



**GAUTENG DEPARTMENT OF EDUCATION
PROVINCIAL EXAMINATION
NOVEMBER 2020
GRADE 10**

**ACCOUNTING
PAPER 1**

TIME: 2 hours

MARKS: 150

9 pages + 1 formula sheet

INSTRUCTIONS

1. Answer all questions in the ANSWER BOOK provided.
2. A FORMULA SHEET for financial indicators is provided at the back of this question paper. You may use this if necessary.
3. Show all workings where applicable in order to earn part-marks.
4. Read all instructions carefully.
5. Try at all times to adhere to the suggested time allocation.
6. Non-programmable calculators may be used.
7. Write neatly and legibly.
8. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION 1: 43 marks; 34 minutes	
Topic of the question:	This question integrates:
Concepts and transaction analysis	GAAP Concepts Analysis of transactions

QUESTION 2: 42 marks; 33 minutes	
Topic:	This question integrates:
Income Statement	Income Statement of a sole trader

QUESTION 3: 27 marks; 23 minutes	
Topic:	This question integrates:
Balance Sheet, Note and Ethics	Balance Sheet Note Balance Sheet of a sole trader Ethics

QUESTION 4: 38 marks; 30 minutes	
Topic:	This question integrates:
Analysis and interpretation	Analysis and interpretation of financial statements

QUESTION 1: GAAP CONCEPTS AND ANALYSIS OF TRANSACTIONS

(43 marks; 34 minutes)

1.1 CONCEPTS

State whether the following statements are TRUE or FALSE. Write only the answer next to the question number (1.1.1 False) in the ANSWER BOOK.

- 1.1.1 The historical cost concept means that fixed assets are recorded at cost in the financial records of the business.
- 1.1.2 The matching principle refers to drawing up financial statements so that income earned and expenses incurred in a particular year are taken into account.
- 1.1.3 The prudence concept refers to selling of stock at the lowest possible price.
- 1.1.4 The business entity rule means that the financial affairs of the owner and the business should be kept separately. (4 x 1) (4)

1.2 ANALYSIS OF TRANSACTIONS

Analyse the following transactions according to the headings provided in the ANSWER BOOK. The business uses a markup of 60% on cost.

Assume the bank balance is **unfavourable** for all the transactions.

Example: Bought equipment on credit, R 6 000.

No.	Source document	Account debited	Account credited	A	O	L
e.g.	Original invoice	Equipment	Creditors' Control	+ 6 000	0	+ 6 000

TRANSACTIONS:

- 1.2.1 Bought stationery for R1 000 and paid by cheque.
- 1.2.2 Received a cheque of R4 950 from a debtor in settlement of her account of R5 000.
- 1.2.3 Sold goods for cash, the cost price was R2 000.
- 1.2.4 The owner drew a cheque of R650 and took trading stock at cost price of R950 for personal use.
- 1.2.5 Returned defective stock to the value of R460 to the supplier. (39)

QUESTION 2: INCOME STATEMENT

(42 marks; 33 minutes)

The information provided below is extracted from the records of VeeLee Collections, their financial period ends on 31 December 2019. The business uses a profit markup of 60% on cost.

Complete the following financial statements of VeeLee Collections for the year ended 31 December 2019.

REQUIRED:

Prepare the Income Statement

(42)

INFORMATION

EXTRACT FROM THE TRIAL BALANCE ON 31 DECEMBER 2019

Balance Sheet Section	Debit	Credit
Land & buildings	340 000	
Drawings	147 460	
Vehicles	211 800	
Equipment	100 000	
Accumulated depreciation on vehicles		40 000
Accumulated depreciation on equipment		20 000
Fixed Deposit: ABC Bank (10% p.a.)	40 000	
Trading stock	6 580	
Debtors' control	12 000	
Loan: Royal Bank (19% p.a.)		90 000
Nominal Accounts Section		
Sales		400 380
Cost of sales	240 000	
Debtors' allowances	1 980	
Water & electricity	4 950	
Advertising	5 900	
Insurance	3 890	
Rent income		20 800
Vehicle repairs	3 300	
Commission income		19 000
Stationery	4 520	
Packing material	2 110	
Interest on fixed deposit		2 000

ADJUSTMENTS AND ADDITIONAL INFORMATION

1. The owner withdrew stock to the value of R1 072 (selling price), before the physical stocktaking was completed. This transaction has not been recorded yet.
2. According to a physical stocktaking, the following were on hand at the end of the year.
 - Trading stock R4 300
 - Stationery R 950
 - Packing material R 340
3. An amount of R11 800, paid for repairs to one of the vehicles was debited to the Vehicles account. Correct the error.
4. The water and electricity account for December 2019 has been received but not yet paid, the outstanding amount is R450.
5. The amount for insurance includes an amount of R800 paid in advance for the next financial year.
6. Advertising includes an amount of R1 400 for a four-month advertising contract. The contract runs from 1 November 2019 until 28 February 2020.
7. Provide for outstanding interest on fixed deposit.
8. Received the following loan statement from Royal Bank:

Balance on 01 January 2019	R 130 000
Capitalised interest	?
Repayments during the year including interest	40 000
Balance on 31 December 2019	105 000

9. Depreciation is calculated as follows on 31 December 2019: Equipment: 10% on cost and Vehicles: 15% on diminishing balance method.
10. Rent has been received for 13 months.
11. An amount of R1 000 is still outstanding for commission income on 31 December 2019.

QUESTION 3: BALANCE SHEET AND ETHICS**(27 marks; 23 minutes)**

You are provided with the information extracted from the financial records of Egoli Suppliers. The financial year ended on 30 June 2020.

REQUIRED:

- 3.1 Complete the note for trade and other payables. (8)
- 3.2 Prepare the Equity and Liabilities Section of the Balance Sheet. Where notes are not required, show all workings in brackets to earn part-marks. (13)

INFORMATION:**A EXTRACT OF BALANCES AND TOTALS ON 30 JUNE 2020**

BALANCE SHEET ACCOUNTS SECTION	DEBIT	CREDIT
Capital (1 July 2019)		409 000
Drawings	140 000	
Land and Buildings	680 000	
Debtors' control	126 000	
Loan: Bank of South Africa (30 June 2020)		400 000
Creditors' control		38 500
Bank overdraft		3 200
Accrued income	3 400	
Accrued expenses		4 200
Income received in advance		3 600
Prepaid expenses	3 900	
Creditors for salaries		12 300
SARS -PAYE		5 300
Unemployment Insurance Fund (UIF)		4 800

B ADDITIONAL INFORMATION AND ADJUSTMENTS

- A** After taking into account the adjustments, the correct net profit amounted to R245 000.
- B** A debtor with a credit balance of R650 must be transferred to the creditors.
- C** On 30 June 2020, the owner increased his capital contribution by providing a motor vehicle worth R80 000 to the business.
- D** The business plans to pay a quarter of the outstanding loan in the next financial year.
- E** A debtor, AK Khumalo transferred R1 700 into the current account of the business.

3.2 ETHICS

Read the extract and answer the questions.

Wendy Mokoena, a former employee of Diane Traders, was recently retrenched. The management stated that the current state of the economy and the decline in profits made this decision unavoidable.

She contacted the UIF office to claim this benefit to which she has been contributing over the 5 years of her employment at Diane Traders. These deductions are also reflected on all her salary advices. She was told that there were no contributions received for 11 months from Diane Traders.

REQUIRED:

- 3.3.1 What advice would you give to Wendy? Provide **TWO** points. (4)
- 3.3.2 Provide **ONE** action that can be taken against the employer for failing to pay the UIF, after deducting the money from the salaries of employees. (2)

QUESTION 4: ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS**(38 marks; 30 minutes)**

The information provided below is taken from the financial records of Mabena Shop, their financial year ends in December each year. The business is owned by David Mabena.

REQUIRED:

- 4.1 Calculate the following 2019 financial indicators by referring to **INFORMATION A** and **B**. Calculate your answers to one decimal place.
- 4.1.1 Gross profit on turnover (3)
- 4.1.2 Gross profit on cost of sales (4)
- 4.1.3 The return on average owner's equity (5)
- 4.1.4 Current ratio (4)
- 4.1.5 Acid test ratio (4)
- 4.1.6 Respond to the following questions:
- A** Comment on the liquidity position of Mabena Shop in 2019. Quote **TWO** financial indicators. (6)
- B** The business did not maintain its intended mark-up of 100% on the cost price of goods sold. Explain in **TWO** points why the intended results were not achieved. (4)
- C** Give **TWO** reasons and explain why trading stock is subtracted to calculate the acid test ratio. (4)
- D** Should Mabena be happy with the return on her investment? Explain and quote relevant financial indicators. (4)

INFORMATION A

Income statement for the year ended 31 December	2019	2018
Sales	124 000	109 000
Cost of sales	?	(63 000)
Gross profit	55 000	46 000
Other operating income	7 000	6 000
Operating expenses	(40 000)	(35 000)
Operating profit before interest paid	22 000	17 000
Interest paid	(2 000)	(2 000)
Net profit for the year	20 000	15 000

INFORMATION B

Balance Sheet as at 31 December	2019	2018
Owners' equity	200 000	206 000
Fixed Assets	170 000	190 000
Inventories (only Trading stock)	18 000	26 000
Trade and other receivables	19 000	23 000
Cash and cash equivalents	3 000	1 000
Loan: FSB Bank	80 000	100 000
Fixed Deposit	80 000	80 000
Trade and other payables	10 000	14 000

INFORMATION C

Financial indicators as at 31 December	2019	2018
Gross profit on turnover	?	42%
Gross profit on cost of sales	?	73%
Return on average owners' equity	?	7,8%
Current ratio	?	3,6 : 1
Acid test ratio	?	2,1 : 1
Interest rate on fixed deposit	7%	7.5%

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		
$\frac{\text{Net Profit}}{\text{Average Partners' Equity}} \times \frac{100}{1}$	Total assets : Total liabilities	

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