



**GRADE 10  
ACCOUNTING  
YEAR-END EXEMPLAR EXAMINATION PAPER: 2006**

**SUGGESTED MEMORANDUM**

- Traditional memo
  - Rubrics

**MEMO TO QUESTION 1:**

**1.1**

|       | <b>Purpose</b>   | <b>Name of document</b>   |
|-------|--|---------------------------|
| e.g.  | This document records payments made out of petty cash  | <i>Petty Cash voucher</i> |
| 1.1.1 | This document is used to record money received from a customer for a cash sale of stock to him               | Cash slip üü              |
| 1.1.2 | This document is used to record a credit sale to a customer  | Invoice üü                |
| 1.1.3 | This document is used to deposit money into the bank account of the business                                 | Deposit slip ü            |
| 1.1.4 | This document is used to pay a supplier for an amount owed to him, using money in the business' bank account | Cheque üü                 |
| 1.1.5 | This document is used to record stock returned by a credit customer  | Credit note üü            |
| 1.1.6 | This document is received from a creditor for goods bought on credit by the business                         | Invoice üü                |
| 1.1.7 | This document is used to put through various entries in the General Journal e.g. write off bad debts         | Journal voucher üü        |
| 1.1.8 | This document is used to return goods to a creditor  | Debit note üü             |

**15**

**1.2**

|              | <b>(a)</b> | <b>(b)</b> | <b>(c)</b> | <b>(d)</b> |
|--------------|------------|------------|------------|------------|
| <b>1.2.1</b> | <b>X</b>   |            |            |            |
| <b>1.2.2</b> |            |            | <b>X</b>   |            |
| <b>1.2.3</b> |            |            |            | <b>X</b>   |
| <b>1.2.4</b> |            | <b>X</b>   |            |            |
| <b>1.2.5</b> |            |            | <b>X</b>   |            |

üüü  
üüü  
üüü  
üüü  
üüü

**15**

### 1.3.1 Three main points to solve the debtors problem

- *Proper screening of debtors before opening accounts*
- *Signing of invoices by customers*
- *Statements sent out on time*
- *Letters of demand for those who are late in paying*
- *Incentives for early payment*
- *No sales to overdue debtors*
- *Charge interest on overdue accounts*

*Any three points provided they are valid and essential üü üü üü  
(Allocate part marks if points are valid but not essential)*

### 1.3.2 Two main points to solve the stock problem

- *Check books delivered to the shop – check to invoice*
- *Regular stock counts – check to Trading stock account*
- *Layout of books carefully designed e.g. magazines near desk, valuable books secured*
- *Security tags on books*
- *Store inspectors / security guards at doors – check to sales slip*
- *Background checks on employees*

*Any two points provided they are valid and essential: üü üü  
(Allocate part marks if points are valid but not essential)*

**10**

|              |
|--------------|
| <b>Marks</b> |
|              |
| <b>40</b>    |

**MEMO TO QUESTION 2:**

|     |  |     |
|-----|--|-----|
| 2.1 | Calculate the profit that Mary made in January 2006.<br><br>üü      ü      ü<br>$R3\ 200 - R2\ 160 = R1\ 040$  | (4) |
| 2.2 | Calculate the cost per cake produced in January 2006.<br><br>ü      ü      ü<br>$R2\ 160 / 40 = R54$   | (3) |
| 2.3 | Example of a Direct cost: Ingredients ü<br><br>Example of an Indirect cost: Wages / Rent etc ü   | (2) |
| 2.4 | Mary thinks that if she increases her production by 50% then her profit will also increase by 50%. Is she correct? Explain briefly.<br><br><i>Her husband is correct. ü</i><br><i>Economies of scale. Fixed costs will not change.üü</i> | (3) |

| <b>2.5</b>                     | <b>Calculation of profit of making and selling 80 cakes:</b>   |                            |       |                    |        |                               |        |                           |        |                       |          |               |         |                       |        |                       |       |                                |        |                   |        |  |                   |   |
|--------------------------------|--|----------------------------|-------|--------------------|--------|-------------------------------|--------|---------------------------|--------|-----------------------|----------|---------------|---------|-----------------------|--------|-----------------------|-------|--------------------------------|--------|-------------------|--------|--|-------------------|---|
|                                | <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 60%;">Cost of producing 80 cakes</th> <th style="width: 40%;">TOTAL</th> </tr> </thead> <tbody> <tr> <td><b>Fixed costs</b></td> <td style="text-align: right;">800,00</td> </tr> <tr> <td>- Rent of kitchen &amp; equipment</td> <td style="text-align: right;">500,00</td> </tr> <tr> <td>- Wages paid to assistant</td> <td style="text-align: right;">300,00</td> </tr> <tr> <td><b>Variable costs</b></td> <td style="text-align: right;">2 720,00</td> </tr> <tr> <td>- Ingredients</td> <td style="text-align: right;">1200,00</td> </tr> <tr> <td>- Electricity &amp; water</td> <td style="text-align: right;">320,00</td> </tr> <tr> <td>- Packaging for cakes</td> <td style="text-align: right;">80,00</td> </tr> <tr> <td>- Motor vehicle delivery costs</td> <td style="text-align: right;">880,00</td> </tr> <tr> <td>- Telephone calls</td> <td style="text-align: right;">240,00</td> </tr> <tr> <td></td> <td style="text-align: right;"><b>R 3 520,00</b></td> </tr> </tbody> </table> | Cost of producing 80 cakes | TOTAL | <b>Fixed costs</b> | 800,00 | - Rent of kitchen & equipment | 500,00 | - Wages paid to assistant | 300,00 | <b>Variable costs</b> | 2 720,00 | - Ingredients | 1200,00 | - Electricity & water | 320,00 | - Packaging for cakes | 80,00 | - Motor vehicle delivery costs | 880,00 | - Telephone calls | 240,00 |  | <b>R 3 520,00</b> | <p><i>Fixed costs remain fixed</i><br/>üü</p> <p><i>Variable costs will double</i><br/>üüüü</p> |
| Cost of producing 80 cakes     | TOTAL  |                            |       |                    |        |                               |        |                           |        |                       |          |               |         |                       |        |                       |       |                                |        |                   |        |  |                   |   |
| <b>Fixed costs</b>             | 800,00   |                            |       |                    |        |                               |        |                           |        |                       |          |               |         |                       |        |                       |       |                                |        |                   |        |  |                   |   |
| - Rent of kitchen & equipment  | 500,00   |                            |       |                    |        |                               |        |                           |        |                       |          |               |         |                       |        |                       |       |                                |        |                   |        |  |                   |   |
| - Wages paid to assistant      | 300,00   |                            |       |                    |        |                               |        |                           |        |                       |          |               |         |                       |        |                       |       |                                |        |                   |        |  |                   |   |
| <b>Variable costs</b>          | 2 720,00   |                            |       |                    |        |                               |        |                           |        |                       |          |               |         |                       |        |                       |       |                                |        |                   |        |  |                   |   |
| - Ingredients                  | 1200,00  |                            |       |                    |        |                               |        |                           |        |                       |          |               |         |                       |        |                       |       |                                |        |                   |        |  |                   |   |
| - Electricity & water          | 320,00   |                            |       |                    |        |                               |        |                           |        |                       |          |               |         |                       |        |                       |       |                                |        |                   |        |  |                   |   |
| - Packaging for cakes          | 80,00  |                            |       |                    |        |                               |        |                           |        |                       |          |               |         |                       |        |                       |       |                                |        |                   |        |  |                   |   |
| - Motor vehicle delivery costs | 880,00   |                            |       |                    |        |                               |        |                           |        |                       |          |               |         |                       |        |                       |       |                                |        |                   |        |  |                   |   |
| - Telephone calls              | 240,00   |                            |       |                    |        |                               |        |                           |        |                       |          |               |         |                       |        |                       |       |                                |        |                   |        |  |                   |   |
|                                | <b>R 3 520,00</b>  |                            |       |                    |        |                               |        |                           |        |                       |          |               |         |                       |        |                       |       |                                |        |                   |        |  |                   |   |
|                                | <p>Sales = 80 x R80 = R6 400 üü</p> <p>Costs = R3 520 p</p> <p>Profit = R2 880 p</p>   | (10)                       |       |                    |        |                               |        |                           |        |                       |          |               |         |                       |        |                       |       |                                |        |                   |        |  |                   |   |

| <b>2.6</b>  | <p><b>Opinion on Mary’s involvement in the local fund-raising day.</b></p> <p><b>Workings (not essential):</b></p> <p>Extra profit = New sales – Extra fixed costs – Extra variable costs<br/> = R2600 – R1000 – (R40 x R34 = R1360)<br/> = R240</p> <p>Contribution per unit = R65 – R34 = R31<br/> Total contribution = R31 x 40 cakes = R1 240<br/> Extra fixed costs = R600 + R400 = R1 000<br/> Extra profit = R240</p> <p><i>Possible Answers:</i><br/> Yes (if she feels that the additional R240 is worth it) OR<br/> No (if she feels the amount is insignificant in comparison to what she normally earns for the same number of cakes made or that her assistant is earning more than she is.</p>                        |   |   |           |           |   |  |   |   |     |
|---|---|---|---|-----------|-----------|---|--|---|---|-----|
|   | <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 25%;">0-2 marks</th> <th style="width: 25%;">3-4 marks</th> <th style="width: 25%;">5-6 marks</th> <th style="width: 25%;">7-8 marks</th> </tr> </thead> <tbody> <tr> <td>Poor or no motivation provided for the opinion given.</td> <td>Satisfactory motivation provided for the opinion given considering two of the following factors: FC, VC, revenue and effect on profit.</td> <td>Good motivation provided for the opinion given considering factors of FC, VC, revenue and effect on profit.</td> <td>Convincing motivation provided for the opinion given considering factors of FC, VC, revenue and effect on profit.</td> </tr> </tbody> </table> | 0-2 marks   | 3-4 marks   | 5-6 marks | 7-8 marks | Poor or no motivation provided for the opinion given. | Satisfactory motivation provided for the opinion given considering two of the following factors: FC, VC, revenue and effect on profit. | Good motivation provided for the opinion given considering factors of FC, VC, revenue and effect on profit. | Convincing motivation provided for the opinion given considering factors of FC, VC, revenue and effect on profit. | (8) |
| 0-2 marks   | 3-4 marks   | 5-6 marks   | 7-8 marks   |           |           |   |  |   |   |     |
| Poor or no motivation provided for the opinion given. | Satisfactory motivation provided for the opinion given considering two of the following factors: FC, VC, revenue and effect on profit.  | Good motivation provided for the opinion given considering factors of FC, VC, revenue and effect on profit. | Convincing motivation provided for the opinion given considering factors of FC, VC, revenue and effect on profit. |           |           |   |  |   |   |     |

|              |
|--------------|
| <b>Marks</b> |
|              |
| <b>30</b>    |

### SOLUTION TO QUESTION 3

#### 3.1 PEGGY PERUMAL TRADING AS 'PEGGY'S FASHIONS' INCOME STATEMENT FOR THE YEAR ENDING 28 FEBRUARY 2005

|                             |           |    |         |
|-----------------------------|-----------|----|---------|
| Sales                       | 600 000   | PP | 599 200 |
| Cost of sales               | (350 000) |    |         |
| Gross profit                | 249 200   | R  |         |
| Add: Other operating income | 18 500    | R  |         |
| Commission income           | 15 000    | PP | 16 500  |
| Discount received           | 2 000     |    |         |
|                             |           |    |         |
|                             | 267 700   |    |         |
| Less: Operating expenses    | (170 000) | R  |         |
| Salaries & wages            | 80 000    |    |         |
| Telephone                   | 5 000     |    |         |
| Advertising                 | 4 000     | PP | 3 400   |
| Rent expense                | 44 000    | PP | 48 000  |
| Motor vehicle expenses      | 23 000    |    |         |
| Stationery & printing       | 1 000     |    |         |
| Bank charges                | 3 000     | PP | 3 300   |
| Trading stock deficit       | 5 800     | PP |         |
| Bad debts                   | 500       | PP |         |
|                             |           |    |         |
|                             |           |    |         |
| Operating profit            | 97 200    | R  |         |
| Add: Interest income        | 2 000     | PP | 2 060   |
|                             | 99 760    | R  |         |
| Less: Interest expense      | (11 000)  | PP | 13 000  |
| Net profit                  | 87 760    | PR |         |

25



|       |   |  |
|-------|---|--|
| 3.3.1 | <p>In your opinion, is it necessary for accountants to follow a set of rules or principles when they prepare financial statements? Explain briefly.</p> <p>Possible answers (other valid answers acceptable):</p> <ul style="list-style-type: none"> <li>• Reliability</li> <li>• Comparability</li> <li>• Understandability</li> </ul>   |  |
| 3.3.2 | <p>Briefly explain the 'Historical Cost Rule' and why it is necessary to use this rule / principle.</p> <p>Possible answers (other valid answers acceptable):</p> <ul style="list-style-type: none"> <li>• Assets recorded at original cost (explanation)</li> <li>• Avoids manipulation of figures (reason)</li> </ul>   |  |
| 3.3.3 | <p>Briefly explain the 'Matching Principle' and why it is necessary to use this rule / principle.</p> <p>Possible answers (other valid answers acceptable):</p> <ul style="list-style-type: none"> <li>• Revenue items matched to correct time period or income matched against the expense incurred to generate the income (explanation)</li> <li>• Enables one time period to be compare to another (reason)</li> </ul>   |  |
| 3.3.4 | <p>Briefly describe what is meant by:</p> <p>Possible answers (other valid answers acceptable):</p> <ul style="list-style-type: none"> <li>- <b>Assets:</b> Items of lasting value owned by a business OR items owned by a business to generate income</li> <li>- <b>Liabilities:</b> Amounts owed to other persons or organisations</li> <li>- <b>Owner's equity:</b> The net worth of a business OR he amount to which the owner is entitled</li> <li>- <b>Gross profit:</b> Profit made by a trader in the process of buying and selling goods</li> <li>- <b>Net profit:</b> All income less all expenses OR he amount by which the net worth of a business increases over an accounting period</li> </ul> |  |

### RUBRIC TO QUESTION 3.3:

| CONCEPTS   | Inadequate<br>0               | Partial<br>1                    | Adequate<br>2                                  | Satisfactory<br>3                                 | Meritorious<br>4  | Outstanding<br>5  | Weight | Max |
|--|-------------------------------|---------------------------------|--|---|---|---|--------|-----|
| 3.3.1<br>General need for GAAP identified and explained – understandability, comparability | No idea of need for GAAP      | Little idea of need for GAAP    | Some idea of need for GAAP, not well explained | Good idea of need for GAAP but not well explained | Good idea of need for GAAP and reasonably well explained    | Need for GAAP well identified and clearly explained               | X1     |     |
| 3.3.2<br>Historical cost rule – reliability of information                                 | No idea of the rule evident   | Little idea of the rule evident | Rule is defined but no understanding of need   | Rule is defined and some understanding of need    | Well defined & good understanding of need for reliability   | Excellent defined & clear understanding of need for reliability   | X1     |     |
| 3.3.3<br>Matching Principle – comparability of information                                 | No idea of the rule evident   | Little idea of the rule evident | Rule is defined but no understanding of need   | Rule is defined and some understanding of need    | Well defined & good understanding of need for comparability | Excellent defined & clear understanding of need for comparability | X1     |     |
| 3.3.4<br>Definitions of accounting concepts  | No concepts correctly defined | One concept correctly defined   | Two concepts correctly defined                 | Three concepts correctly defined                  | Four concepts correctly defined                             | All five concepts correctly defined                               | x2     |     |

25

|              |
|--------------|
| <b>Marks</b> |
|              |
| <b>100</b>   |

## ANSWER SHEET TO QUESTION 4

|     |  |             |
|-----|--|-------------|
| 4.1 | <p>Brief explanation on the difference between fixed costs and variable costs.</p> <ul style="list-style-type: none"> <li>• Variable costs: change in accordance with the scale of business operations PP</li> <li>• Fixed costs: do not change in accordance with the scale of business operations PP</li> </ul> <p>Two examples of fixed costs:<br/>wages, vehicle expenses, salaries, rent, etcP P</p> <p>Two examples of variable costs:<br/>Motor vehicle expenses, consumable stores, telephone &amp; electricity, etc. PP</p> <p style="text-align: center;"><i>Alternative wording acceptable.</i></p>                               | <b>(8)</b>  |
| 4.2 | <p>Brief report for Victor.</p> <p>Identification and explanation of issues from the budget:</p> <ul style="list-style-type: none"> <li>• Gardeners given 5% increase in wages PPü</li> <li>• Sales increased by 40% à increase in workload PPü</li> <li>• Managers given 40% increase in salaries PPü</li> </ul> <p>Two practical suggestions to solve the problem:<br/>(any two üüü üüü)</p> <ul style="list-style-type: none"> <li>• Increase salaries and wages by a similar rate, not necessarily 40%</li> <li>• Negotiate with gardeners</li> <li>• Consider introducing service benefits e.g. medical and pension benefits</li> </ul> | <b>(15)</b> |

| 4.3                              | <p>Consider the bank balances at the end of 2005 and 2006. In your opinion, is it wise for Victor to keep these amounts in the bank? Provide one reason for your opinion as well as two options for the treatment of the cash.</p> <p>Opinion:</p> <ul style="list-style-type: none"> <li>Opinion: not wise üü</li> </ul> <p>Reason</p> <ul style="list-style-type: none"> <li>Low interest rate on cheque accounts üü</li> </ul> <p>Suggestions – any two PPü PPü:</p> <ul style="list-style-type: none"> <li>Invest in fixed deposit</li> <li>Take more drawings for personal use and enjoyment</li> <li>No need to provide so much extra capital</li> <li>Pay workers more</li> <li>Repay loan to save on interest expense</li> </ul> <p><i>Alternative ideas and wording acceptable.</i></p>  | (10)                                       |  |  |  |     |      |                                  |   |  |  |  |  |      |
|----------------------------------|---|--|--|--|--|-----|------|----------------------------------|---|--|--|--|--|------|
| 4.4                              | <p>Three items in the cash budget that could have been miscalculated with brief explanation of each item.</p> <p><i>Possible answers:</i></p> <ul style="list-style-type: none"> <li><i>Advertising: for sales to increase they will probably have to do more advertising</i></li> <li><i>Rent of office: no provision inflationary increase</i></li> <li><i>Consumable stores: increase by more than 40%</i></li> <li><i>Bank charges: no increase</i></li> </ul> <table border="1" data-bbox="363 1272 1253 1428"> <thead> <tr> <th>0</th> <th>1-2</th> <th>3-4</th> <th>5-6</th> <th>7-8</th> <th>9-10</th> </tr> </thead> <tbody> <tr> <td>No items identified or explained</td> <td>Convincing/fair explanation for 1 item identified</td> <td>Fair explanations for two items identified</td> <td>Convincing explanations for two items identified</td> <td>Fair explanations for three items identified</td> <td>Convincing explanations for three items identified</td> </tr> </tbody> </table> | 0  | 1-2  | 3-4  | 5-6  | 7-8 | 9-10 | No items identified or explained | Convincing/fair explanation for 1 item identified | Fair explanations for two items identified | Convincing explanations for two items identified | Fair explanations for three items identified | Convincing explanations for three items identified | (10) |
| 0                                | 1-2   | 3-4  | 5-6  | 7-8  | 9-10   |     |      |                                  |   |  |  |  |  |      |
| No items identified or explained | Convincing/fair explanation for 1 item identified   | Fair explanations for two items identified | Convincing explanations for two items identified | Fair explanations for three items identified | Convincing explanations for three items identified |     |      |                                  |   |  |  |  |  |      |

| 4.5  | <p>Brief explanation to Peter Perkins, to help him understand that no error has been made.</p> <p><b>Possible answers:</b><br/> <i>Legal: Tax deduction PAYE &amp; UIF are both legally required – every person in the country pays this</i><br/> <i>Moral: Pension &amp; Medical are added benefits to employees provided by the employer to provide health and financial security – this should be appreciated</i></p> <table border="1" data-bbox="365 556 1242 787"> <thead> <tr> <th>0-2</th> <th>3-4</th> <th>5-6</th> <th>7-8</th> <th>9-10</th> </tr> </thead> <tbody> <tr> <td>Inadequate explanation of deductions – legal &amp; moral aspects not mentioned</td> <td>Poor explanation of deductions – legal &amp; moral aspects not emphasised</td> <td>Satisfactory explanation of deductions – legal &amp; moral aspects not emphasised</td> <td>Good explanation of legal and moral aspects of deductions</td> <td>Convincing explanation of legal and moral aspects of deductions</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Peter is actually earning more than R6 000 per month. How much extra is he actually earning, and why does he benefit in this way?</li> </ul> <p><i>UIF benefit = R60 üü</i><br/> <i>Medical aid benefit = R1000 üü</i><br/> <i>Pension benefit = R630 üü</i><br/> <i>Total extra benefit = R1 690</i></p> | 0-2   | 3-4   | 5-6   | 7-8 | 9-10                              | Inadequate explanation of deductions – legal & moral aspects not mentioned   | Poor explanation of deductions – legal & moral aspects not emphasised                     | Satisfactory explanation of deductions – legal & moral aspects not emphasised                   | Good explanation of legal and moral aspects of deductions | Convincing explanation of legal and moral aspects of deductions | (10) |
|--|--|---|---|---|-----|-----------------------------------|--|---|---|---|---|------|
| 0-2  | 3-4  | 5-6   | 7-8   | 9-10  |     |                                   |  |   |   |   |   |      |
| Inadequate explanation of deductions – legal & moral aspects not mentioned | Poor explanation of deductions – legal & moral aspects not emphasised  | Satisfactory explanation of deductions – legal & moral aspects not emphasised             | Good explanation of legal and moral aspects of deductions                                       | Convincing explanation of legal and moral aspects of deductions |     |                                   |  |   |   |   |   |      |
| 4.6  | <p>Your response to the employee with brief explanation.</p> <p><b>Possible answers:</b><br/> <i>Victor must not agree</i><br/> <i>This would be illegal – Victor is not allowed to do this – he is required to pay over PAYE deductions</i><br/> <i>Tax is a responsibility of every citizen – helps to make the country a better place</i><br/> <i>If every person pays the correct amount due, the tax burden will be shared fairly and taxes can be reduced, which benefits all citizens</i></p> <table border="1" data-bbox="365 1522 1209 1732"> <thead> <tr> <th>0</th> <th>1-2</th> <th>3-4</th> <th>5-6</th> </tr> </thead> <tbody> <tr> <td>No valid explanation for decision</td> <td>Satisfactory explanation of decision by Victor – understanding of ethical reasons for all not pay tax not explicit</td> <td>Good explanation of correct decision by Victor and the ethical reasons for all to pay tax</td> <td>Convincing explanation of correct decision by Victor and the ethical reasons for all to pay tax</td> </tr> </tbody> </table>   | 0   | 1-2   | 3-4   | 5-6 | No valid explanation for decision | Satisfactory explanation of decision by Victor – understanding of ethical reasons for all not pay tax not explicit | Good explanation of correct decision by Victor and the ethical reasons for all to pay tax | Convincing explanation of correct decision by Victor and the ethical reasons for all to pay tax | (6)   |   |      |
| 0  | 1-2  | 3-4   | 5-6   |   |     |                                   |  |   |   |   |   |      |
| No valid explanation for decision  | Satisfactory explanation of decision by Victor – understanding of ethical reasons for all not pay tax not explicit   | Good explanation of correct decision by Victor and the ethical reasons for all to pay tax | Convincing explanation of correct decision by Victor and the ethical reasons for all to pay tax |   |     |                                   |  |   |   |   |   |      |

**RUBRIC TO QUESTION 4:**

|   | 0  | 1-2   | 3-4   | 5-6  | 7-8  | 9-10   | SCORE |
|---|--|---|---|--|--|--|-------|
| Difference FC/VC & examples   | No idea of differences, no valid examples provided | Some idea either of differences or examples                                       | Some idea either of differences with poor examples  | Differences identified with two examples   | Differences identified with four examples                                      | Differences excellently identified with four excellent examples  | (10)  |
| Unhappy gardeners – identify ethical problem & solutions                                | 0<br>No idea of the ethical problem nor solutions  | 1-3<br>Some idea of the ethical problem with no solution                          | 4-6<br>Some idea of the ethical problem and one solution not entirely practical   | 7-9<br>Identification of the ethical problem and solutions not entirely practical                | 10-12<br>Good identification of the ethical problem and one practical solution | 13-15<br>Clear identification of the ethical problem and two practical solutions                       | (15)  |
| Three miscalculations – identify & reasons  | 0<br>No items identified                           | 1-2<br>One item and a reason identified   | 3-4<br>Two items identified but reasons not appropriate   | 5-6<br>Two items identified but reasons not entirely valid                                       | 7-8<br>Two items and valid reasons well identified                             | 9-10<br>Three items and three valid reasons well identified  | (10)  |
| High bank balances<br>- opinion<br>- reason for opinion<br>- two options                | 0<br>No opinion nor options                        | 1-2<br>Opinion provided but no reason or valid options                            | 3-4<br>Opinion provided with either an acceptable reason or one valid option  | 5-6<br>Opinion clear with acceptable reason and one valid option                                 | 7-8<br>Opinion clear with good reason and two valid options                    | 9-10<br>Opinion clear with excellent reason and two valid options                                      | (10)  |
| Explanation on the difference between gross and net salary                              | 0<br>No valid explanation                          | 1-2<br>Inadequate explanation of deductions – legal & moral aspects not mentioned | 3-4<br>Poor explanation of deductions – legal & moral aspects not emphasised  | 5-6<br>Satisfactory explanation of deductions – legal & moral aspects not emphasised             | 7-8<br>Good explanation of legal and moral aspects of deductions               | 9-10<br>Convincing explanation of legal and moral aspects of deductions                                | (10)  |
| Calculation of extra benefits from employer   | 0<br>No appreciation of any amount                 | 1<br>Appreciation of one amount   | 2<br>Appreciation of two amounts  |  | 3<br>Appreciation of three amounts   | 4<br>Full appreciation of amounts of all for benefits  | (4)   |
| Ethical considerations – all persons to pay tax without exception and reasons therefore | 0<br>No valid explanation for decision             |   | 1-2<br>Satisfactory explanation of decision by Victor – understanding of ethical reasons for all not pay tax not explicit | 3-4<br>Good explanation of correct decision by Victor and the ethical reasons for all to pay tax |  | 5-6<br>Convincing explanation of correct decision by Victor and the ethical reasons for all to pay tax | (6)   |

|              |
|--------------|
| <b>Marks</b> |
| <b>65</b>    |

## SOLUTION TO QUESTION 5

### 5.1 CALCULATION OF FINANCIAL INDICATORS

|   | ANSWERS       | COMPARISON |
|---|---------------|------------|
|   | 2005          | 2004       |
| <b>5.1.1</b><br><b>Gross profit on sales</b><br>Calculation:<br>$\frac{350}{P} \div \frac{620}{P} \times 100$         | PR<br>56,5 %  | 38,5 %     |
| <b>5.1.2</b><br><b>Gross profit on cost of sales</b><br>Calculation:<br>$\frac{350}{P} \div \frac{270}{P} \times 100$ | PR<br>129,6 % | 62,5 %     |
| <b>Operating expenses on sales</b>  | 17,7 %        | 20,0 %     |
| <b>Operating profit on sales</b>  | 38,7 %        | 18,5 %     |
| <b>Net profit on sales</b>  | 37,0 %        | 13,8 %     |
| <b>5.1.3</b><br><b>Return on owner's equity</b><br>Calculation:<br>$\frac{230}{P} \div \frac{500}{P} \times 100$      | PR<br>46 %    | 18,0 %     |
| <b>5.1.4</b><br><b>Current ratio</b><br>Calculation:<br>$\frac{70\ 000}{PP} : \frac{35\ 000}{PP}$                     | R<br>2 : 1    | 1,5 : 1    |
| <b>5.1.5</b><br><b>Acid-test ratio</b><br>Calculation:<br>$\frac{20\ 000}{PP} : \frac{35\ 000}{PP}$                   | R<br>0,6 : 1  | 1 : 1      |

(25)

## 5.2

# TRUSTY ACCOUNTING SERVICES

PO Box 456, Newlands, 7800

Tel: 021-3334678 Fax: 021-3334679 E-mail: [trusty@mweb.co.za](mailto:trusty@mweb.co.za)

30 October 2005

Mr B Baqwa  
Private Bag 23  
Ritesville  
Western Cape  
7812

Dear Mr Baqwa,

### COMMENTS ON YOUR RESULTS

As requested, I have considered the financial performance of your business. Your business is performing well in certain aspects, for example you have no solvency problems, as the net worth of the business is R500 000.

However, I do have some concerns about the manner in which you are conducting your business. My positive and negative comments are as follows:

#### Return on equity

|  |
|--|
| • Trend in return 2004/2005 18 % à 46 % PP         |
| • Compare to returns on alternative investments PP |
| • Conclusion: return is very favourable PP         |
| Learner communicates effectively P (impression)    |
| <i>Alternative wording acceptable</i> (7)          |

#### Liquidity

|   |
|---|
| • Trend 2004/2005 in current ratio 1,5:1 à 2:1 P    |
| • Trend 2004/2005 in acid-test ratio 1:1 à 0,6:1 P  |
| • Identification of stock as a potential problem PP |
| • Conclusion: possible liquidity problem PP         |
| Learner communicates effectively P (impression)     |
| <i>Alternative wording acceptable</i> (7)           |

Mark-up percentages

|   |
|---|
| • Trend 2004/2005 62,5 % à 129,6 % PP           |
| • Conclusion: unreasonably high PP              |
| • Opinion: not fair to customers PP             |
|   |
| Learner communicates effectively P (impression) |
| <i>Alternative wording acceptable</i> (7)       |

Operating efficiency

|  |
|--|
| • Trend in op exps on sales 2004/2005 20 % à 17,7 % PP     |
| • Trend in op profit on sales 2004/2005 18,5 % à 38,7 % PP |
| • Conclusion: controlling expenses well PP                 |
|  |
| Learner communicates effectively P (impression)            |
| <i>Alternative wording acceptable</i> (7)                  |

Relationship with the community – ethical considerations

|   |
|---|
| • Vitally necessary product PP                      |
| • Monopoly - no competitors PP                      |
| • Taking advantage of community à not popular PP    |
| • Earning high profits and taking large drawings PP |
| • He needs to apply a reasonable mark-up % PP       |
|   |
| Learner communicates effectively PP (impression)    |
| <i>Alternative wording acceptable</i> (12)          |

I trust that you will find my comments helpful. Please contact me if there is any other information you require.

Yours sincerely,

\_\_\_\_\_  
Signed on behalf of  
Trusty Accounting Services

|              |
|--------------|
| <b>Marks</b> |
|              |
| <b>65</b>    |

**RUBRIC TO QUESTION 5:**

|  | 0                                  | 1-5  | 6-10  | 11-15   | 16-20  | 21-25   | SCORE |
|--|------------------------------------|--|---|---|--|---|-------|
| Calculation of missing indicators  | No indicators correctly calculated | One indicator correctly calculated   | Two indicators correctly calculated   | Three indicators correctly calculated   | Four indicators correctly calculated   | All five indicators correctly calculated  |       |
| Interpretation of return on equity three aspects:<br>- trends<br>- alternatives<br>- valid opinion   | 0<br>No aspects identified         | 1<br>One aspect identified   | 2<br>Two aspects identified, but not conclusively                                   | 3<br>Two aspects well identified  | 4<br>All three aspects identified, but not conclusively                              | 5<br>All three aspects well identified  |       |
| Interpretation of liquidity ratios: four aspects:<br>- trend CR<br>- trend ATR<br>- stock problem<br>- valid opinion   | 0<br>No aspects identified         | 1<br>One aspect identified   | 2<br>Two aspects identified   | 3<br>Three aspects identified   | 4<br>All four aspects identified, but not conclusively                               | 5<br>All four aspects well identified   |       |
| Interpretation of mark-up percentage: three aspects:<br>- trend<br>- extent<br>- valid opinion   | 0<br>No aspects identified         | 1<br>One aspect identified   | 2<br>Two aspects identified, but not conclusively                                   | 3<br>Two aspects well identified  | 4<br>All three aspects identified, but not conclusively                              | 5<br>All three aspects well identified  |       |
| Interpretation of operating % three aspects:<br>- trend exps<br>- trend profit<br>- valid opinion  | 0<br>No aspects identified         | 1<br>One aspect identified   | 2<br>Two aspects identified, but not conclusively                                   | 3<br>Two aspects identified   | 4<br>All three aspects identified, but not conclusively                              | 5<br>All three aspects well identified  |       |
| Identification of ethical problem of high medicine prices: five aspects:<br>- vital product<br>- monopoly<br>- high prices<br>- community ethics<br>- advice | 0<br>No aspects identified         | 1-3<br>One aspect identified, little understanding of ethical problem in this case | 4-6<br>Two aspects identified, little understanding of ethical problem in this case | 7-9<br>Three aspects identified, some understanding of ethical problem in this case | 10-12<br>Four aspects identified, good understanding of ethical problem in this case | 13-15<br>All five aspects identified, excellent understanding of ethical problem in this case |       |
| Overall impression of business letter  | 0<br>Inadequate explanation        | 1<br>Partial / poor explanation  | 2<br>Adequate explanation   | 3<br>Good explanation   | 4<br>Good and convincing explanation   | 5<br>Excellent and convincing explanation   |       |

|              |
|--------------|
| <b>Marks</b> |
|              |
| <b>65</b>    |

## SOLUTION TO QUESTION 6

### 6.1 TRADING STOCK ACCOUNT

| General Ledger of Oscar Moloï |    |                    |     |       |               |    |                            |                   |             |
|-------------------------------|----|--------------------|-----|-------|---------------|----|----------------------------|-------------------|-------------|
| Dr                            |    |                    |     |       | Cr            |    |                            |                   |             |
| Trading Stock                 |    |                    |     |       | Trading Stock |    |                            |                   |             |
| 2006                          |    |                    |     | ü     | 2006          |    |                            | (880 ü + 1 320 ü) |             |
| March                         | 1  | Balance            | b/d | 3 520 | March         | 31 |                            |                   | üp          |
|                               |    |                    |     |       |               |    |                            | ü                 |             |
|                               |    |                    |     |       |               |    | Cost of sales              | CRJ               | 2 200       |
|                               |    |                    |     |       |               |    |                            |                   | üü          |
|                               | 31 | Creditors' Control | CJ  | 3 300 |               |    | Cost of sales              | DJ                | 550         |
|                               |    |                    |     |       |               |    |                            |                   | þþ          |
|                               |    |                    |     |       |               |    | Loss of stock due to theft | GJ                | 176         |
|                               |    |                    |     |       |               |    |                            |                   | üü          |
|                               |    |                    |     |       |               |    | Advertising                | GJ                | 66          |
|                               |    |                    |     |       |               |    |                            |                   | þ           |
|                               |    |                    |     |       |               |    | Balance                    | c/d               | 3 828       |
|                               |    |                    |     | 6 820 |               | þ  |                            |                   | 6 820       |
| April                         | 1  | Balance            | b/d | 3 828 |               |    |                            |                   |             |
|                               |    |                    |     |       |               |    |                            |                   | <b>(20)</b> |

|              |   |            |
|--------------|---|------------|
| <b>6.2.1</b> | <b>Dangers of ordering too much stock (two points).</b> üü üü   |            |
|              | Lack of security of stock – susceptible to theft.   |            |
|              | Working capital tied up in an asset which does not earn a return.   |            |
|              |   | <b>(4)</b> |
| <b>6.2.2</b> | <b>Comment on stock on hand at the end of the month.</b>  |            |
|              | There is too much stock on hand. ü  |            |
|              | He has 174 units on hand while he sells only 125 units during the month. üü   |            |
|              |   |            |
|              | <b>Advice to Oscar regarding stock:</b>   |            |
|              | He should not purchase any stock right now. He should wait until his current stock is almost depleted before re-ordering. üüü |            |
|              |   | <b>(6)</b> |

|            |  |             |
|------------|--|-------------|
| <b>6.3</b> | <b>Calculation of net profit</b>               |             |
|            | Sales = 3 366 ü + 1 188 ü = 4 554 ü            |             |
|            | Cost of sales = 125 x 22 = 2 750 üü            |             |
|            | Gross profit = 4 554 – 2 750 = 1 804           |             |
|            | Overhead expenses = 80 ü + 66 ü + 176 ü = R322 |             |
|            | Net profit = 1 804 – 322= R1 482üþ             | <b>(10)</b> |
|            |  |             |
|            |  |             |

|              |   |            |
|--------------|---|------------|
| <b>6.4.1</b> | <b>Profit per reject T-shirt</b>  |            |
|              | Profit = R39,60 üü – R11 ü = R28,60 þ   | <b>(4)</b> |
|              |   |            |
| <b>6.4.2</b> | <b>Mark up on reject T-shirts</b>   |            |
|              | R28,60 þ / R11 üüx 100 ü = 260% þ   | <b>(5)</b> |
|              |   |            |
| <b>6.4.3</b> | <b>Advice regarding the plan concerning the plan to buy and sell reject T-shirts</b>  |            |
|              | He should not go ahead with buying and selling rejected T-shirts.   |            |
|              | It is unethical to sell inferior products at the same price as other products. He will also find that his business will not be sustainable if he sells these shirts at the normal price because he will lose goodwill amongst his customers.  |            |
|              | If he decides to buy rejected T-shirts, he should reduce the selling price.   |            |
|              | It could be a good idea to buy the rejected T-shirts but to sell it at a price in relation to the cost price, since he has only sold 145 T-shirts during this month and has 174 T-shirts on hand. This may mean that his target market cannot afford the quality T-shirt he is currently selling. |            |
|              | Awareness of ethical considerations - üüü   |            |
|              | Valid advice üüü  | <b>(6)</b> |



6.5

## TRUSTY ACCOUNTING SERVICES

PO Box 456, Newlands, 7800

Tel: 021-3334678 Fax: 021-3334679 E-mail: [trusty@mweb.co.za](mailto:trusty@mweb.co.za)

2 April 2006

Mr O Moloï  
Private Bag 23  
DURBAN  
7812

Dear Mr Moloï,

### COMMENTS ON RUNNING YOUR BUSINESS TO INCREASE PROFITS

I have studied the current status of your business and would like to offer you some advice on how to run your business in order to increase your profits.

|   |
|---|
| <b>Any 4 valid points</b> üü üü üü üü                           |
| <i>Alternative suggestions are acceptable. Possible points:</i> |
| Trustworthy assistant   |
| Extend the range of T-shirts sold to draw customers             |
| Do research to determine what customers would like              |
| Perhaps sell products other than T-shirts,                      |
| Security  |
| Alternative supplier for better quality T-shirts                |
| Advertising   |
|   |
| Overall impression üü   |
| <b>(10)</b>   |

I trust that you will find my comments helpful. Please contact me if there is any other information you require.

Yours sincerely,

\_\_\_\_\_  
Signed on behalf of  
Trusty Accounting Services

|              |
|--------------|
| <b>Marks</b> |
|              |
| <b>65</b>    |

