



GRADE 10 EXEMPLAR EXAMINATION
2006

ACCOUNTANCY
MEMORANDUM

Time: 3 hours

300 marks

Question 1

1.1

Position: Junior Marketing Assistant
 Commencement date: 1 March 2006
 Working hours: Monday to Friday from 8:00 to 17:00

Gross monthly salary

Gross monthly salary ($90\ 000 \div 12$)	7 500
Deductions	(2 305)
Pension fund ($7\ 500 \times 8\%$)	600
PAYE [$(7\ 500 - 600) \times 20\%$]	1 380
UIF ($1\% \times 7\ 500$)	75
Medical aid	250
Net salary	5 195

Contributions that Uppity Textiles will make on your behalf:

Pension fund ($600 \times 1,5$)	900
UIF ($1\% \times 7\ 500$)	75
Medical aid	250
Skills Development Levy [$(7\ 500 - 600) \times 1\%$]	69
	1 294

Your total cost to company is $(7\ 500 + 1\ 294) = R8\ 794$

Your annual increase will come into effect on 1 March 2007 and will be determined on your performance and contribution to the business.

Your net salary of **R5 195** will be paid directly into your banking account on **25th of each month** for **safety and security reasons**

Marking Grid

	0	1	2	3
Introduction paragraph:	Paragraph does not mention position, commencement date or working hours	Paragraph mentions only one of: position, commencement date and working hours mentioned	Paragraph mentions only two of: position, commencement date and working hours mentioned	Paragraph mentions position, commencement date and working hours
• Position				
• Commencement date				
• Working hours				

Checklist

Calculation of Gross wage	No amount shown 0	Calculation shown but incorrect 1	Calculation shown and amount is correct 3
Gross monthly salary			
Pension fund			
PAYE			
UIF			
Net salary			

Calculation of contributions	No amount shown 0	Calculation shown but incorrect 1	Calculation shown and amount is correct 3
Pension fund			
UIF			
Medical aid			
Skills development levy			

	0	1	2	3
Cost to company: <ul style="list-style-type: none"> Gross salary Total contributions 	No calculation or amount shown or completely incorrect amounts used	Gross wage or total contributions used in the calculation but total amount is incorrect	Gross wage and total contributions used but total amount is incorrect	Correct amounts used and total amount is correct

	0	1	2
Increase <ul style="list-style-type: none"> Increase date shown Method in which increase is to be determined 	No mention of increase date or method of increase to be used	Increase date indicated or method to calculate increase indicated but not both	Both increase date and method of increase correctly indicated.

	0	1	2	3
Net salary paid into current banking account	No explanation given	Explained but no reason given	Explained but reason given does not make sense	Well explained and good reason given

1.2

1.2.1 Bonus John Newport will receive in December 2006.

$$7\,500 \times 10 \div 12 = R6\,250 \checkmark\checkmark\checkmark$$

1.2.2 Why it is important to prepare a budget?

It will help him determine if he will be able to meet his monthly obligations $\checkmark\checkmark$. Will his monthly income cover his monthly expenses? $\checkmark\checkmark$

1.2.3 Type of budget and reason to justify your answer.

Cash budget \checkmark Shows expected monthly cash inflow and monthly cash outflow. $\checkmark\checkmark$

1.2.4 Will John Newport have saved enough money including the annual bonus to pay for his skiing trip? Justify your answer with a calculation. Indicate the deficit or surplus for his holiday.

No. \checkmark

$$(10 \times 500) + 6\,250 = R11\,250 \checkmark\checkmark$$

$$R12\,500 - 11\,250 = R1\,250 \checkmark\checkmark \text{ deficit } \checkmark$$

1.2.5 Which two expenses could he cut back on? Supply a reason for your answer.

Cell phone, Clothing accounts, Entertainment $\checkmark\checkmark$ Any suitable reason is acceptable. $\checkmark\checkmark$ **Question 2**

2.1 Explain the difference between a fixed cost and a variable cost.

Fixed cost – are those costs that remain constant irrespective of production. If production increases or decreases these costs remain the same. $\checkmark\checkmark$

Variable cost – are those costs that change as production changes. If production increases these costs will increase and if production decreases these costs will decrease. $\checkmark\checkmark$

2.2

2.2.1 Variable cost to produce one chocolate brownie.

 $\checkmark\checkmark\checkmark$

$$540 \div 300 = R1,80$$

2.2.2 Total cost to produce one chocolate brownie.

✓✓✓

$$840 \div 300 = R2,80$$

2.2.2 Profit mark-up achieved on the chocolate brownies sold during July 2006.

✓✓✓✓

$$(4,20 - 2,80) \div 2,80 \times 100 = 50\%$$

2.3 How many chocolate brownies must Debra sell in the next six months in order to reach her target of R3 780?

$$3\ 780 \div 1,40 = 2\ 700 \quad \checkmark\checkmark$$

✓✓✓

$$2\ 700 \div 6 = 450 \text{ per month}$$

2.4 If production increases by 20% from 300 to 360 chocolate brownies, will profit also increase by 20%? Justify your answer.

No ✓ Profit will increase by more than 20% because fixed costs will not increase at all, variable costs will increase but this could also decrease because she could negotiate a better price on her raw materials. ✓✓✓

2.5. Two accounting controls that she could put in place to ensure that she receives the correct amount of cash that was made from the sales of her biscuits at other schools and that no cash or stock is stolen.

She needs to issue an invoice/delivery note when she hands over her stock at other schools.

When receiving the money she needs to compare the amount received with the delivery note.

To ensure that she has received the correct amount of cash.

Any other acceptable answer. 2 controls X 2 marks

2.6. Briefly explain whether you think what Amy is planning to do is ethical.

Mark out of eight marks. Base marks on the level of answer according to the following:

- 1: Gave yes/no type answer with very little knowledge of what it means to be ethical.
- 2: Gave yes/no answer with some comprehension of what ethical behaviour is.
- 3: Explained why they thought it was ethical or not but the reasoning was illogical.
- 4: Showed an ability to understand what ethical behaviour entails but did not adequately explain Amy's behaviour in relation to it being ethical or not.
- 5: Was able to adequately explain why he/she thought Amy was ethical or not.
- 6: In their answer, he/she showed that they were able to analyse the situation and then explain whether they thought Amy was ethical or not.
- 7: The answer shows that they were able to show that Amy's actions could be regarded as both ethical and not ethical.
- 8: Gave a very good answer showing real higher order thinking. Was able to analyse Amy's

actions and evaluate whether they were ethical/or not.

2.6.1 Write a short paragraph predicting what you think Amy’s actions will have on Debra’s business.

2.7 Briefly explain whether you think what Sandra is planning to do is ethical.

Mark out of eight marks. Base marks on the level of answer according to the following:

- 1: Gave yes/no type answer with very little knowledge of what it means to be ethical.
- 2: Gave yes/no answer with some comprehension of what ethical behaviour is.
- 3: Explained why they thought it was ethical or not but the reasoning was illogical.
- 4: Showed an ability to understand what ethical behaviour entails but did not adequately explain Sandra's behaviour in relation to it being ethical or not.
- 5: Was able to adequately explain why he/she thought Sandra was ethical or not.
- 6: In their answer, he/she showed that they were able to analyse the situation and then explain whether they thought Sandra was ethical or not.
- 7: The answer shows that they were able to show that Sandra's actions could be regarded as both ethical and not ethical.
- 8: Gave a very good answer showing real higher order thinking. Was able to analyse Sandra's actions and evaluate whether they were ethical/or not.

QUESTION 3: The accounting equation

Use the table provided to identify the journal, the accounts debited and credited and the effect on the accounting equation of the following transactions.

For example: Bought a vehicle on credit for R220 000

No	Journal	Account Debit	Account Credit	A =	O +	L
e.g.	CJ□	Vehicles□	Creditors Control□	+220000□		+220000□
3.1.	GJ□	Drawings□	Trading Stock□	- 2800□	-2800□	
3.2.	DJ□	Debtors Control□	Sales□	+5400□	+5400□	
		Cost of Sales□	Trading Stock□	-4320□	-4320□	
3.3.	CAJ□	Creditors Control□	Packing Material□		+ 450□	-450□
3.4.	CRJ□	Bank□	Debtors Control□	+/- 450□□		
	GJ□	Bad Debts□	Debtors Control	- 150□	-150□	
3.5.	CPJ□	Trading Stock□	Bank□	+/- 12000□		
		Stationery□	Bank	-1000□	-1000□	
3.6.	CRJ□	Bank□	Debtors Control□	+/-675□		
		Discount Allowed□	Debtors Control	-5□	-5□	

QUESTION 4:

NICE NOISE

INCOME STATEMENT FOR THE YEAR ENDED 28TH FEBRUARY 2006

Sales (295500-530+4 500)	299 470	✓✓✓✓✓
Cost of Sales (197000 + 3000)	200 000	✓✓✓✓
Gross Profit	99 470	✓
Other operating income	13 870	✓
Discount received	340	✓
Bad debts recovered (130 + 400)	530	✓✓
Rent Income	13 000	✓✓
Gross Income	113 340	✓
Other operating expenses	67 620	✓
Salaries and Wages (34 690)	34 690	✓✓✓
Pension Contributions (4 300)	4 300	✓
Medical Contributions (1870)	1 870	✓✓
Sundry Expenses (12120)	12 120	✓✓
Packing Materials (2 060 – 450)	1 610	✓✓
Bad Debts (300 + 360 +400)	1 060	✓✓✓
Discount Allowed (20)	20	✓
Advertising (4550 -150)	4 400	✓✓
Trading License (1 800)	1 800	✓
Loss due to theft	4 750	
Trading stock deficit	1 000	✓✓
Operating profit for the year	45 720	✓
Interest Income (900 + 20)	920	✓✓✓
Net profit before interest expense	46 640	✓
Interest Expense (1200)	(1 200)	✓✓
Net profit for the year	45 440	✓

[45 marks]

QUESTION 5:

**BELLY BUTTONS
BALANCE SHEET AS AT 31 DECEMBER 2006**

ASSETS	Notes	2006	2005
NON-CURRENT ASSETS		✓✓ 110 800	90 800
*Fixed/tangible assets ✓✓		✓✓ 100 800	75 800
Financial assets (Fixed deposits)		✓✓ 10 000	15 000
CURRENT ASSETS		✓ 81 125	45 000
Inventories		✓✓ 46 750	32 560
* Trade and other receivables ✓✓		✓✓ 19 275	-
Cash and cash equivalents		✓✓ 15 100	12 440
TOTAL ASSETS		✓ 191 925	135 800
EQUITIES AND LIABILITIES			
OWNERS' EQUITY		✓ 129 475	77 960
NON-CURRENT LIABILITIES			
*Loans payables ✓		✓ 30 000	40 000
CURRENT LIABILITIES		32 450	17 840

Trade and other payables		22 450	17 840
Loan Repayment ✓		✓ 10 000	
TOTAL EQUITIES AND LIABILITIES		✓ 191 925	135 800

NOTES TO FINANCIAL STATEMENTS

Owners' Equity Note	2006	2005
Balance at the beginning of the year	✓ 77 960	74 000
Additions made during the year	✓✓ 25 000	-
Net profit for the year	40 015	14 300
Drawings for the year	✓✓ (13 500)	(10 340)
Balance at the end of the year	✓ 129 475	77 960

5.2.1. Briefly comment on the effect credit sales has had on the business's sales and net profit.

✓✓ ✓✓

Comments: - profit and sales have increased significantly since last year.

5.2.2. What control systems should Belly Buttons have in place to control fixed/tangible assets?

There should be a fixed asset register showing the details of each fixed/tangible asset.
 Make up list – make sure the value of each item is on list and this agrees to the value of fixed/tangible assets in general ledger.
 When a fixed/tangible asset is ordered it should be authorised.
 A physical count of assets should be done periodically.

Each fixed/tangible asset should be marked with a number.

When employees leave the businesses premises security personnel could do spot checks to see that employees do not take business assets home.

Any other acceptable answer.

2 answers X 2 marks

5.2.3. What is the purpose of doing a stock-take at the end of an accounting period?

To check whether book value of stock agrees with physical value of stock.

To calculate stock deficits.

Any other acceptable answer.

One good answer X 2 marks

QUESTION 6:

6.1.1. Actual mark-up achieved in 2006

$$\frac{280\ 000}{700\ 000} \times 100 = 40\% \checkmark \checkmark$$

6.1.2. Operating profit on turnover/sales

$$\text{Operating profit} : 280\ 000 + 12\ 000 \checkmark - 92\ 000 \checkmark = 200\ 000 \checkmark$$

$$\frac{200\ 000}{980\ 000} \times 100 = 20,41\% \checkmark$$

6.1.3. Operating expenses on turnover/sales

$$\frac{92\ 000}{980\ 000} \times 100 = 9,39\% \checkmark$$

6.1.3. Current ratio on 30 September 2006

$$\text{CA} = 210\ 000 \checkmark + 50\ 000 \checkmark + 10\ 000 \checkmark = 270\ 000$$

$$\text{CA:CL} = 270\ 000 : 120\ 000 \checkmark = 2,25:1 \checkmark$$

6.1.5. Acid-test ratio on 30 September 2006

$$50\ 000 \checkmark + 10\ 000 \checkmark : 120\ 000 \checkmark = 0,5 : 1 \checkmark$$

6.1.6. Value of Non – current liabilities

$$\text{TA:TL} = 2,5 : 1$$

$$\text{TA} = 530\ 000 \checkmark + 270\ 000 \checkmark = 800\ 000$$

$$\text{TL} = 320\ 000 \checkmark \checkmark$$

6.1.7. Return on equity.

$$\frac{\text{Net profit}}{\text{Av Capital}} \times 100 \quad \text{Average capital} = (400\ 000 + 900\ 000)/2 = 650\ 000 \checkmark \checkmark$$

$$\frac{200\,000}{65\,000} \checkmark \times 100 = 30,77\% \checkmark \checkmark$$

6.2. Make a list of all the problems that AS Computers is having in managing the cash in the business.

Debtors only paying on 1st of month/salaries, etc. have to be paid on 25th of month.

Difficult to get suppliers to allow credit – new business – no credit rating.

Business has expanded rapidly – need to buy new stock – don't have cash.

Trading stock expensive.

Not enough capital to invest in working capital.

Hadn't anticipated business growing so fast.

Too much money tied up in stock.

Any other acceptable answers.

Any 4 X 2 marks

6.3.1. Explain two possible reasons why they might not have achieved their intended mark-up

Marked up goods incorrectly

Gave too many trade discounts

Had to reduce price of goods

Is in order to turnover stock quicker or because stock outdated or original price too high

Any other acceptable answer 2 X 2 marks

6.3.2 Comment on whether the business was more or less profitable than last year. Use ratios to substantiate your opinion.

More profitable ✓

Operating profit/Sales ↑ from 16% to 20,41% ✓✓

Operating expenses/Sales ↓ from 12% to 9,39% ✓✓

6.3.2. Discuss **four** things that you think Asanda could do in order to more effectively manage AS Computers stock, debtors, cash and creditors

Slow down expansion – only buy stock if he has cash.

Offer special deals for cash sales.

Buy less trading stock.

Try and negotiate better credit terms from suppliers – offer collateral.

Discount debtors.

Take out a loan or invest more capital.

Take in a partner in order to raise more capital.

Any other acceptable answer.

4 things X 2 marks

6.3.3. Comment on whether AS Computers is solvent.

Yes, they are solvent because their total assets✓ are greater than their total liabilities.✓

6.3.4. Explain whether you think Asanda should be pleased with his return on his investment in AS Computers.

Yes✓, at 30,77 % ✓ it is better than last year (20%) ✓ and better than he would have earned on an investment like a fixed deposit (8 %)✓

6.3.5. Briefly explain the difference between **financial** and **managerial** accounting.

Financial Accounting deals with the recording and reporting of transactions✓ that have already happened ✓, while managerial accounting uses this information to make decisions✓ about the future✓ of the business.

64 marks

Total: 300 marks