

PHOENIX CIRCUIT ACCOUNTING SOCIETY

Phoenix Circuit Accounting Society

Grade 10

Accounting

Paper 2

Final Examination

4 November 2019

Marks: 150

Time: 2 Hours

INSTRUCTIONS AND INFORMATION

1. This question paper consists of 9 pages, a formula sheet (pg10) and an answer book of 11 pages.
2. Answer ALL the questions.
3. A special ANSWER BOOK is provided, in which to answer ALL the questions.
4. Non-programmable calculators may be used.
5. You may use a dark pencil or blue/black ink to answer the questions.
6. Calculate to ONE decimal point, unless otherwise instructed.
7. Use the information below as a guide when answering the question paper.

QUESTION 1	VAT, Ethics and Cost Accounting	30 Marks	24 Mins
QUESTION 2	General Ledger: Creditors Control and Trading Stock	40 Marks	32 Mins
QUESTION 3	Ratio Interpretation and Budgeting	40 Marks	32 Mins
QUESTION 4	Fixed Assets and Internal Control	40 Marks	32 Mins
TOTAL		150 Marks	120 Mins

QUESTION ONE

1.1 VAT AND ETHICS

- 1.1.1. What does the abbreviation VAT stand for? (1)
- 1.1.2 What is the current rate of VAT in South Africa? (1)
- 1.1.3 Differentiate between zero rated supplies and VAT exempted supplies. (4)
- 1.1.4 Provide for the missing figures A and B. (6)

VAT EXCLUSIVE	VAT INCLUSIVE
354	(A)
(B)	11 500

- 1.1.5 K.King is the owner of Kings Stores and is **not** registered for Vat. However, he charges VAT to all his customers and does not pay the VAT over to SARS. Comment on this practice and state what consequences he could face if he is reported to SARS. (3)

1.2 COST CONCEPTS AND CALCULATIONS

- 1.2.1 Match Column A with Column B. Write only the correct letter in your answer book.

COLUMN A		COLUMN B	
1.2.1.1	Direct Material Cost	A	Factory rent
1.2.1.2	Prime Cost	B	Production wages
1.2.1.3	Factory Overheads	C	Includes both Direct Material Cost and Direct Labour Cost
1.2.1.4	Direct Labour Cost	D	Partially completed goods.
1.2.1.5	Work in progress	E	Raw materials purchased

(5)

1.2.2 Gabby Green Manufacturers is a producer of ladies dresses. During the month of October 2019 the business made 23 500 dresses. All dresses are sold at a fixed price of R89,99 each.

1.2.2.1 You are required to complete the missing details (A-D)

	TOTAL COST	UNIT COST
VARIABLE COSTS		
Direct materials	560 000	A
Direct labour	B	15,30
FIXED COSTS		
Factory overheads	365 000	C
TOTAL		D

(8)

1.2.2.2 How much profit is made on each dress? Show all your calculations.

(2)

QUESTION TWO

(40 MARKS; 32 MINUTES)

GENERAL LEDGER

- 2.1 You are provided with information from the books of BB stores. The business has a credit term of 30 days for debtors and 60 days for creditors. Overdue creditors' accounts are levied interest at 10% p.a.

Required:

- 2.1.1 Creditors control account, properly balanced on 31 October 2019. (20)

INFORMATION

1. The Creditors List on 1 October 2019 reflected a balance of R43 140.
2. Total purchases for October 2019 is as follows:
 - o For Cash R28 800
 - o On Credit R60 350
3. Payments of R45 450 were made to suppliers on settlement of accounts totalling R50 000.
4. Total of goods returned to suppliers:
 - o To Cash Suppliers R3 200
 - o To Credit Suppliers R 7 410
5. The debit balance of a Debtor AB Stores must be transferred to the Creditors control account, R5 100.
6. Interest for 3 months was levied by creditors for overdue accounts totalling R3 960 as per the business policy.

2.2 Interpretation of Ledger accounts

The information below relates to freedom traders for October 2019. They use the perpetual inventory system to record and manage trading stock. Freedom traders sells goods at a mark-up of 50 % on cost.

Take all the relevant information into consideration to answer the questions below.

DR		GENERAL LEDGER OF FREEDOM TRADERS TRADING STOCK ACCOUNT						CR	
2019	1	Balance	b/d	148 000	2019	31	Cost of Sales	CRJ	C
Oct	31	Creditors control	A	54 800	Oct		D	DJ	60 000
		B	CPJ	20 000			E	CAJ	3 850
		Cost of Sales	DAJ	1 845			Drawings	GJ	F
							Donation	GJ	G
							Balance	c/d	?
				224 645					224 645
Nov	1	Balance	b/d	?					

- 2.2.1 Complete the missing details for labels A, B, D, E. (8)
- 2.2.2 Total sales for October 2019 was R150 000. Calculate the amount for C. (2)
- 2.2.3 Explain the entry on the Credit side for R3 850. (2)
- 2.2.4 Stock with a selling price of R6 000 (cost price R4 000) was donated to the Day Care Centre. Complete the missing detail G. (2)
- 2.2.5 The owner took drawings of R5 000. R3 000 was recorded in the CPJ. The balance was for goods taken for his personal use. These goods were marked with a selling price of R3 000. Complete the missing amount at F. (2)
- 2.2.6 Stock is going missing from the store. The owner of Freedom Traders suspects that both customers and her employees are stealing stock. What internal control measures can be put in place to solve the stock problem? List TWO measures. (4)

QUESTION 3

(40 MARKS, 32 MINUTES)

RATIO INTERPRETATION AND BUDGETING

You are provided with financial indicators of two businesses for the year ended 28 February 2019. Both businesses have a target mark-up of 80%.

Use the information to answer the questions that follow.

Information

	JACK TRADERS	JOZINI STORES
Gross profit on cost	76%	89%
Gross profit on sales	61%	67%
Operating expenses on sales	15%	18%
Operating profit on sales	20%	14%
Net profit on sales	16%	8,5%
Return on owner's equity	18,6%	5,8%
Current ratio	1,7:1	3,2:1
Acid test ratio	0,4:1	1,5:1
Solvency ratio	6,9:1	0,8:1
Interest on investment	8%	8%

3.1.1. The manager of Jack Traders is satisfied with the operating efficiency of his business compared to that of Jozini Stores. Quote any TWO relevant financial indicators for both businesses with figures to support his opinion. (6)

3.1.2. The manager of Jozini Stores feels that they are in better liquidity position than Jack Traders.

- o Do you agree?
- o Explain by quoting TWO relevant financial indicators. Quote figures from both businesses to support his opinion. (7)

3.1.3. One of the businesses is experiencing problems in settling ALL its debts.

- o Identify this business
- o Quote a relevant financial indicator with figures to support this. (4)

3.1.4. You are interested in making an investment in one of the businesses.

- o Which business will you invest in?
- o Explain by quoting ONE financial indicator for both businesses and also quote figures to support your answer. (5)

3.1.5. List at least THREE possible expense items that Jozini Stores could address to improve the operating profit percentages and net profit percentage on sales. (3)

BUDGETS

3.2. Brenton Brown is a university student who is saving money to buy a CD player. The CD player costs R950. At the beginning of February, he had saved R320. He asks you to help him draw up a budget to determine whether he will have enough money to buy the CD player by the end of March.

Required:

- 3.2.1. Explain the difference between cash budget and capital budget. (4)
- 3.2.2. Calculate the expected receipts and expected payments for March. (11)

Information:

- o Brenton gives extra lessons in Economics to five of his classmates. He teaches each one twice a month for an hour and charges R20 per hour per person.
- o He works as a waiter in a small restaurant and has calculated that his average earnings (including tips) over the last few months as R60 per shift. He expects to work three shifts per month.
- o He also intends to buy a bracelet for his girlfriend as a birthday gift. He has seen the bracelet he wants to buy advertised for R150.
- o He collects music CDs and buys one CD every month. The current price for a CD is R80, but he has heard that the price will increase by 25% from March.

QUESTION 4

(40 MARKS, 32 MINUTES)

FIXED ASSETS AND INTERNAL CONTROL

4.1 State whether each of the following statements are TRUE or FALSE. Write only your answer next to the question number in the answer book.

- 4.1.1 Accumulated depreciation is shown as a negative asset in the balance sheet.
- 4.1.2 Fixed assets are shown at their historical cost in the financial statements according to the materiality principle.
- 4.1.3 Land and buildings generally appreciate in value over time.
- 4.1.4 Depreciation is regarded as an imputed expense as it does not involve a physical outlay of cash.
- 4.1.5 The creditors control account is debited when a tangible asset is purchased on credit. (5)

4.2 You are provided with information relating to Hashtag Stores (owner Kid Colt) for the financial year ended 28 February 2019.

4.2.1 Refer to Information A

Calculate the missing amounts indicated by the letters A – G in the Fixed/Tangible Asset Note for the year ended 28 February 2019. (19)

4.2.2 Explain what a *fixed asset register* is and how it can be used as an internal control tool. (6)

4.2.3 Refer to Information B

4.2.3.1 Mention THREE negative consequences for Hashtag Stores. (6)

4.2.3.2 What advice would you as the accountant give to the owner of Hashtag Stores? Mention TWO points. (4)

INFORMATION

A. Tangible/Fixed assets note

	LAND & BUILDINGS	EQUIPMENT	VEHICLES
Carrying value at beginning of year		560 000	
Cost	2 400 000	C	420 000
Accumulated depreciation		(240 000)	(230 000)
Movements			
Additions	A	150 000	0
Disposals at carrying value			
Depreciation for the year		D	F
Carrying value at end of year	B		
Cost		E	420 000
Accumulated depreciation			G

Additional information

- (i) The following invoice was received during the year from Ace Building Contractors for R580 000.
 - o R500 000 was for erecting a new office block
 - o R80 000 for painting, repairs and maintenance
- (ii) The new equipment was purchased on 1 November 2018.
- (iii) The depreciation policy is as follows:
 - o Equipment : 15% p.a. on cost
 - o Vehicles : 20% p.a. on the diminishing balance method.

B. Use of business internet

The owner's daughter and her friends use her Dad's office laptops on weekends to use the business's internet to chat to their friends on Facebook and download music, videos and movies. Before the end of each month the data usage limit is reached and employees cannot connect to the internet to complete their work.

GRADE 10 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET		
$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$	$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$		$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
Current assets : Current liabilities		(Current assets – Inventories) : Current liabilities
(Trade and other receivables + Cash and cash equivalents) : Current liabilities		
$\frac{\text{Net profit}}{\text{Owner's equity}} \times \frac{100}{1}$		Total assets : Total liabilities

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Answer Book

Final Examination

4 November 2019

Marks: 150

Time: 2 Hours

Name: _____

Grade 10 _____

This booklet consists of 11 pages.

QUESTION	TOPIC	LEARNERS MARK	MODERATED MARK
1	VAT, Ethics and Cost Accounting		
2	General Ledger: Creditors Control and Trading Stock		
3	Ratio interpretation and Budgeting		
4	Fixed Assets and Internal Control		
TOTAL		150	150

QUESTION ONE

(30 MARKS; 24 MINUTES)

1.1 VAT AND ETHICS (15)

1.1.1 What does the abbreviation VAT stand for?

--

1

1.1.2 What is the current VAT rate in South Africa?

--

1

1.1.3 Differentiate between zero rated supplies and VAT exempted goods.

--

4

1.1.4 Provide for the missing figures A and B

	WORKINGS	ANSWER
A		
B		

6

1.1.5 K.King is the owner of Kings Stores and is **not** registered for Vat, however he charges VAT to all his customers and does not pay the VAT over to SARS. Comment on this practice and state what consequences he could face if he is reported to SARS.

Comment (1)

Consequences (2)

3

1.2 Costing (15)

1.2.1 Cost Concepts

Choose the correct answer from the alternatives below. Write down only the correct letter in your answer book.

1.2.1.1	
1.2.1.2	
1.2.1.3	
1.2.1.4	
1.2.1.5	

5

1.2.2

A Fill in the missing details

A	
B	
C	
D	

8

B	How much profit is made on each dress?

2

30

PHOENIX CIRCUIT ACCOUNTING SOCIETY

2.2.2		
2.2.3		
2.2.4	G	
2.2.5	F	
2.2.6		

12

40

QUESTION 3

(40 MARKS, 32 MINUTES)

RATIO INTERPRETATION AND BUDGETING

3.1.1. The manager of Jack Traders is satisfied with the operating efficiency of his business compared to that of Jozini Stores. Quote any **TWO** relevant financial indicators for both businesses with figures to support his opinion.

6

3.1.2. The manager of Jozini Stores feels that they are in better liquidity position than Jack Traders.

Do you agree?

Explain by quoting **TWO** relevant financial indicators. Quote figures from **both** businesses to support his opinion.

7

3.1.3. One of the businesses is experiencing solvency problems.

Identify this business.

Quote a relevant financial indicator with figures to support this.

4

3.1.4. If you are interested in making an investment in one of the businesses.

Which business will you invest in?

Explain by quoting **ONE** financial indicator for **both** businesses and also quote figures to support your answer.

5

3.1.5. List at least **THREE** expense items that Jozini Stores needs to address to improve the operating profit percentage and net profit percentage on sales.

--

3

3.2.1. Explain the difference between cash budget and capital budget.

--

4

3.2.2. Calculate the expected receipt and expected payments for March.

Expected receipts

Workings	Answer

Expected payments

Workings	Answer

7

40

QUESTION 4

(40 MARKS, 32 MINUTES)

FIXED ASSETS AND INTERNAL CONTROL

4.1

4.1.1	
4.1.2	
4.1.3	
4.1.4	
4.1.5	

5

4.2.1

NO.	WORKINGS	ANSWER
A		
B		
C		
D		
E		
F		
G		

7

4.2.2

Explain what a *fixed asset register* is. (2)

How it can be used as an internal control tool? (4)

6

4.2.3

4.2.3.1 Mention **THREE** negative consequences for Hashtag Stores. (6)

4.2.3.2 What advice would you as the accountant give to the owner of Hashtag Stores? Mention **TWO** points. (4)

10

40

