

PHOENIX CIRCUIT ACCOUNTING SOCIETY

**Phoenix Circuit Accounting Society**

**Grade 10**

**Accounting Paper 2**

**Memorandum**

**Final Examination**

**4 November 2019**

**Marks: 150**

**Time: 2 Hours**

*This memorandum consists of 10 pages.*

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QUESTION	TOPIC
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

**QUESTION ONE**

**(30 MARKS; 24 MINUTES)**

**1.1 VAT AND ETHICS (15)**

<p>1.1.1. What does the abbreviation VAT stand for?</p> <p>Value Added Tax✓</p>	1
<p>1.1.2 What is the current rate of VAT?</p> <p>15%✓</p>	1
<p>1.1.3 Differentiate between zero rated and VAT exempted goods</p> <p>Zero rated supplies-Vat is charged at zero percent, that is determined by the Minister of Finance✓✓</p> <p>Exempt Supplies-Vat is not charged at all on these supplies✓✓</p>	4
<p>1.1.4 Provide for the missing figures A and B</p> <p>A <math>115/100 \times R\ 354 = R407.10</math> ✓☑</p> <p>B <math>100/115 \times R11500 = R10000</math> ✓☑</p>	6
<p>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.</p> <p>Comment: This is fraud/illegal. ✓</p> <p>Consequence: He may be imprisoned/jailed or be heavily fined✓✓</p> <p><i>1mark-comment</i></p> <p><i>2marks-consequence</i></p>	3

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**1.2 COST CONCEPTS AND CALCULATIONS**

**Match Column A with Column B**

1.2.1.1	E ✓
1.2.1.2	C ✓
1.2.1.3	A ✓
1.2.1.4	B ✓
1.2.1.5	D ✓

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**1.2.2**

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

A	R23.83 ✓✓	2
B	R359 550 ✓✓	2
C	R15.53 ✓✓	2
D	R54.66 ✓✓	2

**B: How much profit is made on each dress?**

<p>R89,99 - R54,66 <input checked="" type="checkbox"/> = R35,33 ✓</p>	2
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QUESTION TWO

(40 MARKS; 32 MINUTES)

GENERAL LEDGER

DR		GENERAL LEDGER OF BB STORES						CR		
CREDITORS CONTROL ACCOUNT										
2019					2019					
Oct	31	Bank ✓	CPJ	45 450 ✓	Oct	1	Balance	b/d	43 140 ✓	3
		Discount Received ✓	CPJ	4 550 ✓		31	Total purchases ✓	CJ	60 350 ✓	4
		Total Allowances ✓	CAJ	7 410 ✓			Interest on overdue creditors ✓		99 ✓✓	5
		Sundry a/c ✓	GJ	5 100 ✓						2
		Balance	c/d	41 079 ✓						1
				<b>103 589</b>					<b>103 589</b>	1
					Nov	1	Balance	b/d	41 079	

2.2.1	A	CJ ✓✓	2
	B	Bank ✓✓	2
	D	Cost of Sales ✓✓	2
	E	Creditors Control ✓✓	2
2.2.2	150 000 x 100/150 ✓ = 100 000 ✓		2
2.2.3	Trading stock that was returned to the supplier ✓✓ / Allowance granted by the supplier <i>(any 1 valid point)</i>		2
2.2.4	G	R4 000 ✓✓	2
2.2.5	F	R2 000 ✓✓	2

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2.2.6	Separation of duties ✓✓
	Proper documentation ✓✓
	Install CCTV cameras
	Body search of employees and customers on arrival and departure
	Security tags on goods/Security guards at door <i>(any 2 valid points)</i>

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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.

	Jack Traders	Jozini Stores
Operating profit on sales ✓	20% ✓	14% ✓
Operating expenses on sales ✓	15% ✓	18% ✓

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

Do you agree?

Yes ✓

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

	Jack Traders	Jozini Stores
Current ratio ✓	1.7: 1 ✓	3.2: 1 ✓
Acid- test ratio ✓	0.4: 1 ✓	1.5:1 ✓

OR

Jozini Stores current ratio is 1.5 higher than Jack Traders and their acid test ratio is 1.1 higher.

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

Identify this business

Jozini Stores ✓

Quote a relevant financial indicator with figures to support this.

Solvency ✓ – 0, 8: 1. ✓ Jozini Stores is not doing well; they can't meet their long-term commitments. ✓ For every R1 owing, they only have 80c to settle debt. ✓

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

Which business will you invest in?

Jack Traders ✓

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

His return is higher than Jozini Stores ✓ (18% ✓ higher than 5.8% ✓ ). Jack's return is higher than alternative investment. ✓

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3.1.5. List three possible expense items that Jozini Stores needs to address to improve the Operating profit percentage and Net profit percentage on sales.

Telephone ✓

Water and lights ✓

Advertising ✓

(any 3 valid expenses)

3

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

A cash budget is a forecast of the cash position of a business over a future period; it sets out the expected cash receipts and cash payments over the budget period. ✓ ✓

A capital budget is a forecast of the future expenditure on fixed assets; it sets out the expected costs for purchasing, extending and improving fixed assets over the budget period. ✓ ✓

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

	Workings	Answer
Expected receipts	• $2 \times 1 \checkmark = 2 \times R20 \times 5 \checkmark =$	200 ✓
	• $R60 \checkmark \times 3 \checkmark =$	180 ✓
Expected payments	• R150	150 ✓
	• $R80 \checkmark \times 25\% \checkmark = 20 + R80 \checkmark =$	100 ✓

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QUESTION 4

(40 MARKS, 32 MINUTES)

FIXED ASSETS AND INTERNAL CONTROL

4.1

4.1.1	True ✓	1
4.1.2	False ✓	1
4.1.3	True ✓	1
4.1.4	True ✓	1
4.1.5	False ✓	1

4.2.1

NO.	WORKINGS	ANSWER	
A		500 000 ✓✓	2
B	2 400 000 + 500 000 ✓ (check A)	2 900 000 ✓	2
C		800 000 ✓✓	2
D	(800 000 ✓ X 15%) + (150 000 ✓ X 15% X 4/12 ✓) OR 120 000 ✓                                      7 500 ✓✓	127 500 ✓	4
E	800 000 ✓ + 150 000 ✓ (check C)	950 000 ✓	3
F	(420 000 ✓ - 230 000 ✓) X 20% 190 000 ✓✓	38 000 ✓	3
G	230 000 ✓ + 38 000 ✓ (check F)	268 000 ✓	3

4.2.2

<p><i>Explain what a fixed asset register is.</i></p> <p>The book in which the specific details of all the fixed assets are kept. ✓✓</p>	2
<p><i>How it can be used as an internal control tool.</i></p> <ul style="list-style-type: none"> <li>Assists the internal auditor in carrying out his internal control function by enabling him to check the physical existence of the firm's fixed assets.</li> <li>Safeguards the firm's fixed assets by cross checking against the fixed asset register and thus prevents theft of these assets.</li> </ul> <p>Any ONE valid point. ✓✓✓✓</p>	4

4.2.3

<p>4.2.3.1 Mention <i>THREE</i> negative consequences for Hashtag Stores.</p> <ul style="list-style-type: none"><li>• Sensitive information about the business will be compromised. ✓✓</li><li>• Excess data usage will be costly. ✓✓</li><li>• Viruses/malware might be introduced which could lead to shutdowns/expensive cleanup. ✓✓</li><li>• Program/data files/application software maybe copied.</li><li>• Unfettered access to the internet is harmful to minors.</li><li>• Employees inability to complete their tasks will impact on profits.</li><li>• More data may have to be purchased thus increasing costs.</li><li>• Physical security and other assets also being compromised by unauthorised entry</li></ul> <p>Any valid point. (2 marks) Part answers (1 mark)</p>	6
<p>4.2.3.2 What advice would you as the accountant give to the owner of Hashtag Stores? Mention <i>TWO</i> points.</p> <ul style="list-style-type: none"><li>• As the owner of a sole trader he may be within his rights to allow his children to use his business assets, but this must be charged to his Drawings account.</li><li>• Business program/data files/application software must be encrypted/password protected</li><li>• Their internet usage must be supervised (undesirable sites).</li><li>• Upgrade to an enhanced business data package probably unlimited data</li><li>• Place a cap on their internet usage.</li></ul> <p>Any valid point. (2 marks) Part answers (1 mark)</p> <p>Do not accept: They should not be allowed to use the internet.</p>	4