



education

Department:
Education
REPUBLIC OF SOUTH AFRICA

NATIONAL SENIOR CERTIFICATE

GRADE 10

ACCOUNTING
NOVEMBER 2006

This memorandum consists of 19 pages.

1.2

1.2.1	<p>Jossie is convinced that Peter has not accounted for all the rugs entrusted to him. Calculate the number of rugs that appear to be missing.</p> <p>225 ✓ – 182 ✓✓✓ (R11 830 ÷ R65) = 43 – 32 ✓ = 11 ✓</p>	(6)
1.2.2	<p>In your opinion do the costs of the stall make it worthwhile for Jossie to continue selling her rugs at the beachfront? Explain briefly. What advice would you offer her?</p> <p>Yes/No ✓ Any valid explanation ✓✓</p> <p>Yes: The additional costs of hiring the stall are minimal compared to the profits Jossie will make on the additional rugs sold. More potential customers at the beachfront e.g. tourists</p> <p>No: Jossie has suffered a loss due to 11 rugs gone missing or stolen from her. Sales at beachfront are seasonal depending on weather.</p> <p>Advice ✓✓ Yes: Improve internal control or No: Find another outlet that is more convenient or diversify into a different product.</p>	(5)

1.3

1.3.1	<p>Is Jossie correct in assuming that registering for VAT would increase her profit by R9,10 per rug. Explain</p> <p>This is not correct. ✓ If she registers as a VAT vendor, the R9,10 must be paid over to SARS ✓✓ and cannot be kept by Jossie. It will not increase her profits in any way. ✓✓</p>	(5)
1.3.4	<p>Explain why many people feel that VAT is a fair system of taxation. Provide two points.</p> <p><i>Any two valid points ✓✓ ✓✓</i> <i>It applies equally to all persons regardless of your income. No person is exempt from paying VAT.</i> <i>Certain necessities are zero-rated or exempt.</i> <i>Tourists also contribute</i></p>	(4)

4
NSC
MEMORANDUM
QUESTION 2

2.1	Date	Account Dr	Account Cr	Amount
	1	Bank	Capital	R50 000
	4	Trading Stock ✓	Creditors' Control ✓	R3 920 ✓✓
	10	Creditors' Control ✓	Trading Stock ✓	R255
	15	Debtors' Control ✓	Sales ✓	R910
		Cost of Sales ✓	Trading Stock ✓	R650 ✓✓✓
	20	Equipment ✓	Bank ✓	R6 500
	22	Debtors' allowances ✓	Debtors' Control ✓	R336
		Trading Stock ✓	Cost of Sales ✓	R240 ✓✓
	25	Bank ✓	Debtors Control ✓	R545,30 ✓✓
		Discount allowed ✓	Debtors' Control ✓	R28,70 ✓✓
	27	Drawings ✓	Trading Stock ✓	R225 ✓✓
	30	Creditors' Control ✓	Bank ✓	R3 245
				(35)

2.2	Date	Journal	Source Document	A	O	L	
	1	Cash Receipts Journal	Duplicate Receipt/Bank deposit slip/Electronic transfer advice	+R50 000	+R50 000	0	
	15	Debtors' Journal ✓	Duplicate Invoice ✓	+R260 OR	+R260 OR	0	
				+R910 -R650	+R910 -R650	0	✓✓✓
	25	Cash Receipts Journal ✓	Duplicate Receipt ✓	+R545,30 -R574	-R28,70	0	✓✓✓
	27	General Journal ✓	Journal voucher ✓	-R225	-R225	0	✓✓✓
							(15)

QUESTION 3

3.1

3.1.1	<p>Explain the difference between the terms 'gross salary' and 'net salary'.</p> <p>Gross salary is full amount before any deduction ✓ Net salary is the amount payable to the employee after deductions ✓</p>	(2)																					
3.1.2	<p>Why do the security guards not appear in this journal?</p> <p>They earn wages and are paid on a weekly basis ✓✓</p>	(2)																					
3.1.3	<p>Complete Gary Mashego's payslip by filling in the missing figures and details:</p> <table border="1" data-bbox="326 762 1065 1045"> <thead> <tr> <th colspan="2">PAYLSIP: GARY MASHEGO</th> <th>Date: Sept 2006</th> </tr> </thead> <tbody> <tr> <td>Gross salary</td> <td></td> <td>12 500.00</td> </tr> <tr> <td>PAYE deduction</td> <td></td> <td>- 3 125.00</td> </tr> <tr> <td>Medical Aid deduction</td> <td></td> <td>- 1 100.00</td> </tr> <tr> <td>Pension fund deduction ✓</td> <td>✓✓</td> <td>- 937.50</td> </tr> <tr> <td>UIF deduction ✓</td> <td>✓✓</td> <td>- 125.00</td> </tr> <tr> <td>NET SALARY</td> <td>✓</td> <td>7 212.50</td> </tr> </tbody> </table>	PAYLSIP: GARY MASHEGO		Date: Sept 2006	Gross salary		12 500.00	PAYE deduction		- 3 125.00	Medical Aid deduction		- 1 100.00	Pension fund deduction ✓	✓✓	- 937.50	UIF deduction ✓	✓✓	- 125.00	NET SALARY	✓	7 212.50	(8)
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UIF deduction ✓	✓✓	- 125.00																					
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3.1.4	<p>Calculate the amount contributed by the employer in respect of the Medical Aid for Gary Mashego, for the entire year.</p> <p>✓ ✓ ✓ ✓</p> <p>$R1\ 100 \times 2 \times 12 = R26\ 400$</p>	(4)
3.1.5		
3.1.5.1	<p>What is the minimum monthly salary on this scale?</p> <p>$R54\ 000 \div 12 = R4\ 500$</p>	(3)
3.1.5.2	<p>How long will it take Sarah to advance to the next notch?</p> <p>$18\ 000 / 6\ 000 = 3\ \text{years}$</p>	(2)
3.1.5.3	<p>Calculate the % annual salary increase that she will receive in 2016 when she reaches her maximum salary.</p> <p>✓ ✓✓ ✓</p> <p>$10\ 000 / 116\ 000 \times 100 = 8,6\%$</p>	(4)

3.2

3.2.1	<p>Financial Accounting Any reasonable explanation ✓✓ Financial Accounting deals with past financial information – uses past information to make decisions about the business.</p> <p>Managerial Accounting Any reasonable explanation ✓✓ Managerial Accounting deals with future projections of financial information – uses projections in order to make pro-active decisions about the business.</p>	(4)
3.2.2	<p>Why is it important for Jack Mashego to prepare a cash budget for each financial year?</p> <p>Any valid explanation, e.g. Good management planning Identify problems in advance Enhance internal control over receipts and payments ✓✓✓</p>	(3)
3.2.3	<p>Jack also wants to prepare a Code of Business Ethics to be displayed in the office. Briefly explain why this is a good idea, and list three points that he should include in the code of ethics for this business.</p> <p>Any valid explanations acceptable, e.g.</p> <p>Reason: Any one, e.g. ✓✓</p> <ul style="list-style-type: none"> • Creates goodwill which is good for profits • Guides the business in moral conduct - guides employers and employees in their behaviour • Creates confidence in the business amongst stakeholders <p>Points for inclusion- any three valid points: ✓✓ ✓✓ ✓✓</p> <ul style="list-style-type: none"> • High level of quality service provided to customers by the employees e.g. guards must not sleep on duty • Fair treatment of employees – good working conditions • Accountability for decisions taken – rather than making excuses • Integrity • Reliability • Professionalism • Respect • Confidentiality 	(8)

3.2.7 REPORT FOR JACK MASHEGO REGARDING WAGE INCREASES

THESE POINTS ARE PROVIDED TO ASSIST MARKERS IN ASSESSING SCRIPTS – PLEASE USE THE RUBRIC IN ALLOCATING MARKS

THESE ARE SOME EXPECTED RESPONSES – OTHER VALID RESPONSES WILL ALSO BE ACCEPTABLE

Points that would support Jack's opinion:

- The 8% increase offered is greater than the inflation rate
- Uniforms provided
- Training provided
- Soccer club set up for employees
- The cash flow is a problem (loan was necessary)
- Overseas trip for Gary is necessary to improve the operation of the business
- He is entitled to use retained income for his own purposes

Points that the guards are likely to raise:

- Unfair treatment of categories of employees – security guards do not get MA and PF benefits
- Refreshments not provided to security guards
- Office workers receive increases of 20% (Sarah) or 73% (Gary)
- Unnecessary spending on overseas trip
- Vehicle for Jack is excessive especially as he spends very little time at the business
- Nepotism – he is giving a lucrative job to his brother.
- The huge difference between R70 and R12

Points Jack should consider in redrafting the budget:

- Equalise the remuneration increases
- Equalise the benefits e.g. employer contributions, refreshments etc
- Use one of his other businesses to finance the car
- Reduce his drawings to an acceptable amount in relation to the earnings of other stakeholders
- Repay the loan to save on interest
- Employ more security guards and expand the business

(18)

RUBRIC FOR QUESTION 3.2.7

	Level 1 0 marks	Level 2 1-2 marks	Level 3 3-4 marks	Level 4 5-6 marks	TOTAL
Understanding of Jack's perspective	Candidate identifies no valid points	Candidate identifies and explains one valid point	Candidate identifies and explains most of the valid points	Candidate clearly identifies and explains that increase exceeds inflation, that other benefits are provided, and the cash flow situation	6
Understanding of the guards' perspective	Candidate identifies no valid points	Candidate identifies and explains one valid point	Candidate identifies and explains most of the valid points	Candidate clearly identifies and explains inequities in increases, unnecessary spending, and nepotism	6
Thinking creatively about the budget	Candidate identifies no valid points	Candidate identifies and explains one valid point	Candidate identifies and explains most of the valid points	Candidate identifies and explains fairness in remuneration and benefits, and creative ways of improving cash flow	6
					18

4.1	<p>plain what is meant by GAAP.</p> <p>Any reasonable explanation ✓✓ Generally Accepted Accounting Practice Rules to regulate accounting procedures</p>	(2)														
4.2	<p><i>There is an amount for Sundry Expenses, which contains 10 different items such as refreshments and newspapers, in the Trial Balance. Which GAAP principle is applied here? Name and explain the application of this principle.</i></p> <p>Principle of materiality ✓ Any information that is important to the reader must be highlighted or reflected separately. Conversely, irrelevant information should not be highlighted (as this could serve to confuse). ✓✓</p>	(3)														
4.3	<p>Calculate the correct net profit taking into account the additional information.</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <tr> <td style="padding: 2px;">Net profit per draft Income Statement</td> <td style="text-align: right; padding: 2px;">112 604</td> </tr> <tr> <td style="padding: 2px;">Add: Rates prepaid</td> <td style="text-align: right; padding: 2px;">✓✓637</td> </tr> <tr> <td style="padding: 2px;">Add: Bad debts recovered</td> <td style="text-align: right; padding: 2px;">✓✓580</td> </tr> <tr> <td style="padding: 2px;">Less: Trading stock deficit</td> <td style="text-align: right; padding: 2px;">✓✓(1 500)</td> </tr> <tr> <td style="padding: 2px;">Less: Rent Income (in advance)</td> <td style="text-align: right; padding: 2px;">✓✓✓(3 300)</td> </tr> <tr> <td style="padding: 2px;"> </td> <td style="padding: 2px;"> </td> </tr> <tr> <td style="padding: 2px;"> </td> <td style="text-align: right; padding: 2px;">☑109 021</td> </tr> </table>	Net profit per draft Income Statement	112 604	Add: Rates prepaid	✓✓637	Add: Bad debts recovered	✓✓580	Less: Trading stock deficit	✓✓(1 500)	Less: Rent Income (in advance)	✓✓✓(3 300)				☑109 021	(10)
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	☑109 021															

4.4

**CHRISTY CHETTY TRADING AS TRENDY SHOES
NOTES TO THE BALANCE SHEET AT 30 SEPTEMBER 2006**

Owner's equity (Capital)	
Balance at last day of previous year	✓✓ 570 000
Net profit for the year/period	☑ 109 021
Additional capital contributed	✓ 50 000
	729 021
Drawings [28 000 (✓)+ 2 600 (✓)]	☑✓✓ (30 600)
Balance on the last day of the current year	☑ 698 421

(8)

Trade and other payables (creditors)	
Trade creditors	✓✓ 13 565
Loans (repayable with 12 months)	✓✓ 25 000
Accrued expenses	✓✓ 682
Income received in advance	☑✓ 3 300
	☑ 42 547

(9)

4.5 See Balance Sheet on the next page.

4.6	<p><i>Do you agree that the value of Land & Buildings, Vehicles and Equipment should be shown at Cost Price in the financial statements? Explain.</i></p> <p>If yes: The Historical Cost Principle of GAAP requires that all fixed assets be reflected at cost price. ✓✓</p> <p>It is important to know what it cost the business to acquire the assets, particularly when you sell these. ✓✓</p> <p>If no: Land & Buildings would be under-valued at Historical Cost ✓✓</p> <p>Equipment and Vehicles would be over-valued at Historical Cost as they depreciate in value ✓✓</p>	(4)
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4.5

**CHRISTY CHETTY TRADING AS TRENDY SHOES
BALANCE SHEET AT 30 SEPTEMBER 2006**

ASSETS	
Non-current assets	<input checked="" type="checkbox"/> 650 000
✓ Fixed assets [450 000 + 145 000 + 45 000]	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 640 000
✓ Financial assets	<input checked="" type="checkbox"/> 10 000
Current assets	<input checked="" type="checkbox"/> 135 968
✓ Inventories [110 000 – 1 500 – 2 600]	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 105 900
✓ Trade & other receivables [18 750 + 580 + 420 + 637]	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 20 387
✓ Cash & cash equivalents [8 831 + 850]	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 10 551
TOTAL ASSETS	<input checked="" type="checkbox"/> 785 968
EQUITY & LIABILITIES	
Owner's equity	<input checked="" type="checkbox"/> 698 421
Non-current liabilities	<input checked="" type="checkbox"/> 45 000
✓ Loan from Credbank [70 000 – 25 000]	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 45 000
Current liabilities	<input checked="" type="checkbox"/> 42 547
✓ Trade & other payables	<input checked="" type="checkbox"/> 42 547

	TOTAL EQUITY & LIABILITIES	<input checked="" type="checkbox"/> 785 968
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Method marks allocated above are for correct processes of adding and placement of figures. If the final answer is incorrect, individual marks are allocated in the workings.

(34)

4.6 See previous page

**ANSWER EITHER QUESTION 5 OR QUESTION 6
DO NOT ANSWER BOTH QUESTIONS**

QUESTION 5

CALCULATION OF FINANCIAL INDICATORS

	ANSWERS	COMPARISON
	2006	2005

$\frac{120\ 000}{\checkmark} / \frac{270\ 000}{\checkmark} \times \frac{100}{\checkmark}$	5.1.1 Gross profit on sales	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 44,4 %	37,5 %
	Gross profit on cost of sales	80%	60%
	Operating expenses on sales	12,9%	20,8%
$\frac{85\ 000}{\checkmark} / \frac{270\ 000}{\checkmark} \times \frac{100}{\checkmark}$	5.1.2 Operating profit on sales	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 31,5 %	16,7 %
	Net profit on sales	33,3%	19,4
$\frac{90\ 000}{\checkmark} / \frac{250\ 000}{\checkmark} \times \frac{100}{\checkmark}$	5.1.3 Return on equity	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 36 %	11,2 %
	Current ratio	1,5:1	4:1
$\frac{(75\ 000 - 42\ 000)}{\checkmark\checkmark} : \frac{50\ 000}{\checkmark}$ $33\ 000 : 50\ 000$	5.1.4 Acid-test ratio	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 0,7 : 1	2,5:1
$\frac{(240\ 000 + 75\ 000)}{\checkmark\checkmark} : \frac{(50\ 000 + 15\ 000)}{\checkmark\checkmark}$ $315\ 000 : 65\ 000$	5.1.5 Solvency ratio	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> 4,9:1	11 : 1

(26)

5.2.1	<p>Should she be satisfied with the operating profit and the control of the operating expenses? Explain.</p> <p>Yes ✓. The operating profit has increased from R24 000 to R85 000. ✓✓ Operating profit on sales improved from 16,7% to 31,5% ✓✓ Operating expenses on sales improved from 20,8% to 12,9% ✓✓</p>	(7)
5.2.2	<p>Is the business able to pay off short-term debts without a problem?</p> <p>Decline in the liquidity ratios, current ratio 1,5:1 and acid test ratio 0,7:1 ✓✓ Liquid assets of R33 000 do not exceed current liabilities of R50 000 ✓✓✓ Relies on sale of stock in order to settle debts ✓✓✓</p>	(8)
5.2.3	<p>Compare the mark-up in 2006 with the mark-up in 2005. How has the change in the mark-up affected the trading results of Malopo Curios. Has the change in the mark-up been a wise decision? Explain.</p> <p>Trend in mark-up % from 60% to 80% ✓✓ Positive effect on sales increase from R144 000 to R270 000 ✓✓ Positive effect on gross profit, increase from R54 000 to R120 000 ✓✓ Yes, this has been a wise decision. ✓</p>	(7)
5.2.4	<p>Is Cynthia earning a reasonable return on her investment? Explain.</p> <ul style="list-style-type: none"> ▪ Trend in return 2004/2005 11 % → 36% ✓✓ ▪ Compare to returns on alternative investments ✓✓ <p>Conclusion: return is very favourable ✓✓</p>	(6)
5.3	<p>List three factors she should take into account when deciding how much stock to keep on hand.</p> <p>Any three valid factors ✓✓ ✓✓ ✓✓</p> <ul style="list-style-type: none"> ▪ Excess stock ties up working capital ▪ Excess stock exposed to theft, damage, etc. ▪ Carrying too much stock can lead to obsolete items not being sold ▪ Assessment of demand for the product ▪ Nature of product with regard to perishability 	(6)

6.1 **LEDGER OF UMGABA FURNISHERS**
DEBTORS CONTROL

2006 Jun	1	Balance	b/d	✓✓ 31 570	2006 Jun	30	✓ Bank & discount (44 460 + 2 040)	CRJ	✓✓✓ 46 500
	30	✓ Sales	DJ	✓✓ 55 350			✓ Debtors allowances (3 700 + 705)	DAJ	✓✓✓ 4 405
		✓ Bank (740 + 540)	CPJ	✓✓✓ 1 280			✓ Sundry accounts	GJ	✓✓ 440
		✓ Petty cash	PCJ	✓ 350			Balance	c/d	☑ 37 633
		✓ Sundry accounts (250 + 70 + 108)	GJ	✓✓✓✓ 428					
				88 978					88 978
2006 Jul	1	Balance	b/d	☑ 37 633					(29)

6.2

6.2.1	<p>Name the document which supports the entry of R34 500 on the credit side.</p> <p style="text-align: center;">Invoice ✓✓</p>	(2)
6.2.2	<p>Give one possible explanation for the entry of R500 on the credit side.</p> <p style="text-align: center;">Any one valid explanation: ✓✓ Interest charged by a creditor Transfer of a debtor with a credit balance Creditor is credited to correct an error etc.</p>	(2)
6.2.3	<p>Creditors granted Umgaba Furnishers cash discount of R420 for early payment. How much was paid to them?</p> <p style="text-align: center;">R46 580 ✓✓</p>	(2)
6.2.4	<p>The creditors list on 30 June reflects a total of R12 200. What action should the bookkeeper take? Explain briefly.</p> <p style="text-align: center;">Any valid explanation, including detection of error in GL or CSL</p>	(2)

6.2.5	<p>“Umgaba Furnishers is not happy with the quality of furniture it is getting from its suppliers”. Provide a figure with an explanation to support this opinion.</p> <p>The CAJ figure of R6 900 indicates significant returns in relation to the CJ figure (candidates could mention that this is more than 20% of credit purchases) ✓✓✓</p>	(3)
6.2.6	<p>“The creditors are being paid too quickly”. Explain briefly, quoting figures to support this opinion.</p> <p>Any valid explanation, quoting figures: Balance has decreased from R28 000 to R8 900 because payments of R47 000 comprise the opening balance as well as more than half of the current month’s credit purchases ✓✓ Normal credit terms are 30 days, they are paying faster than this ✓</p>	(3)

6.3

6.3.1	<p>Apart from Edgars, which company had the best results in the group? CNA ✓</p> <p>Which company reflected the most disappointing results in the group? Jet ✓</p>	(2)
6.3.2	<p>According to this article, why did Edgars have disappointing trading results in the winter season last year?</p> <p>Unseasonably warm winter ✓✓</p>	(2)
6.3.3	<p>Why does Edgars continue to sell cell-phones if this product is ‘low-margin’?</p> <p>Any valid explanation, e.g. Cell-phones attract customers into the shop (loss-leader) At least they are still contributing to the profit There is a demand for the product ✓✓</p>	(2)

6.3.4	<p>Edcon appears to be happy with the fact that 84% of heir debtors is current and able to buy. In your opinion, why does Edcon have good debtors when other businesses might battle to get their debtors to pay on time? Explain briefly.</p> <ul style="list-style-type: none"> ▪ Any valid explanation ✓✓✓✓ ▪ Good screening of debtors ▪ Good internal control e.g. reminders, statements ▪ Strategies encouraging debtors to be favourably disposed towards Edgars e.g. magazine ▪ Prevention of buying on credit if account in arrears 	(4)
6.3.5	<p>According to the article, 80 000 judgments were issued in respect of bad debts nationwide. Assuming that 25% of these bad debts are Edcon customers, would this be a major concern for Edcon? Explain briefly quoting figures to support your opinion.</p> <p>Extent of bad debts for Edcon: $80\ 000 \times 25\% / 4.1\ m \times 12 = 5.9\%$ ✓✓✓✓</p> <p><i>If candidate calculates $80\ 000 \times 25\% \times 4.1\ m = 0,5\%$ then award three part-marks.</i></p> <p>Explanation: Any valid explanation which is consistent with the calculation above by the candidate. ✓✓✓</p>	(7)