



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

**NATIONAL
SENIOR CERTIFICATE**

GRADE 10

**ACCOUNTING
FOR TEACHER USE ONLY**

This version of the examination paper includes an option for teachers to choose for their learners.

**Q5: Interpretation of financial statements
OR
Q6: Formal & informal accounting systems**

**PLANNING GRID:
GRADE 10 ACCOUNTING
YEAR-END SUMMATIVE EXAMINATION**

	Q1	Q2	Q3	Q4	Q5 OR Q6	
CO & DO	CO1 Identify & solve problems CO4 Evaluate information CO5 Communicate effectively	CO1 Identify & solve problems CO4 Evaluate information	CO4 Organise information CO5 Communicate effectively	CO1 Identify & solve problems CO4 Evaluate information CO5 Communicate effectively DO2 Responsible citizens	CO1 Identify & solve problems CO4 Evaluate information CO5 Communicate effectively	CO1 Identify & solve problems CO4 Evaluate information CO5 Communicate effectively
LO	LO1 Financial information LO3 Managing resources	LO2 Managerial accounting	LO1 Financial information	LO2 Managerial accounting LO3 Managing resources	LO1 Financial information LO3 Managing resources	LO1 Financial information LO3 Managing resources
AS	1.2 Documents & ledger 3.4 Inventory system 3.6 Internal control	2.2 Explain cost concepts	1.1 Acco concepts 1.5 Preparation	2.3 Explain budget concepts 3.2 Salaries & wage scales 3.5 Ethics	1.5 Financial statements 3.5 Ethics	1.2 Ledger 1.5 Financial statements 3.5 Ethics
Topic	Recording information & internal control	Cost concepts	Preparation of financial statements & acco concepts	Budget concepts	Interpretation of financial statements	Formal and Informal Accounting systems
Marks: 300	40 marks	30 marks	100 marks	65 marks	65 marks	65 marks
Minutes: 180	30 mins	25 mins	55 mins	40 mins	30 mins	30 mins

**FOR TEACHER
USE ONLY**

ANALYSIS OF MARKS (using Q5)

	TOTAL	LO1	LO2	LO3
Q1	40	22	0	18
Q2	30	0	30	0
Q3	100	100	0	0
Q4	65	0	30	35
Q5	65	49	0	16
TOTAL MARKS	300	171	60	69
% OF TOTAL 300		57%	20%	23%
GUIDELINE %		50%-60%	20%-25%	20%-25%
GUIDELINE MARKS		150-180	60-75	60-75

ANALYSIS OF MARKS (using Q6)

	TOTAL	LO1	LO2	LO3
Q1	40	22	0	18
Q2	30	0	30	0
Q3	100	100	0	0
Q4	65	45	0	20
Q6	65	0	30	35
TOTAL MARKS	300	167	60	73
% OF TOTAL 300		57%	20%	23%
GUIDELINE %		50%-60%	20%-25%	20%-25%
GUIDELINE MARKS		150-180	60-75	60-75

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DIFFERENTIATION: COGNITIVE SKILLS (using Q5)

	Basic	Moderate	Higher-order
1.1 Documents	15	0	0
1.2 Entries	15	0	0
1.3 Internal control		10	0
2.1 Profit	3		
2.2 Unit cost	4		
2.3 Costs	2		
2.4 Economies		3	
2.5 Calculation		3	7
2.6 Option			8
3.1 Income Statement		15	10
3.2 Balance Sheet		25	25
3.3 Basic concepts	15	10	
4.1 FC / VC	8		
4.2 Problem: wages		10	5
4.3 Bank balances	4	6	
4.4 Miscalculations		5	5
4.5 Gross / net salary	3	4	3
4.5 Extra benefits		3	3
4.6 Paying tax		3	3
5.1 Indicators	10	15	
5.2 Interpretation		20	20
TOTALS	79	132	89
%	26%	44%	30%
GUIDELINE %	30%	40%	30%
GUIDELINE MARKS	90	120	90

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DIFFERENTIATION: COGNITIVE SKILLS (using Q6)

	Basic	Moderate	Higher-order
1.1 Documents	15	0	0
1.2 Entries	15	0	0
1.3 Internal control		10	0
2.1 Profit	3		
2.2 Unit cost	4		
2.3 Costs	2		
2.4 Economies		3	
2.5 Calculation		3	7
2.6 Option			8
3.1 Income Statement		15	10
3.2 Balance Sheet		25	25
3.3 Basic concepts	15	10	
5.1 FC / VC	8		
5.2 Problem: wages		10	5
5.3 Bank balances	4	6	
5.4 Miscalculations		5	5
5.5 Gross / net salary	3	4	3
5.5 Extra benefits		3	3
5.6 Paying tax		3	3
6.1 Trading stock a/c	10	10	
6.2 Stock levels		4	6
6.3 Calculation of NP		5	5
6.4 Ethics	7	5	3
6.5 Letter		10	
TOTALS	86	131	83
%	29%	44%	28%
GUIDELINE %	30%	40%	30%
GUIDELINE MARKS	90	120	90

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**NATIONAL
SENIOR CERTIFICATE**

GRADE 10

**ACCOUNTING
EXEMPLAR PAPER**

**MARKS: 300
TIME: 2 hours**

This question paper consists of 15 pages.

133 0 E

INSTRUCTIONS AND INFORMATION

1. You are provided with a question paper and an answer book.
2. The paper comprises FOUR compulsory questions. The compulsory questions are QUESTIONS 1, 2, 3 and 4. Answer ALL these questions.
3. You must also answer ONE other question; either QUESTION 5 OR Question 6.
4. Use the answer book provided in order answer the questions.
5. Workings must be shown in order to achieve part-marks.
6. You must attempt to comply with the suggested time allocations.
7. Non-programmable calculators may be used.
8. You may use pencil or blue/black ink to answer the questions.

QUESTION 1: 40 marks; 30 minutes	
The topic of the question is:	The learning outcomes covered are:
Recording information and internal control	LO1 Financial information - AS2 Use of source documents and ledger LO3 Managing resources - AS4 Ledger for perpetual inventory system - AS6 Knowledge of internal control

QUESTION 2: 30 marks; 25 minutes	
The topic of the question is:	The learning outcomes covered are:
Cost concepts	LO2 Managerial accounting - AS2 Identify basic cost concepts

QUESTION 3: 100 marks; 55 minutes	
The topic of the question is:	The learning outcomes covered are:
Financial statements and concepts	LO1 Financial information - AS1 Explain accounting concepts - AS5 Prepare financial statements of sole traders

QUESTION 4: 65 marks; 40 minutes	
The topic of the question is:	The learning outcomes covered are:
Budget concepts	LO2 Managerial accounting - AS3 Explain basic budget concepts LO3 Managing resources - AS2 Salaries & wage scales - AS5 Code of ethics

CHOOSE EITHER QUESTION 5 OR QUESTION 6

QUESTION 5: 65 marks; 30 minutes	
The topic of the question is:	The learning outcomes covered are:
Interpreting financial statements	LO1 Financial information - AS5 Financial statements of sole traders

QUESTION 6: 65 marks; 30 minutes	
The topic of the question is:	The learning outcomes covered are:
Informal and formal accounting systems	LO1 Financial information - AS2 Use of source documents & ledger - AS5 Financial statements of sole traders

QUESTION 1: RECORDING INFORMATION AND INTERNAL CONTROL**1.1 SOURCE DOCUMENTS**

June Julies owns a bookshop. She has set up a formal accounting system, and she has had the following source documents in place for her business:

Invoices, Credit Notes, Debit Notes, Cheques, Deposit slips, Receipts, Cash slips/Cash register tapes, Petty Cash vouchers, General Journal vouchers

However, as she did not study Accounting at school, June does not know why each document is needed.

REQUIRED:

In the table provided in the answer book, indicate the name of the document that would fulfil the purpose explained. The first one has been done for you as an example.

(15)

	Purpose	Name of document
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	
1.1.2	This document is used to record a credit sale to a customer	
1.1.3	This document is used to deposit money into the bank account of the business	
1.1.4	This document is used to pay a supplier for an amount owed to him, using money in the business' bank account	
1.1.5	This document is used to record stock returned by a credit customer	
1.1.6	This document is received from a creditor for goods bought on credit by the business	
1.1.7	This document is used to put through various entries in the General Journal, e.g. writing off bad debts	
1.1.8	This document is used to return goods to a creditor	

1.2 TRANSACTIONS OF JULIES BOOKSHOP

In her business June Julies uses the perpetual inventory system and a mark-up of 75% on cost. You are provided with five transactions, as well as four options for the entries for each transaction. Choose the correct entries by making an X in the appropriate block in the answer book.

REQUIRED:

Answer the following questions by choosing the correct option. (15)

TRANSACTIONS OF JULIES BOOKSHOP:

1.2.1 Julies Bookshop purchases goods on credit from Yebo Publishers for R12 000. The entries in the ledger will be:

- (a) Debit Trading Stock R12 000
Credit Creditors Control R12 000
- (b) Debit Purchases R12 000
Credit Creditors Control R12 000
- (c) Debit Creditors control R12 000
Credit Trading Stock R12 000
- (d) Debit Trading Stock R12 000
Credit Bank R12 000.

1.2.2 Julies Bookshop sells books for cash to a customer, I Reid, for R1 750. The entries in the ledger will be:

- (a) Debit Debtors Control R1 750; Credit Sales R1 750
Debit Cost of Sales R1 000; Credit Trading Stock R1 750
- (b) Debit Debtors Control R1 750; Credit Trading Stock R1 750
Debit Cost of Sales R1 000; Credit Sales R1 000
- (c) Debit Bank R1 750; Credit Sales R1 750
Debit Cost of Sales R1 000; Credit Trading Stock R1 000
- (d) Debit Bank R1 750; Credit Sales R1 750

- 1.2.3 A credit customer, B Booker, returns books that she did not order. The cost price of the books was R200. Julies Bookshop issues a credit note for the appropriate sales amount. The entries in the ledger will be:
- (a) Debit Debtors Allowances R350; Credit Bank R350
Debit Cost of Sales R200; Credit Trading Stock R200
 - (b) Debit Debtors Control R350; Credit Debtors allowances R350
Debit Trading Stock R200; Credit Cost of Sales R200
 - (c) Debit Sales R350; Credit Debtors allowances R350
Debit Cost of Sales R200; Credit Trading Stock R200
 - (d) Debit Debtors Allowances R350; Credit Debtors Control R350
Debit Trading Stock R200; Credit Cost of Sales R200
- 1.2.4 June Julies takes goods for personal use. The marked selling price of these books is R420. The entries in the ledger will be:
- (a) Debit Drawings R420
Credit Trading Stock R420
 - (b) Debit Drawings R240
Credit Trading Stock R240
 - (c) Debit Drawings R315
Credit Trading Stock R315
 - (d) Debit Trading Stock R315
Credit Trading Stock R315
- 1.2.5 The physical stock count reveals books on hand at the end of the year to have a cost price of R110 000. The Trading Stock Account reflects a balance of R116 000. The entries in the ledger will be:
- (a) Debit Trading Stock R6 000
Credit Closing Stock R420
 - (b) Debit Drawings R6 000
Credit Trading Stock R6 000
 - (c) Debit Trading Stock Deficit R6 000
Credit Trading Stock R6 000
 - (d) Debit Trading Stock R6 000
Credit Trading Stock Surplus R6 000

1.3 INTERNAL CONTROL BY JULIES BOOKSHOP

June Julies feels that she has two problems in her business. These are:

- Many customers buy books on credit. However, the sales assistant does not always document the transactions, and even if they are properly documented, the customers are very slow in paying. This means that Julies Bookshop runs short of cash because they have to pay the suppliers before the customers settle their accounts. This is obviously not ideal.
- Stock is going missing from the shop. She suspects that either the customers or her employees are stealing stock from her shop.

REQUIRED:

List the main points that June should apply in her business to:

1.3.1 Solve the debtors problem (THREE points)

1.3.2 Solve the stock problem (TWO points)

(10)

40

QUESTION 2: COST CONCEPTS

Mary Moyo is a student but she is also very good at baking large chocolate cakes. She decided to start making these cakes to sell to the public.

In January 2006 her mother agreed to rent the kitchen and equipment to her at a fixed rental of R500 per month. Mary has to pay all additional costs of making the cakes. Mary decided to start on a trial run by baking two cakes per day (weekdays only). To her surprise, she found that her reputation spread and she was able to sell these cakes very quickly.

She found that she had to use her car more often in order to deliver the cakes, and her cellphone to liaise with her customers. She also employed a part-time assistant. In January 2006, her results were as follows:

Cost of producing 40 cakes	TOTAL	PER CAKE
Fixed costs	800,00	?
- Rent of kitchen and equipment	500,00	?
- Wages paid to assistant	300,00	10,00
Variable costs	1 360,00	?
- Ingredients	600,00	?
- Electricity and water	160,00	4,00
- Packaging for cakes	40,00	?
- Motor vehicle delivery costs	440,00	11,00
- Telephone calls	120,00	3,00
	R2 160,00	?

She sold these 40 cakes for R80 each, so she made a small profit. However, she wants to increase this profit by increasing her production of cakes.

REQUIRED:

- 2.1 Calculate the profit that Mary made in January 2006. (4)
- 2.2 Calculate the cost per cake produced in January 2006. (3)
- 2.3 From the costs shown above, give ONE example of a direct cost and ONE example of an indirect cost. (2)
- 2.4 Mary thinks that if she increases her production by 50% then her profit will also increase by 50%. Her mother tells her that her profits should increase by more than 50%. Who is correct? Explain briefly. (3)
- 2.5 Mary feels that she can make and sell 80 cakes in February if she works hard. Calculate the profit that you expect her to earn in February. Note that the assistant's wages will not increase. (10)
- 2.6 Mary has been offered a cake stall at the local school fund-raising day. She will have to pay R600 for the stall for the day, and she will have to pay her assistant an extra R400 for overtime. However, she can expect to sell an extra 40 cakes at the fund-raising day. In your opinion, will it be profitable for Mary to get involved in this fund-raising day? Explain briefly by quoting appropriate figures. (8)

(8)

30

QUESTION 3: FINANCIAL STATEMENTS AND CONCEPTS

Peggy Perumal owns a ladies' dress shop called Peggy's Fashions. Her bookkeeper has drafted an Income Statement for the year ended 28 February 2005, but she has not taken certain adjustments into account.

REQUIRED:

- 3.1 Correct the Income Statement to reflect the correct profit or loss for the year. Correct any errors by crossing out the original figures and inserting the correct figures. (25)
- 3.2 Prepare a Balance Sheet on 28 February 2005. You are not required to prepare any notes to the Balance Sheet. Show your calculations in brackets so that you can earn marks for your adjustments. (50)
- 3.3 Answer the questions that follow.

INFORMATION:**PEGGY PERUMAL TRADING AS PEGGY'S FASHIONS
DRAFT INCOME STATEMENT FOR YEAR ENDED 28 FEBRUARY 2005**

Sales	600 000
Cost of sales	(350 000)
Gross profit	250 000
Add: Other operating income	17 000
Commission income	15 000
Discount received	2 000
	267 000
Less: Operating expenses	(160 000)
Salaries and wages	80 000
Telephone	5 000
Advertising	4 000
Rent expense	44 000
Motor vehicle expenses	23 000
Stationery and printing	1 000
Bank charges	3 000
Operating profit	107 000
Add: Interest income	2 000
	109 000
Less: Interest expense	(11 000)
Net profit	98 000

The following balances appeared in the Balance Sheet section of the ledger before any adjustments:

	Debit	Credit
Capital		300 000
Drawings	44 000	
Vehicle	170 000	
Equipment	29 000	
Fixed deposit – Nedbank	60 000	
Debtors control	24 000	
Creditors control		35 100
Trading stock	180 000	
Bank	26 000	
Petty cash	1 000	
SA Revenue Services (PAYE)		900
Loan from Credfin (13% p.a.)		100 000

ADJUSTMENTS AND ADDITIONAL INFORMATION:

1. Peggy took stock of dresses for her personal use at cost price, R4 200. This has not been recorded.
2. A stock count at the year-end revealed dresses of R170 000 on hand.
3. A computer was purchased on credit on 31 December 2004 for R8 000. This has not been recorded. The amount due will be paid in March 2005.
4. Provide for interest owing on the loan from Credfin. No loan repayments have been made since the loan was originally received in 2003, but R20 000 has to be repaid on 30 June 2005.
5. Half of the fixed deposit matures in April 2005.
6. The bank statement for February reflected the following which have not been recorded yet:
 - Service fees, R300
 - Interest on favourable bank account, R60
7. The rent for February 2005 has not been paid yet. Provide for the amount owing.
8. A debtor, N Norris, complained that she was overcharged on her latest invoice. Peggy agreed to adjust her account by R800, but this has not been recorded. The cost of sales was correctly recorded.
9. A debtor, F Frutt, has been declared insolvent. He owes R1 250. His insolvent estate will pay out 60 cents in the rand.

10. Commission of R1 500 is owed to Peggy's Fashions for sale of fashion magazines. This will be received in March 2005.
11. An amount of R1 800 was paid to the *Daily News* on 2 January 2005. This has been recorded in the books. However, this is in respect of three identical advertisements that are scheduled to appear in the newspaper – one in January, one in February and one in March.

3.3 QUESTIONS:

- 3.3.1 In your opinion, is it necessary for accountants to follow a set of rules or principles when they prepare financial statements? Explain briefly. (5)
- 3.3.2 Briefly explain the Historical Cost Rule and why it is necessary to use this rule/principle. (5)
- 3.3.3 Briefly explain the Matching Principle and why it is necessary to use this rule/principle. (5)
- 3.3.4 Peggy is unable to understand her Balance Sheet. Briefly describe what is meant by:
- Assets
 - Liabilities
 - Owner's equity
 - Gross profit
 - Net profit
- (10)

QUESTION 4: BUDGET CONCEPTS

VV Garden Services is owned by Victor Venter. He employs two managers to run the business for him, and employs 10 gardeners to perform the gardening work.

He expects the business to have a very good year in 2006. He expects the fee income from garden services to increase by 40%. As he relies heavily on the two managers to supervise the 10 gardeners and drive the vehicles for him, he feels it is only fair to give them a 40% increase in their salaries for 2006. He has budgeted for this.

You are provided with the Cash Budget for the business for the year ending 31 December 2006, together with the corresponding figures for 2005.

VV GARDEN SERVICES**CASH BUDGET FOR YEAR ENDING 31 DECEMBER 2006**

	ACTUAL FIGURES FOR 2005	BUDGETED FIGURES FOR 2006
RECEIPTS		
Fee income from garden services	600 000	840 000
Sale of premises		120 000
Loan from FNB	100 000	
	700 000	960 000
PAYMENTS		
Salary of bookkeeper/receptionist *	45 000	45 000
Salaries to managers *	150 000	210 000
Wages to gardeners *	180 000	189 000
Advertising	10 000	10 000
Rent of office	42 000	42 000
Office telephone and electricity	12 000	13 000
Motor vehicle expenses	50 000	70 000
Insurance	7 000	7 000
Equipment purchased	63 000	20 000
Bank charges	4 000	4 000
Drawings by V Venter	90 000	250 000
Loan repayments		20 000
Interest on loan	16 000	12 800
Consumable stores	30 000	60 500
	699 000	896 300
Cash surplus (deficit) for the year	1 000	6 700
Cash at bank at beginning of year	61 000	62 000
Cash at bank at end of year	62 000	68 700

* Includes employee benefits

QUESTIONS:

- 4.1 One of the managers cannot understand how Victor has compiled the budget for 2006. Some of the expenses have gone up significantly but others have remained approximately the same. Victor has tried to explain to him that certain costs are regarded as variable and others fixed. Write a brief explanation for the manager to help him understand. Provide TWO examples of fixed costs and TWO examples of variable costs from the budget provided in order to illustrate your answer. (8)
- 4.2 Victor cannot understand why the gardeners are so unhappy. They are threatening to go on strike. You feel that the proposed budget for 2006 could be one of the major reasons for this unhappiness. Write a brief report for Victor. Inspect the budget and identify and explain the issues that appear to be making the gardeners unhappy. Offer Victor TWO practical suggestions to solve the problem. (15)
- 4.3 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. (10)
- 4.4 Apart from salaries and wages, identify THREE items in the cash budget that, in your opinion, could have been miscalculated. Briefly explain your concern about each item identified. (10)
- 4.5 One of the managers, Peter Perkins, has complained that he is being underpaid. He says he earns a salary of R6 000 per month, but he is receiving only R3 790. He feels an error has been made. His payslip for last month is as follows:

Employee: P Perkins	Date: Dec 2005
Gross salary	R6 000,00
PAYE	- R1 020,00
UIF (total monthly amount R120)	- R60,00
Medical aid (total premium R1 500)	-R500,00
Pension fund (total monthly amount R1 080)	- R450,00
Net salary	R3 970,00

- Write a brief explanation to Peter Perkins to help him understand that no error has been made.
 - 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? (6)
- 4.6 Peter Perkins (see QUESTION 4.5) is unhappy about the large amount of tax he has to pay on his salary. He wants Victor to pay him R6 000 in cash every month and not transfer the amount directly into his bank account. He tells Victor that he will be a lot happier and will work a lot harder. If you were Victor, what would your response be to this employee? Explain briefly. (6)

**CHOOSE EITHER QUESTION 5 OR QUESTION 6;
DO NOT DO BOTH QUESTIONS.**

QUESTION 5: INTERPRETATION OF FINANCIAL INFORMATION

You are an accountant in a firm called Trusty Accounting Services.

Benny Baqwa owns a number of businesses, one of which is a chemist shop in a remote part of the country. The business, Benny's Pharmacy, sells medicines to the local community. His closest competitor is 80 km away.

Benny presents you with figures for the past two years. He wants to know if his business is likely to experience any problems in future. You must comment on % return, liquidity, mark-up and operating efficiency of the business.

Benny seems not to be worried that this business is developing a poor reputation with the community and the sales have dropped. Nevertheless, he says he is happy to accept any advice you might offer.

	2005	2004
Sales	620 000	650 000
Cost of sales	270 000	400 000
Gross profit	350 000	250 000
Operating expenses	110 000	130 000
Operating profit	240 000	120 000
Interest expense	10 000	30 000
Net profit	230 000	90 000
Owner's equity	500 000	500 000
Non-current liabilities	80 000	200 000
Current assets (including trading stock)	70 000	60 000
Current liabilities	35 000	40 000
Trading stock	50 000	20 000

He has done calculations for some of his financial indicators.

		2005	2004
Gross profit on sales	4.1.1	?	38,5%
Gross profit on cost of sales	4.1.2	?	62,5%
Operating expenses on sales		17,7%	20,0%
Operating profit on sales		38,7%	18,5%
Net profit on sales		37,0%	13,8%
Return on owner's equity	4.1.3	?	18,0%
Current ratio	4.1.4	?	1,5 : 1
Acid-test ratio	4.1.5	?	1 : 1

REQUIRED:

- 5.1 Calculate the missing financial indicators (ratios/percentages) for 2005. Insert your workings and answers on the table provided. Calculate to ONE decimal point. (25)
- 5.2 Draft a letter to him using the format provided. Ensure that your comments relate to the appropriate headings in the letter. You will impress Benny if you can mention the actual ratio or percentages you or he has calculated to support your opinions. (40)

65**OR****QUESTION 6: INFORMAL AND FORMAL ACCOUNTING SYSTEMS**

Oscar Moloi is an informal trader, selling T-shirts. He uses a table at a street corner in Durban as his premises. He has found a good supplier, Ulundi Shirts, who have advertised their T-shirts at R22,00 each. Oscar sells the T-shirts to his customers at this cost price plus 80%.

Oscar uses an informal bookkeeping system, but he provides you with information from his records as he wants you to tell him how well he is doing in this business.

6.1 REQUIRED:

Draw up the Trading Stock Account for the month of March 2006. (20)

INFORMATION FROM OSCAR'S RECORDS:

- Oscar had 160 T-shirts on hand valued at R3 520 on 1 March 2006.
- During March, he bought 150 T-shirts on credit from Ulundi Shirts.
- Oscar sold 85 T-shirts for R3 366. Of these, 60 were sold for cash and 25 were sold on credit to his special customers.
- Because a competitor had started up in the vicinity, Oscar decided to give his cash customers a 25% discount. He sold 40 T-shirts at the discounted price.
- Oscar gave away 3 T-shirts in March to Phumela High School as part of his advertising campaign.
- Oscar employed Sly to work at his table on the day that he fell ill. He paid him R80 for that day.

- Oscar is aware that Sly stole several T-shirts from him, but he does not know how many have been stolen. Sly did not sell any shirts, and he has now disappeared.
 - At the end of the month, Oscar had 174 T-shirts on hand.
- 6.2 Refer to the information and the Trading Stock Account in QUESTION 6.1 above. Oscar is unsure whether he bought too much stock of T-shirts in March or not.
- REQUIRED:**
- 6.2.1 What are the dangers of ordering too much stock? Provide TWO points. (4)
- 6.2.2 In your opinion, should Oscar be satisfied with the volume of stock that he has on hand on 31 March 2006? Explain briefly, quoting figures from QUESTION 6.1. (6)
- 6.3 Refer to the information and the Trading Stock Account in QUESTION 6.1 above.
- REQUIRED:**
- Calculate the net profit that Oscar earned in March 2006. (10)
- 6.4 Ulundi Shirts is selling defective (reject) shirts at half-price. They look identical to the original shirts, but the problem is that the colour fades after the shirts have been washed a few times. In order to increase his profits, Oscar is considering buying a supply of these reject shirts and selling them at his normal selling price.
- 6.4.1 What profit would he make per shirt (in rands)? (4)
- 6.4.2 What would be the % mark-up on these shirts? (5)
- 6.4.3 Should he go ahead with his plan to buy and sell these reject shirts? What advice would you offer him in this regard? (6)
- 6.5 Write a short letter to Oscar advising him on how he should run his business in order to increase his profits in future. (10)

65

TOTAL: 300



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**NATIONAL
SENIOR CERTIFICATE**

GRADE 10

**ACCOUNTING
EXEMPLAR PAPER**

**MARKS: 300
TIME: 2 hours**

This question paper consists of 15 pages.

133 0 E

INSTRUCTIONS AND INFORMATION

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4. Use the answer book provided in order answer the questions.
5. Workings must be shown in order to achieve part-marks.
6. You must attempt to comply with the suggested time allocations.
7. Non-programmable calculators may be used.
8. You may use pencil or blue/black ink to answer the questions.

QUESTION 1: 40 marks; 30 minutes	
The topic of the question is:	The learning outcomes covered are:
Recording information and internal control	LO1 Financial information - AS2 Use of source documents and ledger LO3 Managing resources - AS4 Ledger for perpetual inventory system - AS6 Knowledge of internal control

QUESTION 2: 30 marks; 25 minutes	
The topic of the question is:	The learning outcomes covered are:
Cost concepts	LO2 Managerial accounting - AS2 Identify basic cost concepts

QUESTION 3: 100 marks; 55 minutes	
The topic of the question is:	The learning outcomes covered are:
Financial statements and concepts	LO1 Financial information - AS1 Explain accounting concepts - AS5 Prepare financial statements of sole traders

QUESTION 4: 65 marks; 40 minutes	
The topic of the question is:	The learning outcomes covered are:
Budget concepts	LO2 Managerial accounting - AS3 Explain basic budget concepts LO3 Managing resources - AS2 Salaries & wage scales - AS5 Code of ethics

CHOOSE EITHER QUESTION 5 OR QUESTION 6

QUESTION 5: 65 marks; 30 minutes	
The topic of the question is:	The learning outcomes covered are:
Interpreting financial statements	LO1 Financial information - AS5 Financial statements of sole traders

QUESTION 6: 65 marks; 30 minutes	
The topic of the question is:	The learning outcomes covered are:
Informal and formal accounting systems	LO1 Financial information - AS2 Use of source documents & ledger - AS5 Financial statements of sole traders

QUESTION 1: RECORDING INFORMATION AND INTERNAL CONTROL**1.1 SOURCE DOCUMENTS**

June Julies owns a bookshop. She has set up a formal accounting system, and she has had the following source documents in place for her business:

Invoices, Credit Notes, Debit Notes, Cheques, Deposit slips, Receipts, Cash slips/Cash register tapes, Petty Cash vouchers, General Journal vouchers

However, as she did not study Accounting at school, June does not know why each document is needed.

REQUIRED:

In the table provided in the answer book, indicate the name of the document that would fulfil the purpose explained. The first one has been done for you as an example.

(15)

	Purpose	Name of document
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	
1.1.2	This document is used to record a credit sale to a customer	
1.1.3	This document is used to deposit money into the bank account of the business	
1.1.4	This document is used to pay a supplier for an amount owed to him, using money in the business' bank account	
1.1.5	This document is used to record stock returned by a credit customer	
1.1.6	This document is received from a creditor for goods bought on credit by the business	
1.1.7	This document is used to put through various entries in the General Journal, e.g. writing off bad debts	
1.1.8	This document is used to return goods to a creditor	

1.2 TRANSACTIONS OF JULIES BOOKSHOP

In her business June Julies uses the perpetual inventory system and a mark-up of 75% on cost. You are provided with five transactions, as well as four options for the entries for each transaction. Choose the correct entries by making an X in the appropriate block in the answer book.

REQUIRED:

Answer the following questions by choosing the correct option. (15)

TRANSACTIONS OF JULIES BOOKSHOP:

1.2.1 Julies Bookshop purchases goods on credit from Yebo Publishers for R12 000. The entries in the ledger will be:

- (a) Debit Trading Stock R12 000
Credit Creditors Control R12 000
- (b) Debit Purchases R12 000
Credit Creditors Control R12 000
- (c) Debit Creditors control R12 000
Credit Trading Stock R12 000
- (d) Debit Trading Stock R12 000
Credit Bank R12 000.

1.2.2 Julies Bookshop sells books for cash to a customer, I Reid, for R1 750. The entries in the ledger will be:

- (a) Debit Debtors Control R1 750; Credit Sales R1 750
Debit Cost of Sales R1 000; Credit Trading Stock R1 750
- (b) Debit Debtors Control R1 750; Credit Trading Stock R1 750
Debit Cost of Sales R1 000; Credit Sales R1 000
- (c) Debit Bank R1 750; Credit Sales R1 750
Debit Cost of Sales R1 000; Credit Trading Stock R1 000
- (d) Debit Bank R1 750; Credit Sales R1 750

- 1.2.3 A credit customer, B Booker, returns books that she did not order. The cost price of the books was R200. Julies Bookshop issues a credit note for the appropriate sales amount. The entries in the ledger will be:
- (a) Debit Debtors Allowances R350; Credit Bank R350
Debit Cost of Sales R200; Credit Trading Stock R200
 - (b) Debit Debtors Control R350; Credit Debtors allowances R350
Debit Trading Stock R200; Credit Cost of Sales R200
 - (c) Debit Sales R350; Credit Debtors allowances R350
Debit Cost of Sales R200; Credit Trading Stock R200
 - (d) Debit Debtors Allowances R350; Credit Debtors Control R350
Debit Trading Stock R200; Credit Cost of Sales R200
- 1.2.4 June Julies takes goods for personal use. The marked selling price of these books is R420. The entries in the ledger will be:
- (a) Debit Drawings R420
Credit Trading Stock R420
 - (b) Debit Drawings R240
Credit Trading Stock R240
 - (c) Debit Drawings R315
Credit Trading Stock R315
 - (d) Debit Trading Stock R315
Credit Trading Stock R315
- 1.2.5 The physical stock count reveals books on hand at the end of the year to have a cost price of R110 000. The Trading Stock Account reflects a balance of R116 000. The entries in the ledger will be:
- (a) Debit Trading Stock R6 000
Credit Closing Stock R420
 - (b) Debit Drawings R6 000
Credit Trading Stock R6 000
 - (c) Debit Trading Stock Deficit R6 000
Credit Trading Stock R6 000
 - (d) Debit Trading Stock R6 000
Credit Trading Stock Surplus R6 000

1.3 INTERNAL CONTROL BY JULIES BOOKSHOP

June Julies feels that she has two problems in her business. These are:

- Many customers buy books on credit. However, the sales assistant does not always document the transactions, and even if they are properly documented, the customers are very slow in paying. This means that Julies Bookshop runs short of cash because they have to pay the suppliers before the customers settle their accounts. This is obviously not ideal.
- Stock is going missing from the shop. She suspects that either the customers or her employees are stealing stock from her shop.

REQUIRED:

List the main points that June should apply in her business to:

1.3.1 Solve the debtors problem (THREE points)

1.3.2 Solve the stock problem (TWO points)

(10)

40

QUESTION 2: COST CONCEPTS

Mary Moyo is a student but she is also very good at baking large chocolate cakes. She decided to start making these cakes to sell to the public.

In January 2006 her mother agreed to rent the kitchen and equipment to her at a fixed rental of R500 per month. Mary has to pay all additional costs of making the cakes. Mary decided to start on a trial run by baking two cakes per day (weekdays only). To her surprise, she found that her reputation spread and she was able to sell these cakes very quickly.

She found that she had to use her car more often in order to deliver the cakes, and her cellphone to liaise with her customers. She also employed a part-time assistant. In January 2006, her results were as follows:

Cost of producing 40 cakes	TOTAL	PER CAKE
Fixed costs	800,00	?
- Rent of kitchen and equipment	500,00	?
- Wages paid to assistant	300,00	10,00
Variable costs	1 360,00	?
- Ingredients	600,00	?
- Electricity and water	160,00	4,00
- Packaging for cakes	40,00	?
- Motor vehicle delivery costs	440,00	11,00
- Telephone calls	120,00	3,00
	R2 160,00	?

She sold these 40 cakes for R80 each, so she made a small profit. However, she wants to increase this profit by increasing her production of cakes.

REQUIRED:

- 2.1 Calculate the profit that Mary made in January 2006. (4)
- 2.2 Calculate the cost per cake produced in January 2006. (3)
- 2.3 From the costs shown above, give ONE example of a direct cost and ONE example of an indirect cost. (2)
- 2.4 Mary thinks that if she increases her production by 50% then her profit will also increase by 50%. Her mother tells her that her profits should increase by more than 50%. Who is correct? Explain briefly. (3)
- 2.5 Mary feels that she can make and sell 80 cakes in February if she works hard. Calculate the profit that you expect her to earn in February. Note that the assistant's wages will not increase. (10)
- 2.6 Mary has been offered a cake stall at the local school fund-raising day. She will have to pay R600 for the stall for the day, and she will have to pay her assistant an extra R400 for overtime. However, she can expect to sell an extra 40 cakes at the fund-raising day. In your opinion, will it be profitable for Mary to get involved in this fund-raising day? Explain briefly by quoting appropriate figures. (8)

(8)

30

QUESTION 3: FINANCIAL STATEMENTS AND CONCEPTS

Peggy Perumal owns a ladies' dress shop called Peggy's Fashions. Her bookkeeper has drafted an Income Statement for the year ended 28 February 2005, but she has not taken certain adjustments into account.

REQUIRED:

- 3.1 Correct the Income Statement to reflect the correct profit or loss for the year. Correct any errors by crossing out the original figures and inserting the correct figures. (25)
- 3.2 Prepare a Balance Sheet on 28 February 2005. You are not required to prepare any notes to the Balance Sheet. Show your calculations in brackets so that you can earn marks for your adjustments. (50)
- 3.3 Answer the questions that follow.

INFORMATION:**PEGGY PERUMAL TRADING AS PEGGY'S FASHIONS
DRAFT INCOME STATEMENT FOR YEAR ENDED 28 FEBRUARY 2005**

Sales	600 000
Cost of sales	(350 000)
Gross profit	250 000
Add: Other operating income	17 000
Commission income	15 000
Discount received	2 000
	267 000
Less: Operating expenses	(160 000)
Salaries and wages	80 000
Telephone	5 000
Advertising	4 000
Rent expense	44 000
Motor vehicle expenses	23 000
Stationery and printing	1 000
Bank charges	3 000
Operating profit	107 000
Add: Interest income	2 000
	109 000
Less: Interest expense	(11 000)
Net profit	98 000

The following balances appeared in the Balance Sheet section of the ledger before any adjustments:

	Debit	Credit
Capital		300 000
Drawings	44 000	
Vehicle	170 000	
Equipment	29 000	
Fixed deposit – Nedbank	60 000	
Debtors control	24 000	
Creditors control		35 100
Trading stock	180 000	
Bank	26 000	
Petty cash	1 000	
SA Revenue Services (PAYE)		900
Loan from Credfin (13% p.a.)		100 000

ADJUSTMENTS AND ADDITIONAL INFORMATION:

1. Peggy took stock of dresses for her personal use at cost price, R4 200. This has not been recorded.
2. A stock count at the year-end revealed dresses of R170 000 on hand.
3. A computer was purchased on credit on 31 December 2004 for R8 000. This has not been recorded. The amount due will be paid in March 2005.
4. Provide for interest owing on the loan from Credfin. No loan repayments have been made since the loan was originally received in 2003, but R20 000 has to be repaid on 30 June 2005.
5. Half of the fixed deposit matures in April 2005.
6. The bank statement for February reflected the following which have not been recorded yet:
 - Service fees, R300
 - Interest on favourable bank account, R60
7. The rent for February 2005 has not been paid yet. Provide for the amount owing.
8. A debtor, N Norris, complained that she was overcharged on her latest invoice. Peggy agreed to adjust her account by R800, but this has not been recorded. The cost of sales was correctly recorded.
9. A debtor, F Frutt, has been declared insolvent. He owes R1 250. His insolvent estate will pay out 60 cents in the rand.

10. Commission of R1 500 is owed to Peggy's Fashions for sale of fashion magazines. This will be received in March 2005.
11. An amount of R1 800 was paid to the *Daily News* on 2 January 2005. This has been recorded in the books. However, this is in respect of three identical advertisements that are scheduled to appear in the newspaper – one in January, one in February and one in March.

3.3 QUESTIONS:

- 3.3.1 In your opinion, is it necessary for accountants to follow a set of rules or principles when they prepare financial statements? Explain briefly. (5)
- 3.3.2 Briefly explain the Historical Cost Rule and why it is necessary to use this rule/principle. (5)
- 3.3.3 Briefly explain the Matching Principle and why it is necessary to use this rule/principle. (5)
- 3.3.4 Peggy is unable to understand her Balance Sheet. Briefly describe what is meant by:
- Assets
 - Liabilities
 - Owner's equity
 - Gross profit
 - Net profit
- (10)

QUESTION 4: BUDGET CONCEPTS

VV Garden Services is owned by Victor Venter. He employs two managers to run the business for him, and employs 10 gardeners to perform the gardening work.

He expects the business to have a very good year in 2006. He expects the fee income from garden services to increase by 40%. As he relies heavily on the two managers to supervise the 10 gardeners and drive the vehicles for him, he feels it is only fair to give them a 40% increase in their salaries for 2006. He has budgeted for this.

You are provided with the Cash Budget for the business for the year ending 31 December 2006, together with the corresponding figures for 2005.

VV GARDEN SERVICES**CASH BUDGET FOR YEAR ENDING 31 DECEMBER 2006**

	ACTUAL FIGURES FOR 2005	BUDGETED FIGURES FOR 2006
RECEIPTS		
Fee income from garden services	600 000	840 000
Sale of premises		120 000
Loan from FNB	100 000	
	700 000	960 000
PAYMENTS		
Salary of bookkeeper/receptionist *	45 000	45 000
Salaries to managers *	150 000	210 000
Wages to gardeners *	180 000	189 000
Advertising	10 000	10 000
Rent of office	42 000	42 000
Office telephone and electricity	12 000	13 000
Motor vehicle expenses	50 000	70 000
Insurance	7 000	7 000
Equipment purchased	63 000	20 000
Bank charges	4 000	4 000
Drawings by V Venter	90 000	250 000
Loan repayments		20 000
Interest on loan	16 000	12 800
Consumable stores	30 000	60 500
	699 000	896 300
Cash surplus (deficit) for the year	1 000	6 700
Cash at bank at beginning of year	61 000	62 000
Cash at bank at end of year	62 000	68 700

* Includes employee benefits

QUESTIONS:

- 4.1 One of the managers cannot understand how Victor has compiled the budget for 2006. Some of the expenses have gone up significantly but others have remained approximately the same. Victor has tried to explain to him that certain costs are regarded as variable and others fixed. Write a brief explanation for the manager to help him understand. Provide TWO examples of fixed costs and TWO examples of variable costs from the budget provided in order to illustrate your answer. (8)
- 4.2 Victor cannot understand why the gardeners are so unhappy. They are threatening to go on strike. You feel that the proposed budget for 2006 could be one of the major reasons for this unhappiness. Write a brief report for Victor. Inspect the budget and identify and explain the issues that appear to be making the gardeners unhappy. Offer Victor TWO practical suggestions to solve the problem. (15)
- 4.3 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. (10)
- 4.4 Apart from salaries and wages, identify THREE items in the cash budget that, in your opinion, could have been miscalculated. Briefly explain your concern about each item identified. (10)
- 4.5 One of the managers, Peter Perkins, has complained that he is being underpaid. He says he earns a salary of R6 000 per month, but he is receiving only R3 790. He feels an error has been made. His payslip for last month is as follows:

Employee: P Perkins	Date: Dec 2005
Gross salary	R6 000,00
PAYE	- R1 020,00
UIF (total monthly amount R120)	- R60,00
Medical aid (total premium R1 500)	-R500,00
Pension fund (total monthly amount R1 080)	- R450,00
Net salary	R3 970,00

- Write a brief explanation to Peter Perkins to help him understand that no error has been made.
 - 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? (6)
- 4.6 Peter Perkins (see QUESTION 4.5) is unhappy about the large amount of tax he has to pay on his salary. He wants Victor to pay him R6 000 in cash every month and not transfer the amount directly into his bank account. He tells Victor that he will be a lot happier and will work a lot harder. If you were Victor, what would your response be to this employee? Explain briefly. (6)

**CHOOSE EITHER QUESTION 5 OR QUESTION 6;
DO NOT DO BOTH QUESTIONS.**

QUESTION 5: INTERPRETATION OF FINANCIAL INFORMATION

You are an accountant in a firm called Trusty Accounting Services.

Benny Baqwa owns a number of businesses, one of which is a chemist shop in a remote part of the country. The business, Benny's Pharmacy, sells medicines to the local community. His closest competitor is 80 km away.

Benny presents you with figures for the past two years. He wants to know if his business is likely to experience any problems in future. You must comment on % return, liquidity, mark-up and operating efficiency of the business.

Benny seems not to be worried that this business is developing a poor reputation with the community and the sales have dropped. Nevertheless, he says he is happy to accept any advice you might offer.

	2005	2004
Sales	620 000	650 000
Cost of sales	270 000	400 000
Gross profit	350 000	250 000
Operating expenses	110 000	130 000
Operating profit	240 000	120 000
Interest expense	10 000	30 000
Net profit	230 000	90 000
Owner's equity	500 000	500 000
Non-current liabilities	80 000	200 000
Current assets (including trading stock)	70 000	60 000
Current liabilities	35 000	40 000
Trading stock	50 000	20 000

He has done calculations for some of his financial indicators.

		2005	2004
Gross profit on sales	4.1.1	?	38,5%
Gross profit on cost of sales	4.1.2	?	62,5%
Operating expenses on sales		17,7%	20,0%
Operating profit on sales		38,7%	18,5%
Net profit on sales		37,0%	13,8%
Return on owner's equity	4.1.3	?	18,0%
Current ratio	4.1.4	?	1,5 : 1
Acid-test ratio	4.1.5	?	1 : 1

REQUIRED:

- 5.1 Calculate the missing financial indicators (ratios/percentages) for 2005. Insert your workings and answers on the table provided. Calculate to ONE decimal point. (25)
- 5.2 Draft a letter to him using the format provided. Ensure that your comments relate to the appropriate headings in the letter. You will impress Benny if you can mention the actual ratio or percentages you or he has calculated to support your opinions. (40)

65**OR****QUESTION 6: INFORMAL AND FORMAL ACCOUNTING SYSTEMS**

Oscar Moloi is an informal trader, selling T-shirts. He uses a table at a street corner in Durban as his premises. He has found a good supplier, Ulundi Shirts, who have advertised their T-shirts at R22,00 each. Oscar sells the T-shirts to his customers at this cost price plus 80%.

Oscar uses an informal bookkeeping system, but he provides you with information from his records as he wants you to tell him how well he is doing in this business.

6.1 REQUIRED:

Draw up the Trading Stock Account for the month of March 2006. (20)

INFORMATION FROM OSCAR'S RECORDS:

- Oscar had 160 T-shirts on hand valued at R3 520 on 1 March 2006.
- During March, he bought 150 T-shirts on credit from Ulundi Shirts.
- Oscar sold 85 T-shirts for R3 366. Of these, 60 were sold for cash and 25 were sold on credit to his special customers.
- Because a competitor had started up in the vicinity, Oscar decided to give his cash customers a 25% discount. He sold 40 T-shirts at the discounted price.
- Oscar gave away 3 T-shirts in March to Phumela High School as part of his advertising campaign.
- Oscar employed Sly to work at his table on the day that he fell ill. He paid him R80 for that day.

- Oscar is aware that Sly stole several T-shirts from him, but he does not know how many have been stolen. Sly did not sell any shirts, and he has now disappeared.
 - At the end of the month, Oscar had 174 T-shirts on hand.
- 6.2 Refer to the information and the Trading Stock Account in QUESTION 6.1 above. Oscar is unsure whether he bought too much stock of T-shirts in March or not.
- REQUIRED:**
- 6.2.1 What are the dangers of ordering too much stock? Provide TWO points. (4)
- 6.2.2 In your opinion, should Oscar be satisfied with the volume of stock that he has on hand on 31 March 2006? Explain briefly, quoting figures from QUESTION 6.1. (6)
- 6.3 Refer to the information and the Trading Stock Account in QUESTION 6.1 above.
- REQUIRED:**
- Calculate the net profit that Oscar earned in March 2006. (10)
- 6.4 Ulundi Shirts is selling defective (reject) shirts at half-price. They look identical to the original shirts, but the problem is that the colour fades after the shirts have been washed a few times. In order to increase his profits, Oscar is considering buying a supply of these reject shirts and selling them at his normal selling price.
- 6.4.1 What profit would he make per shirt (in rands)? (4)
- 6.4.2 What would be the % mark-up on these shirts? (5)
- 6.4.3 Should he go ahead with his plan to buy and sell these reject shirts? What advice would you offer him in this regard? (6)
- 6.5 Write a short letter to Oscar advising him on how he should run his business in order to increase his profits in future. (10)

65

TOTAL: 300

**GRADE 10
ACCOUNTING****EXEMPLAR PAPER**

CENTRE NUMBER:	
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EXAMINATION NUMBER:	
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ANSWER BOOK

This answer book consists of 18 pages.

QUESTION	MAX	PART-MARKS	FINAL MARKS
1	40		
2	30		
3	100		
4	65		
5 or 6	65		
	300		

QUESTION 1: RECORDING INFORMATION AND INTERNAL CONTROL**1.1**

	Purpose	Name of document
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	
1.1.2	This document is used to record a credit sale to a customer	
1.1.3	This document is used to deposit money into the bank account of the business	
1.1.4	This document is used to pay a supplier for an amount owed to him, using money in the business' bank account	
1.1.5	This document is used to record stock returned by a credit customer	
1.1.6	This document is received from a creditor for goods bought on credit by the business	
1.1.7	This document is used to put through various entries in the General Journal, e.g. write off bad debts	
1.1.8	This document is used to return goods to a creditor	

(15)

1.2

	(a)	(b)	(c)	(d)
1.2.1				
1.2.2				
1.2.3				
1.2.4				
1.2.5				

(15)

1.3.1 THREE points to solve the debtors problem:

1.3.2 TWO points to solve the stock problem:

(10)

Marks
40

QUESTION 2: COST CONCEPTS

2.1	Calculate the profit that Mary made in January 2006:	(4)
2.2	Calculate the cost per cake produced in January 2006:	(3)
2.3	Example of a direct cost: Example of an indirect cost:	(2)
2.4	Who is correct? Explanation:	(3)

2.5	Calculation of profit Mary expects to earn in February 2006:	(10)
2.6	In your opinion, will it be profitable for Mary to get involved in the fund-raising day? Explain briefly, quoting appropriate figures:	(8)

Marks
30

QUESTION 3: FINANCIAL STATEMENTS AND CONCEPTS**3.1 PEGGY PERUMAL TRADING AS PEGGY'S FASHIONS
INCOME STATEMENT FOR YEAR ENDED 28 FEBRUARY 2005**

Sales	600 000
Cost of sales	(350 000)
Gross profit	
Add: Other operating income	
Commission income	15 000
Discount received	2 000
Less: Operating expenses	
Salaries and wages	80 000
Telephone	5 000
Advertising	4 000
Rent expense	44 000
Motor vehicle expenses	23 000
Stationery and printing	1 000
Bank charges	3 000
Operating profit	
Add: Interest income	2 000
	109 000
Less: Interest expense	
Net profit	

(25)

3.2

**PEGGY PERUMAL TRADING AS PEGGY'S FASHIONS
BALANCE SHEET AS AT 28 FEBRUARY 2005**

ASSETS	
Non-current assets	
Fixed assets	
Financial assets	
Current assets	
TOTAL ASSETS	
OWNER'S EQUITY & LIABILITIES	
Owner's equity	
Non-current liabilities	
Current liabilities	
TOTAL EQUITY & LIABILITIES	

(50)

3.3

3.3.1	In your opinion, is it necessary for accountants to follow a set of rules or principles when they prepare financial statements? Explain briefly:	(5)
3.3.2	Briefly explain the Historical Cost Rule and why it is necessary to use this rule/principle:	(5)
3.3.3	Briefly explain the Matching Principle and why it is necessary to use this rule/principle:	(5)

3.3.4	Briefly describe what is meant by: <ul style="list-style-type: none">- Assets: - Liabilities: - Owner's equity: - Gross profit: - Net profit:	(10)
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Marks
100

QUESTION 4: BUDGET CONCEPTS

4.1	<p>Brief explanation of the difference between fixed costs and variable costs:</p> <p style="margin-top: 100px;">TWO examples of fixed costs:</p> <p style="margin-top: 100px;">TWO examples of variable costs:</p>	(8)
4.2	<p>Brief report for Victor.</p> <p style="margin-top: 100px;">Identification and explanation of issues from the budget:</p> <p style="margin-top: 100px;">TWO practical suggestions to solve the problem:</p>	(15)

4.3	<p>Opinion on bank balances:</p> <p>ONE reason for your opinion:</p> <p>TWO options for the treatment of the cash:</p>	(10)
4.4	<p>THREE items in the cash budget that could have been miscalculated and brief explanation of your concern about each item:</p>	(10)

QUESTION 5: INTERPRETATION OF FINANCIAL INFORMATION**5.1 CALCULATION OF FINANCIAL INDICATORS**

	ANSWERS	COMPARISON
	2005	2004
5.1.1 Gross profit on sales Calculation:		38,5%
5.1.2 Gross profit on cost of sales Calculation:		62,5%
Operating expenses on sales	17,7%	20,0%
Operating profit on sales	38,7%	18,5%
Net profit on sales	37,0%	13,8%
5.1.3 Return on owner's equity Calculation:		18,0%
5.1.4 Current ratio Calculation:		1,5 : 1
5.1.5 Acid-test ratio Calculation:		1 : 1

(25)

5.2

TRUSTY ACCOUNTING SERVICES

PO Box 456, Newlands, 7800

Tel: 021 333 4678 Fax: 021 333 4679 E-mail: trusty@mweb.co.za

30 October 2005

Mr B Baqwa
Private Bag 23
RIETSVLEI
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

(7)

Liquidity

(7)

Mark-up percentages

(7)

Operating efficiency

(7)

Relationship with the community – ethical considerations

(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

Copyright reserved

Marks
65

Please turn over

QUESTION 6

6.1 TRADING STOCK ACCOUNT

General Ledger of Oscar Moloji											
Dr	Trading Stock										Cr
											(20)

6.2.1	Dangers of ordering too much stock (TWO points):	
		(4)
6.2.2	Comment on stock on hand at the end of the month:	
	Advice to Oscar regarding stock:	

		(6)
--	--	-----

6.3	Calculation of net profit:	
		(10)

6.4.1	Profit per reject T-shirt:	
		(4)
6.4.2	Mark-up on reject T-shirts:	
		(5)
6.4.3	Advice regarding the plan to buy and sell reject T-shirts:	
		(6)

