



NATIONAL SENIOR CERTIFICATE EXAMINATION  
NOVEMBER 2021

**ACCOUNTING: PAPER II**

Time: 2 hours

100 marks

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**INFORMATION BOOKLET**

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**QUESTION 1      BUDGETS****[30 marks; 36 minutes]**

Sindi's Boutique (owned by Sindi) sells up-market, luxury clothing. Their sales have been on a downward spiral since March 2020 due to the economic decline.

**Sindi's Boutique****Projected Income Statement for January 2022**

|                                 | <b>January</b> |
|---------------------------------|----------------|
| Sales                           | 343 900        |
| Cost of sales                   | (181 000)      |
| Gross profit                    | 162 900        |
| Operating expenses              | (190 220)      |
| Employee costs                  | 55 020         |
| Rent expense                    | 62 700         |
| Electricity                     | 50 000         |
| Bad debts                       | 13 900         |
| Other                           | 8 600          |
| Operating profit                | (27 320)       |
| Interest expense                | (13 350)       |
| Net profit (loss) for the month | (40 670)       |

**Estimated balances on 28 February 2022:**

- Total assets: R1 245 776
- Non-current liabilities (loans): R1 254 000
- Trade creditors: R72 400

**Adjustments and additional information**

- 80% of their sales are on credit. Their projected debtors collection is as follows:
  - 5% is collected in the month after the sale.
  - 10% is collected two months after the sale.
  - 60% is collected three months after the sale.
  - 20% is collected in the fourth month after the sale.
  - 5% is written off at the end of the fourth month.
- Sindi's Boutique maintains a fixed level of inventory.
- Sindi is planning on increasing the boutique's mark-up from 90% to 110% on 1 February 2022.
- The owner of the shop's premises rented to Sindi's Boutique has asked if she can take some dresses at a selling price of R13 650 in February (cost of R6 500). The selling price will be deducted from the rent that needs to be paid in February.

5. 60% of stock purchases are for cash, and 40% are on credit.
6. The employee costs consist of gross salaries plus 1% UIF contribution, 10% pension fund contribution and 20% medical aid contribution. Sindi is planning to stop contributing to the pension fund and the medical aid fund from the end of January 2022.
7. Sindi's Boutique's **other** expenses for February consist of the following:
  - Cash purchases of consumables – R4 000
  - Depreciation on equipment – R3 490
  - Cash purchases of stationery – R1 110
8. Sindi's Boutique has three cash registers. Sindi has decided that they can make do with two and has found a cash buyer for one of them. She will sell it in February. The details of the cash register when she sells it in February will be as follows:
  - Cost price: R7 000
  - Accumulated depreciation on date of sale: R4 230
  - Profit on sale of asset: R120
9. The interest expense consists of interest on overdraft (R3 945) and interest on loan (R9 405). The interest on loan is capitalised to the loan account every month. A debit order of R23 000 goes off the bank account to pay off the loan every month.

**QUESTION 2 COMPANY ANALYSIS****[44 marks; 53 minutes]**

Dis-Chem Ltd and Clicks Ltd are both listed pharmaceutical companies (they sell medicine) that also sell health & beauty products, baby products, cleaning materials and toiletries. Clicks sells appliances such as kettles and toasters, while Dis-Chem sells toys, health shoes and health food. Clicks listed on the JSE in 1979 and has 881 stores across South Africa, while Dis-Chem listed in 2016 and has 170 stores. Dis-Chem tries to open about 18 new stores every year.

Adapted from the **STATEMENTS OF COMPREHENSIVE INCOME** on 31 August:

**Profitability ratios:**

|                               | <b>DIS-CHEM</b> |             | <b>CLICKS</b> |             |
|-------------------------------|-----------------|-------------|---------------|-------------|
|                               | <b>2020</b>     | <b>2019</b> | <b>2020</b>   | <b>2019</b> |
| Gross profit on sales         | 22,95%          | 24,38%      | 20,98%        | 21,34%      |
| Total income on sales         | 28,67%          | 29,1%       | 27,28%        | 27,59%      |
| Operating expenses on sales   | 23,6%           | 22,68%      | 19,23%        | 19,51%      |
| Operating profit on sales     | 5,08%           | 6,42%       | 7,34%         | 7,94%       |
| Net profit after tax on sales | 2,5%            | 3,5%        | 5,5%          | 5,37%       |

**Figures:**

|                           | <b>DIS-CHEM<br/>2020<br/>R'000</b> | <b>CLICKS<br/>2020<br/>R'000</b> |
|---------------------------|------------------------------------|----------------------------------|
| Sales                     | R24 944 000                        | R34 364 000                      |
| Cost of sales             | R19 219 000                        | R27 156 000                      |
| Net profit after taxation | R623 600                           | R1 880 175                       |

**RATIOS for the 12 months ended 31 August**

|                                  | <b>DIS-CHEM</b> |             | <b>CLICKS</b> |             |
|----------------------------------|-----------------|-------------|---------------|-------------|
|                                  | <b>2020</b>     | <b>2019</b> | <b>2020</b>   | <b>2019</b> |
| Return on shareholders' equity   | 23,6%           | 24%         | 37,8%         | 37%         |
| Return on total capital employed | 12%             | 15%         | 25%           | 26%         |
| Debt–equity ratio                | ?               | 1,5 : 1     | 0,37 : 1      | 0,35 : 1    |
| Current ratio                    | 1,32 : 1        | 1,31 : 1    | 1,2 : 1       | 1,2 : 1     |
| Acid test ratio                  | 0,45 : 1        | 0,45 : 1    | 0,59 : 1      | 0,62 : 1    |
| Days of stock on hand            | ?               | 95 days     | 66 days       | 70 days     |
| Debtors collection period        | 25 days         | 21 days     | 31 days       | 37 days     |
| Creditors payment period         | 79 days         | 79 days     | 60 days       | 73 days     |

Dis-Chem's effective interest rate on non-current liabilities is 4,5%

**Share information on 31 August**

|                                  | <b>DIS-CHEM</b> |             | <b>CLICKS</b> |              |
|----------------------------------|-----------------|-------------|---------------|--------------|
|                                  | <b>2020</b>     | <b>2019</b> | <b>2020</b>   | <b>2019</b>  |
| Net asset value                  | ?               | 244 cents   | 1 903 cents   | 1 811 cents  |
| Share price on 31 Aug on the JSE | 1 826 cents     | 2 225 cents | 23 000 cents  | 19 900 cents |
| Earnings per share               | 75 cents        | 65 cents    | 751 cents     | 675 cents    |
| Dividend per share               | 16 cents        | 33 cents    | 450 cents     | 327 cents    |

**Note:** Dis-Chem did not issue dividends on 31 August due to cash flow concerns.

Dis-Chem has a total of 860 085 000 issued shares.

Clicks has a total of 250 212 000 issued shares.

**Adapted from the STATEMENTS OF FINANCIAL POSITION on 31 August**

|                                       | <b>DIS-CHEM</b>       |                       | <b>CLICKS</b>         |                       |
|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                       | <b>2020<br/>R'000</b> | <b>2019<br/>R'000</b> | <b>2020<br/>R'000</b> | <b>2019<br/>R'000</b> |
| <b>ASSETS</b>                         |                       |                       |                       |                       |
| <b>Non-Current Assets</b>             | 3 901 483             | 3 696 261             | 5 530 507             | 5 045 548             |
| <b>Current Assets</b>                 | 7 348 605             | 6 587 606             | 9 743 698             | 10 023 576            |
| Inventories                           | 4 840 424             | 4 339 208             | 4 920 919             | 4 710 169             |
| Trade & other receivables             | 1 841 227             | 1 366 541             | 2 567 215             | 2 567 123             |
| Cash & cash equivalents               | 421 446               | 657 313               | 2 152 483             | 2 613 554             |
| Other                                 | 245 508               | 224 544               | 103 081               | 132 730               |
| <b>TOTAL ASSETS</b>                   | <b>11 250 088</b>     | <b>10 283 867</b>     | <b>15 274 205</b>     | <b>15 069 124</b>     |
| <b>EQUITY AND LIABILITIES</b>         |                       |                       |                       |                       |
| <b>Equity</b>                         | 2 620 371             | 2 101 620             | 5 193 951             | 4 786 987             |
| Share capital                         | 6 155 554             | 6 155 554             | 1 067 440             | 1 067 574             |
| Retained earnings                     | 1 082 572             | 573 738               | 4 112 155             | 4 610 936             |
| Other reserves                        | (4 617 755)           | (4 627 672)           | 14 356                | (891 523)             |
| <b>Non-Current Liabilities</b>        | 3 075 932             | 3 141 341             | 1 940 022             | 1 688 563             |
| <b>Current Liabilities</b>            | 5 553 785             | 5 040 906             | 8 140 232             | 8 593 574             |
| Trade and other payables              | 4 326 229             | 3 517 033             | 6 746 977             | 7 303 492             |
| Lease liability                       | 352 743               | 306 492               | 890 411               | 852 702               |
| Other                                 | 491 521               | 388 728               | 502 844               | 437 380               |
| Bank overdraft                        | 383 292               | 828 653               | –                     | –                     |
| <b>TOTAL EQUITY &amp; LIABILITIES</b> | <b>11 250 088</b>     | <b>10 283 867</b>     | <b>15 274 205</b>     | <b>15 069 124</b>     |

Dis-Chem was found guilty of excessive face mask pricing. In late February 2020, they increased the price of masks by between 43% and 261%. Dis-Chem will pay a R1,2 m fine, though the Competition Commission had asked that it be fined 10% of annual turnover.

Lawyers argued that Dis-Chem was expecting higher prices from suppliers due to global mask shortages, and that it had chosen a lower price than competitor Clicks. However, it no longer wants to be tainted by other corruption scandals, so it has withdrawn its appeal and will settle and pay the fine.

**Update:** August 21, 2020

[Source: <<https://www.businesslive.co.za/bd/companies/retail-and-consumer/dis-chem-withdraws-appeal-over-masks-due-to-reputational-fallout/>>]

**QUESTION 3 RECONCILIATIONS****[26 marks; 31 minutes]**

Jay owns a gym called Fun Fitness. Fun Fitness buys all their equipment from Muscle Machines because they give them a 12% trade discount on all purchases, although they expect to be paid within 30 days of statement. Muscle Machines is their only creditor.

The other companies that sell the same equipment offer a 3% trade discount but can be paid within 90 days of statement.

Below is the statement that Fun Fitness received from Muscle Machines on 30 November 2021.

| <div> <div> <b>Muscle Machines</b> </div> <div> Fun Fitness<br/> 20 Vitamin Complex<br/> Treadmill Road </div> <div> Statement no: 18<br/><br/> Date: 30 November 2021 </div> </div> |    |   |         |         |         |
|--|----|---|---------|---------|---------|
| Date   |    | Transactions  | Debit   | Credit  | Balance |
| 2021 Aug   | 8  | Invoice X23   | 88 000  |         | 88 000  |
| Sept   | 5  | Invoice X27   | 74 800  |         | 162 800 |
|  | 7  | Credit note N73   |         | 12 200  | 150 600 |
| Oct  | 1  | Interest  | 4 400   |         | 155 000 |
|  | 19 | Invoice X32   | 120 000 |         | 275 000 |
|  | 29 | EFT   |         | 81 840  | 193 160 |
|  |    | Discount  |         | 6 160   | 187 000 |
| Nov  | 1  | Interest  | 3 730   |         | 190 730 |
| <b>Terms:</b>  |    | <ul style="list-style-type: none"> <li>Discount granted on payments made within 30 days of statement.</li> <li>5% per month interest charged after 30 days overdue from date of statement.</li> </ul> |         |         |         |
| <b>Age analysis:</b>   |    | 90 Days   | 60 Days | 30 Days | Current |
|  |    | ??  | ??      | ??      | ??      |

The credit note N73 was for equipment returned that was bought on invoice X27.

**Balances / totals at year-end 30 November 2020:**

- Muscle Machines R133 150

**Balances / totals at year-end 30 November 2021:**

- Total credit purchases from Muscle Machines R790 800
- Total returns to Muscle Machines R 80 700
- Muscle Machines R152 760

**Information for answering Question 3.5:**

Errors and omissions found when the Fun Fitness bookkeeper compared the Creditors Statement to the Creditors Ledger.

1. Muscle Machines forgot the trade discount on invoice X32. Fun Fitness subtracted the trade discount when they recorded the invoice, as they realised that Muscle Machines must have made a mistake.
2. Invoice X77 for R24 000 appeared in Muscle Machines' account in the Creditors Ledger. On further investigation it was discovered that this was an invoice from Fitness Magazine for advertisements.
3. Fun Fitness was not aware of the discount that Muscle Machines granted on 29 October.
4. Fun Fitness paid Muscle Machines R50 000 via EFT on 30 November. This was entered into the Cash Payments Journal and posted to the ledgers.
5. Muscle Machines incorrectly calculated the interest on 1 November. The interest on 1 November had not yet been entered into Fun Fitness' Creditors Ledger at all.