

Phoenix Circuit Accounting Society

Grade 10

Accounting

Paper 1

Final Examination

1 November 2019

Marks: 150

Time: 2 Hours

INSTRUCTIONS AND INFORMATION

1. This question paper consists of 8 pages, a formula sheet (pg9) and an answer book of 7 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	TOPIC	MARKS	TIME
1	Ratio calculations and analysis of financial statements	35 Marks	28 Mins
2	Ethics, analysis of transactions and salaries	31 Marks	25 Mins
3	Income Statement Notes (Inventory and Trade and other Payables)	49 Marks	39 Mins
4	Balance Sheet	35 Marks	28 Mins
TOTAL		150 Marks	120 Mins

QUESTION ONE

RATIO CALCULATIONS AND ANALYSIS OF FINANCIAL STATEMENTS

Verulam Traders is a store that sells clothing at a mark-up of 100% on cost. The financial year ends on 31 October each year.

REQUIRED:

- 1.1. Calculate the following indicators for 2019. Show all workings and round off your answer to one decimal place.
 - 1.1.1. Operating expenses on sales (3)
 - 1.1.2. Acid test ratio (4)
 - 1.1.3. The solvency ratio (5)
 - 1.1.4. Return on average owners equity (5)

- 1.2. List TWO possible users of information provided in financial statements. (2)

- 1.3. The business did not achieve its intended mark-up of 100 %. Provide TWO possible reasons for this. (4)

- 1.4. The owner is satisfied with the improvement in the liquidity position of his business. Quote TWO financial indicators, including figures, to support his opinion. (6)

- 1.5. You are of the opinion that the owner, Mr Tom should be happy with the return in the business. Provide TWO reasons quoting the relevant financial indicators and figures to support your opinion. (6)

INFORMATION:

1. Extract of the Income Statement

	2019	2018
Sales	458 250	325 000
Cost of sales	235 000	162 500
Gross Profit	223 250	162 500
Operating expenses	73 500	69 500
Net profit for the year	149 750	93 000

2. Extract from the Balance Sheet

	2019	2018
Non-current assets	960 000	925 000
Current assets (including inventory)	420 000	395 000
Inventory	75 000	95 000
Owners equity	1 000 000	600 000
Non-current liabilities	80 000	95 000
Current liabilities	300 000	625 000

3. The following financial indicators have been calculated.

	2019	2018
Gross profit on cost of sales	95 %	100 %
Net profit on sales	32.7 %	28.6 %
Operating expenses on sales	?	21.4 %
Current ratio	1,4 : 1	0,8 : 1
Acid test ratio	?	0,6 : 1
Solvency ratio	?	2,1 : 1
Return on average owners equity	?	5,2 %
Fixed deposit rates	8 %	7 %

QUESTION 2

(31 MARKS – 25 MINUTES)

ETHICS, ANALYSIS OF TRANSACTIONS AND SALARIES

2.1 GAAP PRINCIPLES

Match the example in Column A to the concept in Column B. **Write only the letter (A–D) next to the question number (2.1.1. – 2.1.4) in the ANSWER BOOK.** (4)

Example – Column A		Concepts - Column B	
2.1.1	The financial statements must be drawn up with the view that the business will continue to operate in the future.	A	Matching
2.1.2	The income earned and expenses incurred must be accounted for in the financial year which they relate.	B	Going-concern
2.1.3	The assets should be recorded at the price at which they were bought and not at any future expected value.	C	Materiality
2.1.4	Information that is important should be disclosed separately while less important transactions can be added together as sundry items.	D	Historical cost

2.2 ANALYSIS OF TRANSACTIONS

The transactions appeared in the books of Simba Stores. The business maintains a gross profit mark-up of 50% on cost.

REQUIRED:

Analyse the following transactions according to the headings provided in the ANSWER BOOK. (12)

Assume that Bank balance is **favourable** for all the transactions.

Example: The owner took goods for personal use, R300.

TRANSACTIONS:

- 2.2.1 Purchased trading stock on credit, R 12 500 less 5% trade discount.
- 2.2.2 A debtor, T.Pumba returned goods to the business, R1 200.
- 2.2.3 A creditor charged interest of R 85 on the overdue account which Simba Stores had forgotten to pay on time.

2.3 SALARIES

The following information relates to Mrs D.Dludla, an employee at Shreya Traders.

- 2.3.1 Use the information given below to calculate the NET SALARY for Mrs D.Dludla for March 2019 (6)

INFORMATION

Gross salary per month	R 6 700
SARS: PAYE	15% of the gross salary
Medical aid fund	R 350
UIF	1% of gross salary
Pension Fund	8% of gross salary

- 2.4 The following salary scale was prepared for Mr H.Gibbs, a finance clerk who works at Protea Traders. He was employed on the 1 January 2011.

R 124 800 x R 12 300 → R 161 700 x R 15 000 → R 206 700

- 2.4.1 What is Mr H.Gibb's monthly starting salary? (2)
- 2.4.2 In **which year** will Salmon earn R 149 400 (1)
- 2.4.3 By what percentage will Mr H Gibb's salary increase at the end of the first year? (2)
- 2.4.4 How many years will Mr Gibbs have to work before he earns an annual salary of R 206 700? (2)
- 2.4.5 Mr Gibbs requested that his bonus be paid to him in cash and that it not be reflected on his salary advice slip. State ONE reason why this should not be done. (2)

QUESTION 3 : [49 MARKS – 39 MINUTES]
INCOME STATEMENT AND NOTES (INVENTORY AND TRADE AND OTHER PAYABLES)

CSI security systems is owned by Chris Lee. The business sells burglar alarms systems and also installs alarm systems for which they charge an installation fee.

Required:

3.1. Prepare the Income Statement for the year ended 28 February 2019. (33)
 Note: Some figures have been entered.

3.2. Prepare the following notes to the Balance Sheet:

3.2.1. Inventory (8)

3.2.2. Trade and other Payables (8)

INFORMATION

CSI Security Systems

Pre-adjustment trial balance on 28 February 2019

Balance sheet section	Debit	Credit
Capital		280 805
Drawings	74 000	
Land and Buildings	190 000	
Vehicles	85 000	
Accumulated depreciation on vehicles		31 000
Equipment	76 800	
Accumulated depreciation on equipment		19 000
Fixed deposit: Flint bank (8%)	47 000	
Trading stock	97 000	
Debtors control	44 300	
Bank	162 173	
Loan: Sloan Bank (15%) (1 March 2018)		80 000
Creditors control		132 800
South African Revenue Service (PAYE)		33 030
Pension fund		17 600
Nominal accounts section		
Sales		780 000
Cost of sales	520 000	
Debtors allowances	12 100	
Installation fee income		118 000
Rent income		80 400
Salaries and wages	176 000	
Telephone	16 400	
Water and electricity	21 800	
Consumable stores	12 300	
Interest on loan	11 000	
Insurance	5 920	
Pension fund contributions	8 800	
Sundry expenses	11 400	
Bad debts	4 400	
Interest income		3 760
	1 576 395	1 576 395

Adjustments and additional information

1. The telephone account of R1 200 for February 2019 is still outstanding.
2. An amount of R1 800 for installation fees is still receivable.
3. A debtor, who owes R 2 000 was declared insolvent. His estate paid 0,60c in the rand. This was received and recorded. Write off the balance of his account.
4. Insurance includes an annual premium of R 3 870 paid for the period 1 July 2018 to June 2019.
5. Alarms costing R 3 600 had to be scrapped as they are obsolete and cannot be sold.
6. A dissatisfied credit customer, H Hanks returned a faulty alarm with the selling price of R 3 900 (mark up 50%). This stock was subsequently returned to the supplier. No entry was made.
7. Rent income is received monthly in advance.
Note: Rent increased by R 600 per month on 1 December 2018.
8. Depreciation on the following assets must be recorded:
Vehicles R 8 800
Equipment R 2 400
9. Physical stock count on 28 February 2019 revealed the following on hand:
Trading Stock: R 94 500
Consumable stores: R 300
10. The municipality has been incorrectly billing CSI Security Systems for their water and electricity usage. The business overpaid R 800 on the February bill. The municipality will deduct this overpayment from the March 2019 bill.
11. Provide for the outstanding interest on loan. Interest is not capitalized.
Note: An annual capital repayment of R 25 000 will be made in the next financial year.

QUESTION FOUR:**(35 MARKS – 28 MINUTES)**

You are provided with information relating to Plaza Traders for the financial year ending 30 June 2019.

REQUIRED:

Prepare the **Balance Sheet** (Statement of Financial Position) for the year ending 30 June 2019. (35)

NOTE: Show **all workings** in brackets to earn part marks as notes are **NOT** required.

INFORMATION**PLAZA TRADERS****POST-ADJUSTMENT TRIAL BALANCE ON 30 JUNE 2019.**

BALANCE SHEET ACCOUNTS SECTION	FOL.	DEBIT	CREDIT
Capital (1/07/2018)	B1		550 000
Drawings	B2	180 000	
Land and buildings	B3	320 000	
Vehicles at cost	B4	150 000	
Equipment at cost	B5	90 000	
Accumulated depreciation on vehicles (1/07/2018)	B6		110 000
Accumulated depreciation on equipment (1/07/2018)	B7		60 000
Fixed deposit at Afrika Bank (6% p.a.)	B8	60 000	
Trading Stock	B9	???	
Debtors Control	B10	57 500	
Bank	B11	125 550	
Petty Cash	B12	1 500	
Cash Float	B13	8 500	
Mortgage Loan : SA Bank	B14		160 000
Creditors Control	B15		55 000
Accrued Expenses/Expenses Payable	B16		4 300
Prepaid Expenses	B17	1 250	
Accrued Income/Income Receivable	B18	2 500	
Deferred Income/Income received in advance	B19		1 700

NOTES AND ADDITIONAL INFORMATION

The following must be taken into account when preparing the Balance Sheet.

- The net profit for the year amounted to **R 182 246** after all adjustments were taken into account.
- Depreciation for the year amounted to: R 30 000 on vehicles and R 4 500 on equipment.

NOTE: Depreciation has **not been added** to accumulated depreciation accounts.

- R 25 000 of the loan is payable on 1 October 2019.
- R 20 000 of the fixed deposit will mature on 1 August 2019. The rest matures in 2021.
- Some details and figures have been entered on the Balance sheet.**

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

1 November 2019

Marks: 150

Time: 2 Hours

Name: _____

Grade 10 ___

This booklet consists of 7 pages.

QUESTION	TOPIC	LEARNERS MARK	MODERATED MARK
1	Ratio calculations and analysis of financial statements		
2	Ethics, analysis of transactions and salaries		
3	Income Statement Notes – Inventory and Payables		
4	Balance Sheet		
		150	150

QUESTION ONE:

(35 MARKS - 28 MINUTES)

1.1.1. Operating expenses on sales

3

1.1.2. Acid test ratio

4

1.1.3. The solvency ratio

5

1.1.4. Return on average owners equity

5

1.2. List TWO possible users of information provided in financial statements.

2

1.3. The business did not achieve its intended mark-up of 100 %.
Provide TWO possible reasons for this.

4

1.4. The owner is satisfied with the improvement in the liquidity position of his business. Quote TWO financial indicators, including figures, to support his opinion.

Indicator 1:

Indicator 2:

6

1.5. You are of the opinion that the owner, Mr Tom should be happy with the return in the business. Provide TWO reasons quoting the relevant financial indicators and figures to support your opinion.

Reason/Indicator 1 :

Reason/Indicator 2 :

6

35

QUESTION 2

(31 MARKS – 25 MINUTES)

2.1 GAAP PRINCIPLES

2.1.1	
2.1.2	
2.1.3	
2.1.4	

4

2.2 ACCOUNTING EQUATION

	GENERAL LEDGER		AMOUNT R	EQUATION		
	Account Debited	Account Credited		A =	O +	L
E.g.	Drawings	Trading stock	300	-	-	0
2.2.1	Trading stock			+	0	+
2.2.2		Debtors Control	1200			
		Cost of sales				
2.2.3		Creditors Control	85			

12

2.3 SALARIES

Gross Salary	
Less : Deductions	
PAYE	
MEDICAL AID	R 350
UIF	
PENSION FUND	
NET SALARY	

6

2.4.1	
2.4.2	
2.4.3	
2.4.4	
2.4.5	

9

QUESTION 3

(49 MARKS – 39 MINUTES)

CSI Security Systems

INCOME STATEMENT FOR YEAR ENDED 28 February 2019

Sales (780 000)	
Cost of Sales (520 000)	
Gross profit	
Other operating income	
Gross operating income	
Operating expenses	
Salaries	176 000
Pension fund contributions	8 800
Sundry Expenses	11 400
Depreciation	11 200
Telephone (16 400)	
Operating profit	
Interest Income	3 760
Profit before interest expense	
Net profit for the year	

33

4. INVENTORY	

8

6. TRADE AND OTHER PAYABLES	
Trade Creditors (132 800	
Pension Fund	17 600
SARS : PAYE	33 030

8

49

QUESTION FOUR:

(35 MARKS – 28 MINUTES)

PLAZA TRADERS

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) ON 30 JUNE 2019

	Notes	
ASSETS		
NON-CURRENT ASSETS		
Tangible/Fixed Assets	3	
Financial Assets:		
CURRENT ASSETS		
Inventories	4	
Trade and other receivables	5	
Cash and cash equivalents	6	
TOTAL ASSETS		
EQUITY AND LIABILITIES		
Owner's Equity	7	
NON-CURRENT LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables (55 000 + 4 300 + 1 700 + 25 000)	8	86 000
TOTAL EQUITY AND LIABILITIES		

