
Transaction and advisory fees	357	6 552
Tenant bad debts	3 230	0
Direct property costs	135 837	76 917
Depreciation	10 679	2 232
Other items		
Restructure of bank borrowings	(13 590)	–
Gains (losses) in investment instruments	(120 431)	178 570
Profit before interest and tax	293 162	591 554
Interest income	48 917	23 601
Interest expense	(81 786)	(33 091)
Profit before taxation	260 293	582 064
Taxation	(2 398)	(3 839)
Net Profit for the year	257 895	578 225

**Terms:**

- \*Fair value adjustment to investment properties. The investment properties are revalued at the end of each reporting period. Changes in fair value are recognised as profit or loss as they occur.
- Investment companies are companies that invest the pooled capital of investors in shares or in a group of shares.

**Dividend history**

	<b>2019</b>	<b>2018</b>
Final dividends	56 cents	51 cents
Interim dividends	51 cents	47 cents

**Ratios for the year ended 31 March**

	<b>2019</b>	<b>2018</b>
Operating expenses on property revenue	?	39,53%
Earnings per share	80 cents	250 cents
Market share price growth	0% growth	17% growth
NAV	1 177 cents	1 158 cents
Average interest rate on loans	9% p.a.	9% p.a.
Return on total capital employed	6,44%	13,46%
Return on shareholders' equity	5,58%	16,55%
Debt equity ratio	0,37 : 1	0,23 : 1
Acid test ratio	0,54 : 1	0,3 : 1
Current ratio	?	0,31 : 1
Debtors collection period	83 days	77 days
Creditors payment period	90 days	90 days

Adapted from the **Statements of Financial Position as at 31 March**

	<b>2019 R'000</b>	<b>2018 R'000</b>
<b>ASSETS</b>		
<b>Non-current assets</b>	6 644 781	4 493 563
<b>Current assets</b>	384 085	90 156
Trade and other receivables	119 273	65 165
Inventories	5 239	3 168
Cash and cash equivalents	259 573	21 823
<b>Total assets</b>	<b>7 028 866</b>	<b>4 583 719</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Total Equity</b>	4 624 751	3 494 259
Capital	4 340 445	3 091 895
Non-distributable reserves	490 839	523 096
Accumulated loss (Retained income)	(206 533)	(120 732)
<b>Non-current liabilities</b>	1 706 902	801 598
<b>Current liabilities</b>	697 213	287 862
Bank borrowings	248 861	16 571
Trade and other payables	233 485	119 378
Dividends payable	214 867	151 913
<b>Total equity and liabilities</b>	<b>7 028 866</b>	<b>4 583 719</b>

**Article B:** Quote from the financial statements:

The approach to managing liquidity is to ensure that Stor-Age always has sufficient liquidity to meet its liabilities when due without risking damage to the group's reputation.

Shareholders of Stor-Age will be entitled, in respect of all or part of their shareholdings, to elect to re-invest the Cash Dividend in return for Stor-Age Shares. Those Shareholders who do not elect the Share Alternative will receive the Cash Dividend.

As a relatively young and growing business, we endeavour to evolve our corporate governance practices from the recommended practices outlined in King IV.

**QUESTION 3 RECONCILIATIONS**

**(34 marks; 41 minutes)**

Pablo owns a furniture shop called The Polka Dot Chair. Most of the furniture he sells is very expensive and so he offers his debtors 120 days to pay. His year-end is 30 November.

**Information to answer Question 3.1:** Errors and omissions discovered when drawing up the debtors age analysis:

- An invoice dated 29 October to Mrs Venter for R27 000 was omitted. She had complained that the one chair was chipped, and so Pablo had issued a credit note to her on 1 November for R2 000 on condition that she keep the chair. This credit note had also not been recorded.
- Mr Hammer had debt of R7 700 outstanding from 90 days and R15 000 outstanding from 60 days. He paid R10 000 via an EFT towards his debt on 27 November. This has not been recorded.
- The Polka Dot Chair received a notification from the attorneys that Mr Birch had been declared insolvent. The only purchase he made was a lounge suite for R18 000 on 17 July. The attorneys let The Polka Dot Chair know that they would receive a dividend of 15 cents in a Rand in December. The rest needs to be written off.
- Interest on accounts over 150 + days is charged at 5% per month. When calculating the interest, Pablo mistakenly calculated it at 3% per month.

Below is an extract from the financial statements on 30 November:

	2020	2019
Net trade debtors	?	610 460
Sales	1 480 900	

**Note:** 90% of The Polka Dot Chair's sales are on credit.

**Information to answer Question 3.4:**

Many people choose to buy furniture and other goods on hire-purchase because they cannot afford to buy it in cash. This means they enter into a contract with a shop that allows them to take their goods home and pay equal monthly instalments until the amount is paid in full.

When buying on hire-purchase the price that is paid for goods is higher than when paying cash – sometimes even double the cash price. This is because interest is added to the hire-purchase price.

**Example:** Pablo buys a lounge suite for R11 000. He adds on an 80% mark-up. Instead of advertising a lounge suite at a selling price of R19 800, Pablo will advertise it as a monthly payment of R1 980 for twelve months.

[Source: <<https://www.vukuzenzele.gov.za/hire-purchase-can-double-cost-things-be-careful-credit>>]

**Information to complete Question 3.6:** Errors and omissions found when drawing up the creditors reconciliation.

The Polka Dot Chair received the following invoice from one of their suppliers.

Date		Transactions	Debit	Credit	Balance
Aug	9	Invoice 32	43 200		43 200
	11	Credit note 9		7 500	35 700
Sept	23	Invoice 35	55 650		91 350
Oct	1	Cheque 63		36 750	54 600
		Discount		750	53 850
	18	Invoice 40	63 700		117 550
Nov	4	Invoice 45	101 340		218 890
	20	Cheque 98		54 537	164 353
<b>Terms:</b>		Discount of 2% if invoice is paid within 60 days from date of purchase.			

The following errors and omissions were discovered when comparing the statement from Leather Worx with the Creditors Ledger of The Polka Dot Chair:

- It was discovered that credit note 9 was incorrectly recorded on the statement of Leather Worx. The correct amount was R5 700.
- Invoice 40 was incorrectly recorded on the statement. The correct amount was R67 300.
- Invoice 45 was not issued to The Polka Dot Chair, but to the Polar Bear Club.
- The discount was omitted on the statement from Cheque 98 paid on 20 November.

**Information to complete Question 3.7:** Below is The Polka Dot Chair's bank reconciliation statement drawn up on 30 November 2020.

Bank reconciliation statement on 30 November 2020

Credit balance according to bank statement		12 766
Outstanding deposit (5 November)		27 890
	(30 November)	31 475
Outstanding cheques:	No. 54 (5 May 2020)	22 500
	No. 92 (2 August 2020)	??
	No. 98 (20 November 2020)	54 537
	No. 99 (18 December 2020)	62 426
Credit balance according to the bank account		104 032

**Note:** Cheques 98 and 99 were both made out to Leather Worx and given to them on 20 November 2020.