

**GAUTENG DEPARTMENT OF EDUCATION
PROVINCIAL EXAMINATION
NOVEMBER 2016
GRADE 10**

ACCOUNTING

MEMORANDUM

14 pages

**GAUTENG DEPARTMENT OF EDUCATION
PROVINCIAL EXAMINATION**

ACCOUNTING

MEMORANDUM

Question 1 Journal Entries and Control Accounts

(60 marks; 35 minutes)

1.1	Explain ONE advantage of the Perpetual Inventory System.	
	An inventory system that keeps account of trading inventory by keeping track of the cost of sales for each transaction.	2
1.2	How can the business verify that the Trading Stock account accurately reflects trading stock on hand?	
	By doing physical stock-taking and comparing it to the balance on the trading stock account.	2

1.3

General Journal of Manchester Traders for May 2016

Day	Details	Fol.	General Ledger		Debtors' Ledger		Creditors' Ledger		
			Dr	Cr	Dr	Cr	Dr	Cr	
31	Totals	b/f			275	120	207	320	
(a)	Interest Expense	✓	✓9						
	Chelsea Ltd	✓		9				✓9	
(b)	Repairs	✓	✓500						
	LP Builders	✓		500				✓500	
(c)	Leeds and Co.	✓	✓120				✓120		
	Leeds Traders	✓		120				✓120	
(d)	Everton Ltd	✓	✓900				✓900		
	Trading Stock	✓		900					
(e)	S. Charlton	✓	✓200		✓200				
	A. Charlton	✓		200		✓200			
(f)	Sun Traders	✓	✓240				✓240		
	Trading stock	✓		240					
			one mark for both figures		475	320	1467	949	
					<input checked="" type="checkbox"/> one mark for all the totals			27	

General Ledger of Manchester Traders									
1.4.1	Debtors' Control Account								
May	1	Balance	b/d	43 270	May	31	Bank and discount allowed ✓	CRJ	✓ 37 580
	31	Sales ✓	DJ	✓ 38 160			Debtors' allowances ✓	DAJ	✓ 1 920
		Bank ✓	CPJ	✓ 2 630			Journal credits	GJ	<input checked="" type="checkbox"/> 320
		Petty cash ✓	PCJ	✓ 35			Balance	c/d	44 750
		Journal Debits	GJ	<input checked="" type="checkbox"/> 475					
				84 570					84 570
June	30	Balance	b/d	<input checked="" type="checkbox"/> 44 750					
									13

General Ledger of Manchester Traders									
1.4.2	Trading Stock Account								
May	1	Balance	b/d	57 290	May	31	Cost of sales	DJ	23 850
	31	Bank ✓	CPJ	✓ 9 480			Cost of sales ✓	CRJ	✓ ✓ 49 450
		Creditors' control ✓	CJ	✓ 31 320			Creditors' control ✓	CAJ	✓ 2 100
		Cost of sales ✓	DAJ	✓ 1 020			Creditors' control ✓	GJ	✓ 900
							Creditors' control ✓	GJ	✓ 240
							Balance	c/d	32 570
				109 110					109 110
June	1	Balance	b/d	<input checked="" type="checkbox"/> 32 570					
									16

Question 2 Debtors' Ledger and Internal Control

(30 marks; 17 minutes)

2.1 Debtors' Ledger of Kalahari Traders						
J. Monty						
Date		Details	Fol	Dr	Cr	Balance
June	1	Balance	b/d			12 520
	3	Invoice no. 379 ✓	DJ	✓5 770		✓18 290
	7	Receipt no. 1231 ✓	CRJ		✓1 000	✓17290
	11	C/N no. 123 ✓	DAJ		✓320	✓16 970
	15	Bank debit note / Bank statement ✓	CPJ	✓3 400		✓20 370
		Journal voucher (Discount cancelled) ✓	GJ	✓80		✓20 450
	21	Journal voucher (Interest) ✓	GJ	✓130		☑20 580

18

2.2	Explain why the total of the Debtors' List must be equal to the balance on the Debtors' Control account?
	The debtors' control account is a summary of the debtors' ledger. ✓ Individual entries are made in the individual debtors' accounts ✓ and totals are posted from the journals to the debtors' control account. ✓

3

2.3	Is Kalahari Traders managing its credit term policy effectively? State TWO points. Quote figures to support your answer.
	<p>No ✓</p> <p>Any two points ✓✓ ✓✓</p> <ul style="list-style-type: none"> • His credit limit is R8 000 but he owes R12 520 at the beginning of the month. • The debtor is supplied with goods without settling his debt. • He is not complying with the credit terms of 30 days.

5

2.4	Provide TWO points of advice to Kalahari Traders with regard to J. Monty's account.
	<p>Any two points ✓✓ ✓✓</p> <ul style="list-style-type: none"> • Do not supply him with any further goods. • Make arrangements for him to settle his account. • Take back some of the goods that were supplied to him.

4

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Question 3 Analysis of Transactions

(30 marks; 18 minutes)

Complete the table below (Assume that the bank balance is **overdrawn** at all times)

No.	Source Document	Sub. Book	Account in General Ledger		Accounting Equation		
			Debit	Credit	Asset	OE	Liability
1		CRJ	Bank✓	Debtors' control	-96	0	-96✓
			Bad debts	Debtors' control ✓	-224	-224✓	0
2	C / N	DAJ ✓	Debtors' allowances✓	Debtors' control✓	-180✓	-180	0
			Trading stock	Cost of sales✓	+120	+120✓	0
3		GJ	Fixed deposit✓	Interest on fixed deposit (capitalized)	+900✓	+900	0
4	Original invoice✓	CJ	Trading stock	Creditors' control✓	+1 440		+1 440✓
5	Cheque counterfoil ✓	CPJ	Creditors' control	Bank✓	0	0	-1053 +1053✓
			Creditors' control✓	Discount received	0	+27✓	-27
6	Bank statement ✓		Bank Charges	Bank✓	0	-270	+270✓
7	Duplicate D/N	CAJ ✓	Creditors' control✓	Stationery	0	+171✓	-171
8		GJ✓	Trading account✓	Profit and loss (Gross profit)	0	-7 000✓ +7 000✓	0

Question 4.1 Financial Statements and Notes

(70 marks; 40 minutes)

4.1.1 Income Statement for the year ended 29 February 2016	
Sales (470 800✓ – 1 900✓)	✓ 468 900
Cost of sales	✓ (233 250)
Gross profit	✓ 235 650
Other Operating Incomes	☑ 73 300
Rent income (56 000✓ + 6 000✓)	☑ 62 000
Trading stock surplus	✓✓ 3 990
Discount received	✓ 7 310
Gross Operating income	☑ 308 950
Operating Expenses	☑ (159 735)
Utilities (35 020 + 2 480✓)	☑ 37 500
Discount allowed (5 200 - 20✓)	☑ 5 180
Advertising (11 700 +1500✓ - 500✓)	☑ 12 700
Insurance	✓ 5 930
Stationery	✓✓ 4 150
Packing Material (7 620 - 1 510) ✓	☑ 6 110
Bad debts (510 + 165) ✓	☑ 675
Salaries and wages (57 830 + 9 500✓ + 2 500✓ + 120✓ + 880✓)	☑ 70 830
Bank charges (2 340 + 170) ✓	☑ 2 510
Depreciation (2 400✓ + 1850✓ + 9 900✓)	☑ 14 150
Operating Profit for the year	☑ 149 215
Interest income (750✓ + 690✓✓)	☑ 1 440
Profit before interest expense	150 655
Interest expense (3 740✓ + 120✓ + 10 710✓)	☑ (14 570)
Net Income for the year	☑ 136 085

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Note: No marks will be allocated if a figure given on the answer sheet is entered into the money column.

4.1.2 (a) Fixed assets note	Land and buildings	Vehicles	Equipment
Carrying value at the beginning of the year	240 000	24 000	✓ 46 300
Cost price	240 000	40 000	✓ 49 500
Accumulated depreciation		✓ (16 000)	(3 200)
Movements			
Additions at cost			✓ 37 000
Disposal at carrying value	0	0	0
Depreciation for the year see 4.1		☑ (2 400)	☑ (11 750)
Carrying value at the end of the year	✓ 240 000	☑ 21 600	☑ 71 550
Cost price	240 000	✓ 40 000	✓ 86 500
Accumulated depreciation		☑ (18 400)	☑ (14 950)

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4.1.2 (b) Trade and other Receivables	
Trade debtors (3 180 - 220 ✓ + 280 ✓ + 20 ✓)	☑ 3 260
Prepaid expenses	✓ 500
Accrued income	✓ 6 000
Total	☑ 9 760

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Question 4.2 Concepts, Notes and Balance Sheet (40 marks; 25 minutes)

4.2.1	Provide the correct description.	
A	Income statement	✓
B	Going concern	✓
C	Finance cost	✓
D	Historical cost	✓
E	Balance sheet	✓

5

4.2.2 Owners' Equity

Capital balance at the beginning of year	✓ 300 000
Decrease in capital contribution	✓ (20 000)
Net Profit	✓ 217 860
Drawings	✓ (154 030)
Capital balance at end of the year	☑ 343 830

5

4.2.3 Balance Sheet of Tex Stores as at 29 February 2016

Assets		
Non-Current Assets	<input checked="" type="checkbox"/> 391 820	
Tangible Assets	<input checked="" type="checkbox"/> 386 500	
Financial Assets		
Fixed Deposit (10 320✓ - 5 000✓)	<input checked="" type="checkbox"/> 5 320	
Current Assets	<input checked="" type="checkbox"/> 148 920	
Inventories (129 630✓ + 3 420✓)	<input checked="" type="checkbox"/> 133 050	
Trade and other receivables (3 180✓ + 2 190✓ + 3 000✓)	<input checked="" type="checkbox"/> 8 370	
Cash and Cash equivalents (5 000✓ + 1 500✓ + 1 000✓)	<input checked="" type="checkbox"/> 7 500	
TOTAL ASSETS	<input checked="" type="checkbox"/> 540 740	
Equity and liabilities		
Owners' Equity	<input checked="" type="checkbox"/> 343 830	
Capital	343 830	
Non-Current Liabilities	126 190	
Mortgage Loan (156 190✓ - 30 000✓)	<input checked="" type="checkbox"/> 126 190	
Current Liabilities	<input checked="" type="checkbox"/> 70 720	
Trade and other Payables (18 040✓ + 4 960✓ + 12 000✓)	<input checked="" type="checkbox"/> 35 000	
Bank overdraft	<input checked="" type="checkbox"/> 5 720	
Short Term Loan see mortgage loan	<input checked="" type="checkbox"/> 30 000	
TOTAL EQUITY AND LIABILITIES	<input checked="" type="checkbox"/> 540 740	30

4.1.1	4.1.2	4.2	Total
50	20	40	110

Question 5 Ratio, Analysis and Interpretation

(40 marks; 25 minutes)

5.1	<p>Calculate the percentage mark-up obtained by the business.</p> $\frac{350\,000 \checkmark}{500\,000 \checkmark} \times 100 \checkmark$ $= 70\% \checkmark$	4
5.2	<p>Provide TWO reasons for the difference in the mark-up percentages. See Information C.</p> <p>Any two ✓✓ ✓✓</p> <ul style="list-style-type: none"> • Discounts were offered to bulk buyers. • Goods were discounted during clearance sales. • Mark-up could have been calculated incorrectly. 	4
5.3	<p>Calculate the percentage gross profit on sales.</p> $\frac{350\,000 \checkmark}{850\,000 \checkmark} \times 100 \checkmark$ $= 41\% \checkmark$	4
5.4	<p>Calculate the percentage net profit on sales.</p> $\frac{119\,000 \checkmark}{850\,000 \checkmark} \times 100 \checkmark$ $= 14\% \checkmark$	4
5.5	<p>List ONE reason for the decrease in percentage in your calculations in Questions 5.3 and 5.4</p> <p>Operating expenses ✓✓</p>	2
5.6	<p>Calculate the return on average owners' equity.</p> $\frac{119\,000 \checkmark}{\frac{(350\,000 \checkmark + 450\,000 \checkmark)}{2} = 400\,000} \times 100 \checkmark$ $= 29,75\% \checkmark$	5

5.7	Should the owner be satisfied with his percentage return? Explain. Quoting financial indicators to support your answer.			
	Yes✓ <ul style="list-style-type: none"> • Better than investments at banks. Banks offer a maximum of 8%.✓ • Improvement✓ in the return from 23% in 2015 to 29,75% in 2016.✓ 	<table border="1" style="width: 50px; height: 50px; margin: auto;"> <tr><td style="border: none;"> </td></tr> <tr><td style="text-align: center;">4</td></tr> </table>		4
4				

5.8	Calculate the current ratio for 2016.			
	$92\ 000✓ + 24\ 200✓ + 6\ 800✓ : 41\ 000✓$ $123\ 000 : 41\ 000$ $3 : 1 \quad \checkmark$	<table border="1" style="width: 50px; height: 50px; margin: auto;"> <tr><td style="border: none;"> </td></tr> <tr><td style="text-align: center;">5</td></tr> </table>		5
5				

5.9	Calculate the acid test ratio for 2016.			
	$24\ 200✓ + 6\ 800✓ : 41\ 000✓$ $31\ 000 : 41\ 000$ $0,76 : 1 \quad \checkmark$	<table border="1" style="width: 50px; height: 50px; margin: auto;"> <tr><td style="border: none;"> </td></tr> <tr><td style="text-align: center;">4</td></tr> </table>		4
4				

5.10	Explain why trading stock is excluded in the calculation for the acid test ratio?			
	<ul style="list-style-type: none"> • Acid test ratio is calculated to determine the ability of the business to settle its short-term debts quickly. ✓✓ • Trading stock cannot be sold quickly in the short-term. Therefore, it is excluded. ✓✓ 	<table border="1" style="width: 50px; height: 50px; margin: auto;"> <tr><td style="border: none;"> </td></tr> <tr><td style="text-align: center;">4</td></tr> </table>		4
4				

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Question 6 VAT, Cost and Budgets**(30 marks; 20 minutes)****6.1 VAT**

Match the items in Column A with the descriptions in Column B.

Write only the letter indicating the correct answer.

6.1.1	G	✓✓
6.1.2	E	✓✓
6.1.3	B	✓✓
6.1.4	A	✓✓
6.1.5	D	✓✓

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6.2 Cost6.2.1 In each of the following statements choose the **correct word or phrase** provided in brackets. **Do not re-write the sentence.**

A	Remain unchanged	✓
B	Increase	✓
C	Decrease	✓
D	Remain unchanged	✓
E	Break-even point	✓

6.2.2 Indicate whether each of the costs listed below is **FIXED** or **VARIABLE**.
Place a tick (✓) in the correct column.

	Manufacturing cost	Fixed	Variable
A	Direct Materials Cost		✓
B	Direct Labour Cost		✓
C	Factory Overhead cost	✓	
D	Prime Cost		✓
E	Rent paid for factory premises	✓	

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6.3 Cash Budgets

6.3.1	State the type of budget that is being described in each of the following statements.	
(a)	Cash budget	
(b)	Projected income statement	2
6.3.2	Name TWO users of budgets.	
	<ul style="list-style-type: none"> • Families • Businesses • Government 	2
6.3.3	List TWO purposes for preparing a cash budget.	
	<ul style="list-style-type: none"> • It prevents over expenditure. • It prevents bank overdrafts. • It helps in prioritizing expenditure. • It shows changes in spending habits. • It is an internal control measure for receipts and payments. 	2
6.3.4	The owner of a business has included an amount of R30 000 as sundry expenses in the December 2016 cash budget. He plans to take his family for a holiday to Cape Town during December 2016. Comment on his actions.	
	<ul style="list-style-type: none"> • This expenditure should have been shown as Drawings and not as Sundry Expenses. • He will be showing a lower profit because his operating expenses would be increasing. Therefore, the financial statement will not accurately reflect the financial position of the business. • His action is unethical because he is evading personal tax and it is illegal to do so. 	4

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