

GRADE 10 EXAMINATION
NOVEMBER 2006

ACCOUNTING

Time: 3 hours

300 marks

MEMORANDUM

**QUESTION 1 The Accounting equation, internal control salaries and wages
(40 min; 66 marks)**

1.1 The Accounting Equation

| No | Subsidiary Journal | General Ledger | | Effect on Accounting Equation | | |
|-------|--------------------|---------------------------------|------------------|-----------------------------------|----------------|-------------|
| | | Account Dr | Account Cr | Assets | Owner's Equity | Liabilities |
| 1.1.1 | CPJ✓ | Deposit: Water and Electricity✓ | Bank✓ | +250✓ | 0 | +250✓ |
| 1.1.2 | CRJ✓ | Bank✓ | Debtors control✓ | +243,75✓ / -243,75✓ = 0* | 0 | 0 |
| | | Discount allowed✓ | Debtors control✓ | -6,25✓ | -6,25✓ | 0 |
| 1.1.3 | PCJ✓ | Donations✓ | Petty Cash✓ | -75,50✓ | -75,50✓ | 0 |
| 1.1.4 | DJ✓ | Debtors control✓ | Sales✓ | +140✓ | +140✓ | 0 |
| | | Cost of sales✓ | Trading Stock✓ | -112✓* | -112✓ | 0 |
| 1.1.5 | CAJ✓ | Creditors control✓ | Trading Stock✓ | -50✓ | 0 | -50✓ |

(* ✓✓ for the amount) [35 marks]

1.2 Internal Control

1.2.1 A system of good internal control.

- A system of internal control that is put into place to protect the assets of a business ✓
- To allow management to identify deviations from established organisational policies ✓
- To show where resources and time is wasted by employees and inappropriate procedures✓
- To safeguard assets
- To find errors and implement corrective action
- To expose fraud

(3 points x 1 mark = 3 marks)

1.2.2 (a) Two accounting controls put into place to solve the problem of cash disappearing from the cash register.

- Only one assistant to have access to the cash register✓✓
- Ensure that the human resources department / owner does a background check on all employees✓✓
- Have a clearly spelt out policy on theft by employees, e.g. if found guilty of the offence, money will be deducted from wages
- Have clear segregation of duties
- Any other acceptable answer

(2 points x 2 marks = 4 marks)

(b) Two accounting controls put into place to solve the problem of the unsatisfactory service from her main supplier MN Traders.

- Investigate alternative suppliers, focusing on their:
 - Reliability i.e. track record with regards delivery times✓✓
 - Care in transportation of stock✓✓
 - Refrigeration and storage facilities offered
 - Credit policy with regards returns (refunds, discounts, etc.)
 - Any other acceptable answer
- (2 points x 2 marks = 4 marks)**

1.2.3 Possible reason for sales target not being met.

- Mark-up too high resulting in prices being inflated✓✓
 - Misreading the earnings potential of the target market
 - Ineffective advertising strategy
 - Lack of product differentiation
 - Any other relevant answer
- (1 points x 2 marks = 2 marks)**

Possible solution to the problem.

- Improved advertising campaign✓✓
 - Thorough research of the market potential
 - Increased depth of product range that caters for special occasions – maybe differentiate product range
 - Research the pricing strategies of competitors
 - Any other relevant answer
- (1 points x 2 marks = 2 marks)**

1.3 General Ledger of Daisy Den Florists

1.3.1

| Pension Fund | | | | | | | | | |
|--------------|----|-------|-----|-------------|-------------|----|---|-----|-----------------|
| 2006 Sep | 30 | Bank✓ | CPJ | 5 901,50(✓) | 2006 Sep | 29 | Balance | b/d | 504✓ |
| | | | | | | 30 | Salaries ✓ (1 955 + 204) | SJ | ✓✓✓ 2 159 |
| | | | | | | | Pension Fund contributions ✓ (2 932,50 + 306) | SJ | ✓✓✓ 3 238,50 |
| | | | | 5 901,50 | | | | | 5 901,50 |

1.3.2

| Medical Aid Contributions | | | | | | | | | |
|---------------------------|----|-------------------|-----|--------|-------------|----|------------------|----|----------|
| 2006 Sep | 29 | Balance✓ | b/d | 126 | 2006 Sep | 30 | Profit and Loss✓ | GJ | (✓)1 136 |
| | 30 | Medical Aid Fund✓ | SJ | ✓1 010 | | | | | |
| | | | | 1 136 | | | | | 1 136 |

66 marks

QUESTION 2 Financial statements and concepts (50 min; 84 marks)

2.1

**Atlantic Fashions
Income Statement for the year ended 28 February 2006**

| | | |
|--|-----------|------|
| Sales (473 680 – 625 – 864) | 472 191 | ✓✓✓✓ |
| Cost of Sales (260 000 – 576) | (259 424) | ✓✓✓ |
| Gross profit | 212 767 | (✓) |
| Other operating income | 15 785 | (✓) |
| Rent Income (6 x 1 200 + 6 x 1 320) or (7 200 + 7 920) | 15 120 | ✓✓✓✓ |
| Discount received | 345 | ✓ |
| Bad Debts recovered | 320 | ✓ |
| Gross Income | 228 552 | (✓) |
| Other operating expenses | (70 795) | (✓) |
| Advertising (1 800 – 900) | 900 | ✓✓✓ |
| Bad debts (2 644 + 276) | 2 920 | ✓✓✓ |
| Telephone | 2 995 | ✓ |
| Water and electricity | 2 724 | ✓ |
| Insurance | 5 200 | ✓ |
| Salaries (48 000 + 2 500) | 50 500 | ✓✓✓ |
| Stationery (2 340 – 114) | 2 226 | ✓✓✓ |
| Trading stock deficit | 524 | ✓ |
| Discount allowed | 250 | ✓ |
| Packing material | 2 556 | ✓ |
| Operating profit for the year | 157 757 | (✓) |
| Interest income (2 800 + 9) | 2 809 | ✓✓✓ |
| Net profit before interest expense | 160 566 | (✓) |
| Interest expense (3 000 + 4 800) | (7 800) | ✓✓✓ |
| Net profit for the year | 152 766 | (✓) |

2.2 **Notes to the financial statements**

| | | |
|--|--------|------|
| 1. Inventory | | |
| Trading inventory (28 500 – 576 – 924) | 27 000 | ✓✓✓✓ |
| Consumable stores on hand | 114 | ✓ |
| | 27 114 | (✓) |

| | | |
|--|--------|--------|
| 2. Trade and other receivables | | |
| Trade Debtors (16 580 – 864 – 276 + 320 + 9) | 15 769 | ✓✓✓✓✓✓ |
| | | |
| | | |
| | | |

| | | |
|--------------------------------------|----------|-----|
| 3. Owner’s equity | | |
| Balance at the beginning of the year | 295 286 | ✓ |
| Additional capital contributions | 12 000 | ✓✓ |
| Net profit for the year | 152 766 | (✓) |
| Drawings for the year (32 500 + 400) | (32 900) | ✓✓✓ |
| Balance at the end of the year | 427 152 | (✓) |

2.3.1 The importance of both financial accounting and managerial accounting.

Financial Accounting uses historical data to draw up a set of financial statements and it provides evidence of what actually happened in the business over a period of time; ✓✓ whereas **Managerial Accounting** considers how to use the financial data for decision making; future growth / expansion of the business and to better manage the scarce resources of the business.
 One branch of accounting is dependent on the other and vice versa. ✓✓
(2 points x 2 marks = 4 marks)

2.3.2 **Three** ways in which the business could manage their debtors more effectively.

- The business needs to review its credit application and selection procedures. Clearly it is allowing credit to be granted too easily to individuals who have a poor track record – hence the high level of bad debts. ✓✓
 - The business should try to encourage early settlement of accounts by offering discounts; free gifts (samples) or even extending the credit terms. ✓✓
 - The business could charge a higher rate of interest on overdue accounts to those debtors whose debtors age analysis is unacceptable or not according to business policy. ✓✓
 - The business should review the credit terms and credit periods of its debtors on a regular basis and implement changes so that it remains on track with its credit targets.
 - The business could offer alternative methods of finance to debtors who have gone into arrears or seek alternative methods of debt recovery before writing the debt off as irrecoverable.
 - Any other acceptable answer
- (3 points x 2 marks = 6 marks)**

2.3.3 Match the columns – Accounting concepts

| |
|--------------|
| 1. E ✓✓ |
| 2. B or G ✓✓ |
| 3. D ✓✓ |
| 4. A ✓✓ |
| 5. F ✓✓ |

84 marks

QUESTION 3 Cost Concepts (24 min; 40 marks)

3.1 Explain the difference between a fixed cost and a variable cost, with examples.

A **fixed cost** is a cost that remains the same and its value is not dependent on the number of units manufactured ✓✓ e.g. factory rent, labour cost of factory supervisor. ✓
 A **variable cost** is a cost where its value varies with the number of units that are manufactured ✓✓ e.g. cost of raw materials, wages of jewellery makers, packaging costs. ✓
(2 points x 3 marks = 6 marks)

3.2 Explain why water and electricity is regarded as a semi-variable cost.

That part of the water and electricity that varies according to the units produced/used in the manufacturing process is the variable component ✓✓ whereas
 The part that does not vary with output is the fixed component ✓✓
(2 points x 2 marks = 4 marks)

3.3 Calculate the total cost to manufacture the 300 pieces of jewellery.

$$(37\,720 - 350) + 19\,810 + 3\,200 + 5\,000 + 980 + 620 + 400 + 3\,420$$

$$= 70\,800 \quad \checkmark\checkmark\checkmark\checkmark$$

3.4 What price should the jewellery be sold at?

- Cost to make 1 piece of jewellery: $R70\,800 \div 300 \text{ units} = R236$ ✓✓✓
- 50% mark-up ($50\% \times 236 = 118$) ✓✓
- 14% VAT ($14\% \times (236 + 118) = 49,56$) ✓
- Selling price ($236 + 118 + 49,56$) = R403,56 ✓

3.5 **TWO** ways in which a computerised financial package could ensure timeous VAT returns to SARS.

- VAT is calculated automatically for very transaction entered by computer. ✓✓
 - Accounting entries are recorded more quickly and efficiently and more control is kept of stock and debtors – this is because of the detail allowed in the computer packages. ✓✓
 - Financial statements are prepared whenever necessary as they are automatically updated with every transaction.
 - VAT records are updated with every transaction entered – Max would just need to click on the correct icon to view his VAT details.
 - Max would be able to electronically render his VAT returns through the Internet – saving time and money
- (2 points x 2 marks = 4 marks)**

3.6 The expected net wage to the jewellery maker in June 2006.

| |
|---|
| <p>New Gross Wage: $R1\ 710 \times 33\frac{1}{3}\% = R570$ $R1\ 710 + R570 = R2\ 280$ Deductions: SITE R85,50 + R4 = R89,50 UIF R10 Staff Association R5</p> <p>Net wage = $R2\ 280\checkmark - R104,50\checkmark\checkmark\checkmark$ = R2 175,50 (✓)</p> |
|---|

3.7 The **FIVE** areas that Max should focus on when he gives his presentation to the Soccer World Cup 2010 Promotions committee.

Marking Grid

| 0 | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|--|---|
| Not able to list or describe any area of the business as part of the business presentation | <p>Lists at least one area of focus for the presentation.</p> <p>Able to describe at least one of the focus areas listed.</p> <p>OR</p> <p>Learner only lists, without description one or more areas of focus for the presentation.</p> | <p>Lists at least two focus areas for the presentation.</p> <p>Able to describe at least two of the focus areas listed.</p> | <p>Lists at least three focus areas for the presentation.</p> <p>Able to describe at least three of the focus areas listed.</p> | <p>Lists at least four areas of focus for the presentation.</p> <p>Able to describe at least four of the focus areas listed.</p> | <p>Lists five areas of focus for the presentation.</p> <p>Each area of focus is described.</p> <p>Each description shows insight so as to ensure Max receives the tender.</p> |

[mark x 2 = 10]

40 marks

QUESTION 4 Ratio Analysis (36 min; 60 marks)

4.1 Financial ratios of Sunshine Traders for December 2005

| Ratio 2005 | Calculation |
|-------------------------------------|---|
| 4.1.1 Gross profit on turnover | $\frac{55\ 000}{124\ 000} \times 100 = 44,35\%$ |
| 4.1.2 Gross profit on cost of sales | $\frac{55\ 000}{69\ 000} \times 100 = 79,71\%$ |
| 4.1.3 Return on owner's equity | $\frac{\text{Net profit}}{\text{Av Capital}} \times 100$ $\frac{12\ 000}{203\ 000} \times 100 = 5,9\%$ <p>Average capital = $(206\ 000 + 200\ 000) / 2 = 203\ 000$</p> |
| 4.1.4 Current ratio | $CA = 18\ 000 + 19\ 000 + 3\ 000 = 40\ 000$ $CA: CL = 40\ 000: 10\ 000 = 4: 1$ |
| 4.1.5 Acid test ratio | $19\ 000 + 3\ 000 : 10\ 000$ 2,2: 1 |

4.2.1 Comment on the liquidity position of Sunshine Traders in 2005.

- The current ratio for both years is above the norm of 2:1. ✓✓
 - The acid test ratio for both years is above the norm of 1:1. ✓✓
 - The business is in a position to meet its short-term obligations successfully. ✓✓
 - One might argue that because the ratios are showing an increasing trend and they are significantly away from the norm the business may have liquid funds lying idle and not being effectively used in the business. This could restrict growth prospects.
- (3 points x 2 marks = 6 marks)**

4.2.2 Comment on the owners' return on his investment in the business.

- The owner should be concerned with the return on his investment. ✓✓
 - The return is showing a decreasing trend 7% to 5,9%. ✓✓
 - The return is far lower than what the owner could have earned had he invested his money in an alternative investment, e.g. a fixed deposit at a financial institution that earns a return of 8%.
- (2 points x 2 marks = 4 marks)**

4.2.3 **THREE** aspects of the business that would make the buy a good investment.

Marking Grid

| 0 | 1 | 2 | 3 |
|--|---|---|--|
| Not able to outline any aspect of the business that would make the investment worthwhile | Outlines at least one aspect of the business. At least one aspect is substantiated with an appropriate ratio or percentage. OR Learner outlines one or more aspect of the business without any substantiation. | Outlines at least two aspects of the business. At least one of the aspects is substantiated with an appropriate ratio or percentage. | Outlines three aspects of the business. Each aspect is substantiated with an appropriate ratio or percentage. Each description adds value to the decision to purchase the business as a good investment. |

[mark x 2 = 6]

4.2.4 **TWO** possible reasons for not maintaining a 100% mark-up.

- Goods have been marked up incorrectly. ✓✓
 - Gave too many trade discounts. ✓✓
 - There has been stock shortages/theft, etc.
 - Stock is becoming outdated or original price too high.
 - Any other acceptable answer.
- (2 points x 2 marks = 4 marks)**

4.2.5 **TWO** other non-financial factors that would need to be considered for the investment.

- Level of competition in the market segment. ✓✓
 - Geographical position of the business. ✓✓
 - Distance of the business from suppliers, raw materials.
 - Labour supply and relationship between management and workers.
 - Customer loyalty to the product.
 - The general economic environment at the time of purchase e.g. rate of inflation, prime lending rate, etc.
 - Any other acceptable answer.
- (2 points x 2 marks = 4 marks)**

4.3.1 Describe the term **working capital**.

Capital that is used to keep the business running from day to day, ✓✓ to pay expenses, purchase inventory and finance trade debtors. ✓✓

(2 points x 2 marks = 4 marks)

4.3.2 Calculate the working capital for:

| 2004 | 2005 |
|---|---|
| CA – CL = (26 000 + 23 000 + 1 000) – 14 000 = R36 000 ✓✓✓ | CA – CL = (18 000 + 19 000 + 3 000) – 10 000 = R30 000 ✓✓✓ |

4.3.3 Comment on how successfully Joe has been managing his working capital.

Marking Grid

| 0 | 1 | 2 | 3 |
|--|---|--|--|
| Not able to comment on how Joe has been managing his working capital requirements. | Opinion on the management of working capital is expressed plainly. Learner is not able to reference opinion to financial data given. | Opinion is expressed on the management of working capital. An attempt is made to substantiate opinion with reference to financial data given. | Clear opinion is expressed on the management of working capital. Opinion is substantiated with reference to financial data given. Learner is able to link proper management of working capital to the success of the business. |

[mark x 2 = 6]

| |
|-----------------|
| 60 marks |
|-----------------|

QUESTION 5 Budget Concepts and ethics (30 min; 50 marks)

5.1 Explain the difference between a cash budget and an income statement.

Cash Budget – This management instrument is drawn up to forecast the cash inflows and cash outflows of the business, using past historical data as a base (starting point), for a specific budget period; ✓✓ whereas
Income Statement – This management instrument is drawn up to show actual incomes and expenditures and is drawn up using the accrual concept of GAAP and does not necessarily consider when cash is received or paid. ✓✓
(2 points x 2 marks = 4 marks)

TWO advantages of the cash budget as a management tool over the income statement.

- The time frame of the budget period is usually shorter than that of the Income Statement – thus allowing management the opportunity to rectify variances quickly. ✓✓
 - Management can tie up the cash budget with movements in the CRJ, CPJ and bank statement with ease, but because the Income Statement considers accruals – the process may be more timeous and difficult. ✓✓
 - Any other relevant advantage.
- (2 points x 2 marks = 4 marks)**

5.2 Calculate the budgeted closing balance for the bank for February 2006.

$(R20\ 344) + R3\ 090 = (R17\ 254)$ ✓✓

5.3

| Area of concern - substantiated | Possible solution to problem |
|---|---|
| <ul style="list-style-type: none"> • Drawings of R15 000 budgeted to take out in Feb 2006. ✓✓ | <ul style="list-style-type: none"> – Could have budgeted to spread the taking out of the drawings evenly over the budget period. ✓ |
| <ul style="list-style-type: none"> • The purchase of the equipment. ✓✓ | <ul style="list-style-type: none"> – Could have budgeted to purchase the equipment in instalments, thus easing the burden of cash payments in February. ✓ |
| <ul style="list-style-type: none"> • Interest payments on the loan. ✓✓ <p>(Any relevant concern that is substantiated)</p> | <ul style="list-style-type: none"> – Could have negotiated favourable terms or been more competitive in finding an institution that offered lower rates of interest. ✓ <p>(Credit must be given if the solution offered is feasible)</p> |

(3 points x 3 marks = 9 marks)

5.4 Workings for budgeted cash payments in March 2006.

| |
|--|
| <ul style="list-style-type: none"> • Salary Payments $8\ 960 \div 4 = 2\ 240 \checkmark$ $2\ 240 \times 0,5 = 1\ 120 \checkmark$ $2\ 240 \times 3 = 1\ 120 = 7\ 840 \checkmark$ |
| <ul style="list-style-type: none"> • Other operating expenses $33\frac{1}{3}\% \times 2\ 133 = 710,99 \checkmark$ $2\ 133 + 710,99 = 2\ 844 \checkmark$ |
| <ul style="list-style-type: none"> • Cash purchase of trading inventory $(2\ 160 - 1\ 800) \div 1\ 800 = 20\% \checkmark$ $20\% \times 2\ 160 = 432 \checkmark$ $2\ 160 + 432 = 2\ 592 \checkmark$ |
| <ul style="list-style-type: none"> • Payment to creditors $25\% \times 2\ 200 = 550 \checkmark$ $2\ 200 - 550 = 1\ 650 \checkmark$ |
| <ul style="list-style-type: none"> • Interest payments on the loan 7 200✓ |
| <ul style="list-style-type: none"> • Drawings by the owner $40\% \times 15\ 000 = 6\ 000 \checkmark$ $15\ 000 - 6\ 000 = 9\ 000 \checkmark$ |
| TOTAL BUDGETED CASH PAYMENTS IN MARCH 2006 = R31 126✓(✓) |

[15 marks]

5.5 Briefly explain whether you think the approach taken by Britney in the salary negotiation process is ethical.

Marking Grid

| Mark out of eight marks. Base assessment on the level of answer according to the following criteria: | |
|---|---|
| 0 | <ul style="list-style-type: none"> • No response given. Response given does not address the question. |
| 1 | <ul style="list-style-type: none"> • Expressed a vague opinion on the ethical problem. • Not able to substantiate the opinion with acceptable ethical practice in a business environment. |
| 2 | <ul style="list-style-type: none"> • Opinion is expressed plainly, but is not substantiated. • There is very little evidence of a cohesive argument in linking the ethical problem to acceptable ethical practice in a business environment. |
| 3 | <ul style="list-style-type: none"> • Expressed an opinion on the ethical problem. • Learner shows an attempt to link the ethical problem to acceptable ethical practice in a business environment. |
| 4 | <ul style="list-style-type: none"> • Expressed an opinion and critically evaluated the ethical problem. • Learner was able to link the ethical problem to acceptable ethical practice in a business environment. • The learner has shown insight in his / her answer that shows understanding of the dilemma faced when acting ethically in a situation. |

[mark x 2 = 8]

5.6 Briefly explain whether you think what Britney is doing for the group of investors is ethical.

Marking Grid

| | |
|---|---|
| Mark out of eight marks. Base assessment on the level of answer according to the following criteria: | |
| 0 | <ul style="list-style-type: none"> No response given. Response given does not address the question. |
| 1 | <ul style="list-style-type: none"> Expressed a vague opinion on the ethical problem. Not able to substantiate the opinion with acceptable ethical practice in a business environment. |
| 2 | <ul style="list-style-type: none"> Opinion is expressed plainly, but is not substantiated. There is very little evidence of a cohesive argument in linking the ethical problem to acceptable ethical practice in a business environment. |
| 3 | <ul style="list-style-type: none"> Expressed an opinion on the ethical problem. Learner shows an attempt to link the ethical problem to acceptable ethical practice in a business environment. |
| 4 | <ul style="list-style-type: none"> Expressed an opinion and critically evaluated the ethical problem. Learner was able to link the ethical problem to acceptable ethical practice in a business environment. The learner has shown insight in his / her answer that shows understanding of the dilemma faced when acting ethically in a situation. |

[mark x 2 = 8]

| |
|-----------------|
| 50 marks |
|-----------------|

Total: 300 marks