

# NATIONAL SENIOR CERTIFICATE

GRADE 10

NOVEMBER 2019

## ACCOUNTING P1 MARKING GUIDELINE

**MARKS: 150**

### **MARKING PRINCIPLES:**

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no foreign item penalty for misplaced items). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If the answer is incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). NOTE: if figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
9. 'Operation' means 'Check operation'. 'One part correct' means 'Operation and one part correct'. NOTE: Check operation must be +, –, x or ÷ or per candidates' response.
10. In calculations, do not award marks for workings if numerator and denominator are swapped – this also applies to ratios.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. In such cases, do not award the method mark. Indicate by way of ☒
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f = foreign item; p = placement/presentation.

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This marking guideline consists of 9 pages.

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**QUESTION 1: ACCOUNTING CONCEPTS AND ACCOUNTING EQUATION****1.1 CONCEPTS**

1.1.1	F	✓
1.1.2	C	✓
1.1.3	A	✓
1.1.4	B	✓
1.1.5	D	✓

5
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**1.2 ACCOUNTING EQUATION**

NO.	JOURNAL	ASSETS		OWNERS EQUITY		LIABILITIES	
		REASON	EFFECT	REASON	EFFECT	REASON	EFFECT
<b>E.G.</b>	<b>CPJ</b>	<b>Bank</b>	<b>-1000</b>	<b>Wages</b>	<b>-1000</b>		
1.2.1	<b>CJ</b>	Trading Stock ✓	+8 000 ✓			Creditors Control ✓	+8 000 ✓
1.2.2 (a)	<b>DJ</b>	Debtors Control ✓	+3 400 ✓	Sales ✓	+3 400 ✓		
(b)	<b>DJ</b>	Trading Stock ✓	-2 125 ✓	Cost of Sales ✓	-2 125 ✓		
1.2.3	<b>CRJ</b>	Bank ✓	+100 000 ✓	Capital ✓	+100 000 ✓		
1.2.4 (a)	<b>CRJ</b>	<b>Bank</b>	<b>+1 900</b>				
		<b>Debtors Control</b>	<b>-1 900</b>				
(b)	<b>CRJ</b>	Debtors Control ✓	-100 ✓	Discount Allowed ✓	-100 ✓		

20
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25
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**QUESTION 2: GAAP PRINCIPLES, INCOME STATEMENT, BALANCE SHEET AND INTERNAL CONTROL**

**2.1 GAAP PRINCIPLES**

2.1.1	Prudence Concept	✓
2.1.2	Concept of Materiality	✓
2.1.3	Business Entity rule	✓
2.1.4	Historical Cost rule	✓

4

**2.2.1 INCOME STATEMENT OF LOLO TRADERS FOR THE YEAR ENDED 30 JUNE 2019**

<b>Sales</b> (4 350 000 – 18 000 ✓ – 12 000 ✓✓)	<input checked="" type="checkbox"/>	4 320 000
<b>Cost of Sales</b>	✓	(2 900 000)
<b>Gross Profit</b>	<input checked="" type="checkbox"/>	1 420 000
<b>Other operating Income</b>	<input checked="" type="checkbox"/>	374 600
Rent Income (200 700 + 18 900 ✓✓)	<input checked="" type="checkbox"/>	219 600
<b>Fee Income</b>		<b>149 600</b>
Bad debts recovered (1 800 + 1 200 ✓)	<input checked="" type="checkbox"/>	3 000
<b>Discount Received</b>		<b>2 400</b>
<b>Gross operating Income</b>		1 794 600
<b>Operating Expenses</b>	<input checked="" type="checkbox"/>	(816 600)
<b>Salaries and Wages</b>		<b>478 000</b>
Stationery (2 100 – 500 ✓)	<input checked="" type="checkbox"/>	1 600
Telephone (9 000 + 1 600 ✓)	<input checked="" type="checkbox"/>	10 600
Insurance (12 100 – 3 200 ✓✓)	<input checked="" type="checkbox"/>	8 900
<b>Rates and Taxes</b>		<b>18 000</b>
Bad Debts (3 800 + 600 ✓✓)	<input checked="" type="checkbox"/>	4 400
Bank Charges (1 200 + 1000 ✓)	<input checked="" type="checkbox"/>	2 200
Consumable Stores (4 000 – 800 ✓)	<input checked="" type="checkbox"/>	3 200
<b>Water and Electricity</b>		<b>86 150</b>
<b>Discount allowed</b>		<b>900</b>
Trading Stock Deficit (418 400 ✓ – 4 800 ✓ – 406 100 ✓)	<input checked="" type="checkbox"/>	7 500
Depreciation	✓	195 150
<b>Operating Profit</b>	<input checked="" type="checkbox"/>	978 000
Interest Income (9 000 + 3 000 ✓✓)	1	<input checked="" type="checkbox"/> 12 000
<b>Profit before Interest Expense</b>		<input checked="" type="checkbox"/> 990 000
<b>Interest Expense</b>	2	✓ ✓ (89 600)
<b>Net Profit for the Year</b>	<input checked="" type="checkbox"/>	900 400

40

operation, one part correct, Foreign entries -1 (max.2), accept alternative format (two columns)

## 2.2.2 OWNER'S EQUITY

Balance on the last day of the previous year	✓	900 000
Additional capital contribution	✓	100 000
Net profit for the year	see 2.2	☑ 900 400
Drawings (42 600 ✓ + 4 800 ✓)	operation, one part correct	☑ (47 400)
Balance on the last day of the current year	operation, one part correct	☑ 1 853 000

7

## 2.2.3 EQUITY AND LIABILITIES SECTION OF THE BALANCE SHEET

<b>OWNER'S EQUITY</b>	see 2.3.1	☑ 1 853 000
<b>NON-CURRENT LIABILITIES</b>		582 000
Loan: Live Bank (652 000 ✓ – 70 000 ✓)	operation, one part correct	☑ 582 000
<b>Current liabilities</b>	operation, one part correct	☑ 575 400
Trade and other payables (380 000 ✓ + 1 600 ✓)	operation, one part correct	☑ 381 600
Current portion of loan	see above	☑ 70 000
Bank overdraft (124 000 + 1 000 – 1 200)		☑✓ 123 800
<b>TOTAL EQUITY AND LIABILITIES</b>	operation, one part correct	☑ 3 010 400

11

## 2.2.4 G. Grey, the owner of LOLO Traders, is concerned with the size of his trading stock deficit.

(a) • What are the causes of this trading stock deficit? Give TWO points

- Shoplifting
- Employee theft
- Paperwork error
- Vendor fraud

Any two relevant points ✓✓ ✓✓ Part-mark for unclear responses

• Suggest TWO realistic measures in order to control and reduce trading stock deficit.

- Adequate record-keeping
- Separation of duties
- Establish responsibilities
- Regular and independent stocktaking
- Access to stock should be limited
- Extra safety measures should be put in place for every expensive item.

Any two relevant points ✓✓ ✓✓ Part-mark for unclear responses

8

(b) **The accountant advised the owner (G. Grey) to cash-in the fixed deposit and use the money to pay off part of the loan. Do you agree with the accountant? Give a reason for your answer.**

- Yes, ✓
- the reason to pay off debt early is to save money and stop paying interest.
- Paying a large lump sum toward your balance lowers your overall interest costs and helps build equity. ✓✓

**OR**

- No, ✓
- returns from a fixed deposit are assured and no risk attached.
- Fixed deposit offer higher interest rates as compared to the savings account.
- By investing in fixed deposit, you can save more than you do with general investment options. ✓✓

Part-mark for unclear responses

3

73

**QUESTION 3: ACCOUNTING CONCEPTS AND INTERPRETATION****3.1 ACCOUNTING CONCEPTS**

- 3.1.1 Non-current assets ✓  
 3.1.2 Operating income ✓  
 3.1.3 Non-current liabilities ✓  
 3.1.4 Current assets ✓

4

**3.2 3.2.1 Calculate the following financial indicators.**

- **Operating profit on sales**

$$300\,000 \checkmark / 1\,200\,000 \checkmark \times 100/1 = 25\% \checkmark$$

correct, answer must be %

3

- **Acid test ratio**

$$190\,000 \checkmark / 240\,000 \checkmark = 0,8 : 1 \checkmark$$

one part correct

3

- **Return on average owner's equity**

$$\frac{160\,000 \checkmark}{\frac{1}{2} \checkmark (400\,000 \checkmark + 900\,000) \checkmark} = 24,6\% \checkmark \text{ OR } 25\%$$

OR (1 300 000 ✓✓)      one part correct, answer must be %

5

**3.2.2 Comment on whether the business was more or less profitable than last year. Quote a financial indicator to substantiate your opinion.**

Financial indicator ✓ Figure and Trend ✓ explanation ✓

The percentage achieved decreased from 60% budgeted in 2018 to 50% in 2019. The business has therefore not achieved its profit mark-up. It could be due to one of the following reasons:

- Too much discount was allowed during sales
- Mistakes were made when recording prices, source documents or in the books.
- Strong competition caused prices to drop
- Suppliers have increased their prices.

Part-mark for unclear responses

3

**3.2.3 Comment on the liquidity of the businesses. Quote TWO financial indicators with figures to substantiate your opinion.**

Financial indicator: ✓✓ Figure and trend: ✓✓ Explanation: ✓

- Current ratio: has declined from 3,5 : 1 to 1,6 : 1
- Acid-test ratio: has also decreased from 1,6 : 1 to 0,8 : 1

Generally, the business is able to pay off its immediate debts despite the decline in their liquidity position.

5

**3.2.4 Do you think the owner should be satisfied with the return on the average owner's equity? Explain by quoting figures.**

Figure ✓ and trend ✓ Explanation: ✓

No, ✓

The percentage returned declined from 34,2% in 2018 to 24,6% in 2019. This indicates that the owner's returns are less compared to the previous year (2018).

However, the owner gets reasonably good interest on his investment despite the decline compared to other alternative investments. He will, however, have to decide whether it is worth the risk.

4

27

**QUESTION 4: SALARIES JOURNAL AND INTERNAL CONTROL****4.1.1 SALARIES JOURNAL OF EC SERVICE STATION – APRIL 2019**

EMPLOYEES	GROSS SALARY	DEDUCTIONS					NET SALARY	EMPLOYER'S CONTRIBUTIONS		
		Pension Fund	Medical Aid	PAYE	UIF	Total		Pension Fund	UIF	Medical Aid
C. Can	10 200 ✓	816	2 000	1 500	102	4 418	5 782	1 020	102	4 000 ✓
B. Breeze	10 000	800	1 000 ✓	1 250	100	1 350 ✓	6 850 ✓	1 000 ✓	100 ✓	2 000
D. Dan	12 000 ✓	1 200 ✓	500	1 800	120 ✓	338 ✓	8 620 ✓	1 200	120 ✓	1 000 ✓

14
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4.1.2 How much has it cost EC Service Station in total to employ D. Dann for the month of April 2019?

$$R12\ 000\ \checkmark + R1\ 200\ \checkmark + R120\ \checkmark + R1\ 000\ \checkmark = R14\ 320\ \checkmark$$

12 000 x 10/100

one part correct

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4.1.3 In so far as internal control is concerned, state any TWO effective policy's regarding salaries and wages should entail.

- There should be adequate supervision of employees to ensure productivity.
- Records should be maintained in respect of each employee, regarding:
  - Hours worked, rate per hour, etc.
  - Gross salary/ wage as per work.
  - Details of deductions and applicable taxes.
  - Sick, annual and long service leave available and taken.
- All overtime should be approved by the manager.
- Wage/salary sheets should be certified correct by a responsible officer.
- All salaries and wages should be paid into a banking account as nominated by the employee.
- All queries should be dealt with in a transparent manner and should be properly documented.

Any two relevant internal controls ✓✓ ✓✓ Part-mark correct

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4.2 The following salary scale was prepared for J Jerry.

R288 000 x R14 400 → R 331 200 x R22 600 → R376 400 x R28 400 →R433 200
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4.2.1 What is Jerry’s monthly starting salary?

$$R288\ 000 \checkmark / 12 = R24\ 000 \checkmark$$

4.2.2 In which year of employment will J. Jerry earn an annual salary of R404 800?

In year 7 ✓

3

25

TOTAL: 150