



# basic education

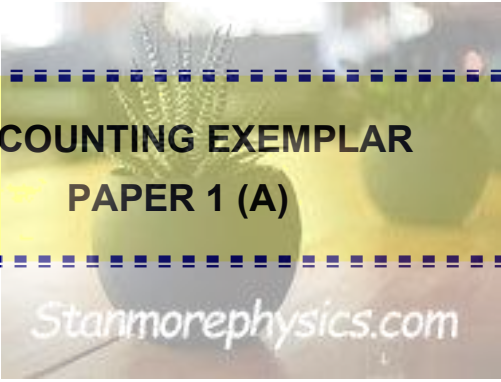
Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**



**NOVEMBER 2018**

**GRADE 10**

**ACCOUNTING EXEMPLAR  
PAPER 1 (A)**



**MARKS: 150**

**TIME: 2 hours**

This question paper consists of 10 pages and a 7-page answer book.

**INSTRUCTIONS AND INFORMATION**

Read the following instructions carefully and follow them precisely.

1. Answer ALL the questions.
2. A special ANSWER BOOK is provided in which to answer ALL the questions.
3. A FORMULA SHEET for financial indicators is provided at the back of this question paper. You may use this if necessary.
4. Show ALL workings to earn part-marks.
5. You may use a non-programmable calculator.
6. You may use a dark pencil or blue/black ink to answer the questions.
7. Where applicable, show all calculations to ONE decimal point.
8. Write neatly and legibly.
9. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

<b>QUESTION 1: 25 marks; 20 minutes</b>	
<b>Topic of the question:</b>	<b>This question integrates:</b>
Concepts Accounting Equation	GAAP Accounting Concepts Bookkeeping entries Accounting Equation

<b>QUESTION 2: 45 marks; 35 minutes</b>	
<b>Topic of the question:</b>	<b>This question integrates:</b>
Income Statement	Year-end adjustments Income Statement of a sole trader

<b>QUESTION 3: 50 marks; 40 minutes</b>	
<b>Topic of the question:</b>	<b>This question integrates:</b>
Balance Sheet and notes	Concepts Year-end adjustments Balance Sheet and notes

<b>QUESTION 4: 30 marks; 25 minutes</b>	
<b>Topic of the question:</b>	<b>This question integrates:</b>
Concepts and Analysis and interpretation	Concepts Calculation of financial indicators Evaluation of financial indicators

**QUESTION 1: CONCEPTS AND ANALYSIS OF TRANSACTIONS**

( 25 marks; 20 minutes)

**1.1 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 (1.1.1. – 1.1.4) in the ANSWER BOOK.

(4)

Example		Concepts	
1.1.1	A debtor who owes R1 270, was written off as a bad debt as he could not be traced.	A	Materiality
1.1.2	Interest on overdraft is not shown as part of bank charges.	B	Entity
1.1.3	An amount of R450, still due for telephone at the end of the financial year, will be added to telephone expense in the income statement for the current year.	C	Matching
1.1.4	The owner pays her personal cell phone account with a business cheque. She does not record the amount as an expense to the business.	D	Prudence

**1.2 ANALYSIS OF TRANSACTIONS**

The transactions appeared in the books of Leo 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.

(21)

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

**Example:** The owner took goods for personal use, R500.

**TRANSACTIONS:**

- 1.2.1 Purchased trading stock on credit, R14 000 less 8% trade discount.
- 1.2.2 A debtor returned goods, cost R900, to the business.
- 1.2.3 Credit sales to U. Kabi. Invoice total, R6 000.
- 1.2.4 A creditor charged interest of R75 on the overdue account which Leo Stores had forgotten to pay on time.

**QUESTION 2: INCOME STATEMENT**

**(45 marks; 35 minutes )**

The information is from the books of Andrews Traders. The financial year ended on 28 February 2018.

**REQUIRED:**

Prepare the Income Statement (Statement of Comprehensive Income) for Andrews Traders for the year ended 28 February 2018.

(45)

**EXTRACT FROM THE TRIAL BALANCE ON 28 FEBRUARY 2018**

	<b>Debit</b>	<b>Credit</b>
<b>BALANCE SHEET SECTION</b>		
Capital		865 500
Fixed Deposit: ABBA Bank (7% p.a.)	80 000	
Trading stock	123 400	
Bank	87 500	
Loan: FNB Bank (14% p.a.)		150 000
<b>NOMINAL ACCOUNT SECTION</b>		
Sales		1 280 000
Cost of sales	640 000	
Debtors allowances	12 400	
Rent income		154 900
Interest on fixed deposit		4 200
Discount received		3 100
Water and electricity	35 400	
Advertising	30 000	
Bad debts	11 300	
Salaries	184 000	
Telephone	17 500	
Stationery	23 200	
Insurance	44 000	
Interest on loan	14 000	
Discount allowed	3 800	
Bank charges	2 300	



**Adjustments and additional information:**

- A. No entry was made for a credit note issued to debtor, K. Lebona, for stock returned, R3 000 (cost of goods returned, R2 000).
- B. On the last day of the financial year, a physical stock taking revealed the following:
  - Trading stock R119 000
  - Stationery R 1 400
- C. A debtor, R. Groenewald, who owes R800 must be written off as irrecoverable.
- D. The telephone account for February 2018 has been received but not yet paid, R2 200.
- E. An annual insurance premium of R7 200 was paid on 30 September 2017.
- F. The Fixed Deposit was invested on 1 March 2017 at ABBA Bank. The interest was received for 9 months only. Provide for the outstanding interest.
- G. The bank statement received on 28 February 2018 reflected the following:
  - Bank charges - R 400
  - A cheque for R1 300 from debtor, J. Taylor, dishonoured due to insufficient funds. This cheque was received in settlement of his account of R1 600.
  - P Bezuidenhout, a debtor whose account was previously written off as irrecoverable, deposited R900 into the business bank account.
- H. A spare office has been rented out to a tenant since 1 March 2017. The tenant paid the March 2018 rent in advance, during February 2018. Note the rent was increased by R1 800 per month from 1 January 2018.
- I. The long term loan is repaid annually on 1 September with an instalment of R30 000. This amount has been properly recorded. Provide for interest owing at 14% p.a.
- J. Provide for depreciation of R47 500 for the year.
- K. An employee has been omitted from the Salaries Journal of February 2018. His details are as follows:

Gross Salary	Deductions	*Contributions	Net Salary
?	6 000	3 000	13 000

\* Employer’s contributions are recorded as Salaries and wages.

**QUESTION 3: CONCEPTS AND NOTES TO THE BALANCE SHEET****(50 marks; 40 minutes)**

3.1 Indicate whether the following statements are TRUE or FALSE.

- 3.1.1 Current assets include items that are expected to be converted into cash within one year.
- 3.1.2 Non-current liabilities contain debts that will be settled within one year.
- 3.1.3 Creditors for salaries and SARS (PAYE) will be shown under non-current assets. (3)

**3.2 VENUS STORES**

You are provided with information the books of Venus Stores for the financial year ended 28 February 2018.

**REQUIRED:**

3.2.1 Prepare the following notes to the Balance Sheet (Statement of Financial Position) for the year ended 28 February 2018:

- Inventories (5)
- Trade and other receivables (5)
- Cash and cash equivalents (3)
- Capital (8)
- Trade and other payables (5)

3.2.2 Complete the Balance Sheet on 28 February 2018. (21)

**INFORMATION**

**Extracted from the General Ledger on 28 February 2018.**

	<b>R</b>
Capital	1 030 000
Drawings	125 000
Loan from Star Bank	350 000
Fixed assets (carrying value on 28 February 2018)	1 191 200
Fixed deposit: Top Bank	120 000
Trading stock	310 000
Debtors control	48 700
Bank overdraft	64 700
Petty cash	1 200
Creditors for salaries	16 000
SARS – PAYE	3 200
Creditors control	55 600

**ADDITIONAL INFORMATION:**

- A. The owner of Venus Stores:
  - Contributed R180 000 cash as additional capital on 31 July 2017 (this has been properly recorded)
  - Took stock for personal use at cost price, R11 000 (this has not been recorded).
  
- B. The following adjustments must be taken into account for the Balance Sheet:
  - Amount owed for electricity, R3 900
  - Commission income received in advance, R15 000
  - An advertisement costing R14 000 will appear in the newspaper in March 2018. Payment was made and recorded in February 2018.
  - Packing material on hand at year-end per physical count, R7 300
  - Rent owed by tenant, R8 000
  
- C. The fixed assets include an amount of R182 000 paid to Ace Builders for building a storeroom (R150 000) and repairs to the roof of the shop (R32 000). The error must be corrected.
  
- D. R25 000 of the Fixed Deposit at Top Bank matures on 31 May 2018.
  
- E. A direct transfer of R15 000 was made from the bank account to settle the monthly repayment of the loan from Star Bank on 28 February 2018 but no entry has been made in the books.
  
- F. The net profit for the year amounts to R235 000 after all adjustments were taken in consideration.



**QUESTION 4: INTERPRETATION OF FINANCIAL INFORMATION**

**(30 marks; 25 minutes)**

The year-end of Mkhwanazi Suppliers was 28 February 2018. The owner is Rebecca Mkhwanazi. You are provided with extracts from the 2018 financial statements and financial indicators.

**REQUIRED:**

- 4.1 Refer to the table in **Information C:**  
Calculate the missing financial indicators below.
  - 4.1.1 The percentage operating expenses on sales (3)
  - 4.1.2 Current ratio (3)
  - 4.1.3 Acid-test ratio (4)
  - 4.1.4 The percentage return on average equity (5)
- 4.2 Explain whether Rebecca should be happy with the solvency of the business. (3)
- 4.3 Explain why Rebecca should be happy with the liquidity of the business. Quote **TWO** financial indicators and their trends in this case. (4)
- 4.4 Rebecca has changed the mark-up % in 2018. Explain why Rebecca’s decision was wrong. Quote figures to support your answer. (4)
- 4.5 Explain why Rebecca should be happy with the % return on equity. Quote **ONE** financial indicator and their trends in this case. (4)



**INFORMATION:**

**MKHWANAZI SUPPLIERS**

A.

<b>EXTRACTS FROM INCOME STATEMENT (STATEMENT OF COMPREHENSIVE INCOME) FOR YEAR ENDED 28 FEBRUARY</b>		
	<b>2018</b>	<b>2017</b>
Sales	2 560 000	2 275 000
Cost of sales	1 600 000	1 300 000
Gross profit	<b>960 000</b>	<b>975 000</b>
Other operating income	80 000	60 000
Operating expenses	566 400	455 000
Operating profit	<b>433 600</b>	<b>580 000</b>
Interest income	45 000	55 000
Interest expense	55 000	38 000
Net profit	<b>423 600</b>	<b>597 000</b>



**B. EXTRACT FROM BALANCE SHEET  
(STATEMENT OF FINANCIAL POSITION) AS AT 28 FEBRUARY**

	<b>2018</b>	<b>2017</b>
Owner's equity	1 647 000	1 213 000
Non-current assets	1 660 000	1 150 000
Current assets	270 000	408 000
Non-current liabilities	175 000	209 000
Current liabilities	108 000	136 000
Fixed assets	1 300 000	700 000
Inventories	135 000	306 000
Investment in Fixed deposit	360 000	450 000
Cash and cash equivalents	58 000	40 000
Trade and other receivables	77 000	62 000

**C. FINANCIAL INDICATORS**

	<b>2018</b>	<b>2017</b>
Mark-up %	60,0 %	75,0%
Gross profit on sales	37,5 %	42,9 %
Operating expenses on sales	?	20%
Operating profit on sales	24,6 %	25,5 %
Net profit on sales	24,1 %	26,3 %
Solvency ratio	6,8 : 1	4,5 :1
Current ratio	?	3,0 : 1
Acid-test ratio	?	0,75 : 1
% Return on average equity	?	27,2 %

**TOTAL: 150 MARKS**

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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**NOVEMBER 2018**

**GRADE 10**

**ACCOUNTING EXEMPLAR PAPER 1 (A)**


**ANSWER BOOK**

QUESTION	TOTAL MARKS	MARKS OBTAINED	MODERATED MARK	MODERATOR INITIAL
1	25			
2	45			
3	50			
4	30			
<b>TOTAL</b>	<b>150</b>			

This ANSWER BOOK consist of 7 pages

**QUESTION 1**

**1.1 GAAP PRINCIPLES**

1.1.1		
1.1.2		
1.1.3		
1.1.4		

4

**1.2 ACCOUNTING EQUATION**

	GENERAL LEDGER		AMOUNT R	EQUATION		
	Account Debited	Account Credited		A	O	L
E.g.	Drawings	Trading stock	500	-	-	0
1.2.1	Trading stock					
1.2.2		Debtors Control				
		Cost of sales	900			
1.2.3	Debtors Control		6 000			
	Cost of sales					
1.2.4		Creditors Control	75			

21

<b>TOTAL MARKS</b>
25

**QUESTION 2**

<b>ANDREWS TRADERS</b>	
<b>INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018</b>	
Sales (1 280 000)	
Cost of Sales ( 640 000)	
<b>GROSS PROFIT</b>	
<b>OPERATING INCOME</b>	
Discount Received	3 100
Rent Income (154 900)	
<b>GROSS OPERATING INCOME</b>	
<b>OPERATING EXPENSES</b>	
Water and electricity	35 400
Advertising	30 000
Bad Debts (11 300)	
Salaries and wages (184 000)	
Telephone (17 500)	
Stationery (23 200)	
Insurance (44 000)	
Discount Allowed (3 800)	
Bank charges (2 300)	
<b>OPERATING PROFIT</b>	
Interest Income (4 200)	
<b>PROFIT BEFORE INTEREST EXPENSE</b>	
<b>NET PROFIT</b>	

<b>TOTAL MARKS</b>



**QUESTION 3**

**3.1 CONCEPTS: State TRUE or FALSE**

3.1.1	3.1.2	3.1.3	3

**3.2.1 VENUS TRADERS NOTES TO THE BALANCE SHEET**

**Note 2: INVENTORIES**

Trading stock 310 000		5

**Note 3: TRADE AND OTHER RECEIVABLES**

Debtors control	48 700	5

**Note 4: CASH AND CASH EQUIVALENTS**

Petty cash	1 200	3

**Note 5: CAPITAL**

Balance at the beginning of the year		8
Additional capital		

**Note 6: TRADE AND OTHER PAYABLES**

Trade creditors	74 800	5

**3.2.2 BALANCE SHEET ON 28 FEBRUARY 2018**

<b>ASSETS</b>	<b>Note</b>	<b>R</b>
<b>Non-current assets</b>		
<b>Fixed assets 1 191 200</b>	<b>1</b>	
<b>Current assets</b>		
<b>TOTAL ASSETS</b>		
<b>EQUITY AND LIABILITIES</b>		
<b>Owner's equity</b>		
<b>Non-current liabilities</b>		
<b>Current liabilities</b>		
<b>TOTAL EQUITY AND LIABILITIES</b>		

21
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<b>TOTAL MARKS</b>
<b>50</b>



QUESTION 4

4.1 CALCULATE THE MISSING FINANCIAL INDICATORS FOR 2018.

4.1.1 The percentage operating expenses on sales

3

4.1.2 Current Ratio

3

4.1.3 Acid-test Ratio

4

4.1.4 The percentage return on average equity

5

4.2 Explain whether Rebecca should be happy with the solvency of the business.

Quote indicator & trend:

Explanation:

3

4.3 Explain whether Rebecca should be happy with the liquidity of the business. Quote TWO financial indicators and their trends in this case.

Quote indicators & trends:

Explanation:

4

4.4 Rebecca has change the mark-up % in 2018. Explain why Rebecca's decision was wrong. Quote figures to support your answer.

Quote indicator & trend:

Explanation (with figures):

4

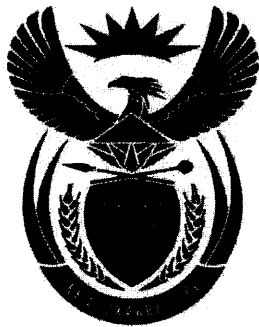
4.5 Explain why Rebecca should be happy with the % return on equity. Quote ONE financial indicators and their trends in this case.

Quote indicator & trend:

Explanation:

4

TOTAL MARKS
30



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**REPUBLIC OF SOUTH AFRICA**

**NOVEMBER 2018**

**GRADE 10**

**ACCOUNTING EXEMPLAR: PAPER 1 (A)**

**MARKING GUIDELINES**

**MARKS: 150**

## MARKING PRINCIPLES:

1. Unless otherwise stated in the marking guideline, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). Note: if figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. Where penalties are applied, the marks for that section of the question cannot be a final negative.
8. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
9. 'One part correct' means 'operation and one part correct'. Where method marks are awarded for one part correct, the marker must inspect the reasonableness of the answer and at least one part must be correct before awarding the mark. If a figure has earned a method-mark, this will be regarded as 'one part correct'.
10. In calculations, do not award marks for workings if numerator and denominator are swapped – this also applies to ratios.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a .
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f = foreign item; p = placement/presentation.

These marking guidelines consists of 7 pages

**QUESTION 1**

**1.1 GAAP PRINCIPLES**

1.1.1	D ✓
1.1.2	A ✓
1.1.3	C ✓
1.1.4	B ✓

4

**1.2 ACCOUNTING EQUATION**

	GENERAL LEDGER		AMOUNT R	EQUATION		
	Account Debited	Account Credited		A	O	L
E.g.	Drawings	Trading stock	500	-	-	0
1.2.1	Trading stock	Creditors control ✓	12 880 ✓	+ ✓	0	+ ✓
1.2.2	Debtors Allowances ✓	Debtors Control	1 350 ✓	- ✓	- ✓	0
	Trading Stock ✓	Cost of sales	900	+ ✓	+ ✓	0
1.2.3	Debtors Control	Sales ✓	6 000	+ ✓	+ ✓	0
	Cost of sales	Trading Stock ✓	4 000 ✓	- ✓	- ✓	0
1.2.4	Interest expense / on overdue account ✓	Creditors Control	75	0	- ✓	+ ✓

21

<b>TOTAL MARKS</b>
25

QUESTION 2

ANDREWS TRADERS			
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2018			
Sales (1 280 000 – 12 400✓ – 3 000✓)		✓	1 264 600
Cost of Sales (640 000 – 2 000✓)		✓	(638 000)
<b>GROSS PROFIT</b> 6		✓	626 600
<b>OPERATING INCOME</b>		✓	145 600
Discount Received			<b>3 100</b>
Rent Income (154 900 – 13 300✓✓)		✓	141 600
Bad Debts Recovered		✓✓	900
<b>GROSS OPERATING INCOME</b>	7	✓	772 200
<b>OPERATING EXPENSES</b>		✓	(424 900)
<b>Water and electricity</b>			<b>35 400</b>
<b>Advertising</b>			<b>30 000</b>
Bad Debts (11 300 + 800✓)		✓	12 100
Salaries and wages (184 000 + 19 000✓ + 3 000✓)	one part correct	✓	206 000
Telephone (17 500 + 2 200✓)		✓	19 700
Stationery (23 200 – 1 400✓)		✓	21 800
Insurance (44 000 – 4 200✓✓)	check operation	✓	39 800
Discount Allowed (3 800 – 300✓✓)	check operation	✓	3 500
Bank charges (2 300 + 400✓)		✓	2 700
Trading Stock Deficit (123 400✓ + 2 000✓ – 119 000✓)	one part correct	✓	6 400
Depreciation 23		✓	47 500
<b>OPERATING PROFIT</b>		✓	347 300
Interest Income (4 200 + 1 400✓)	check operation	✓	5 600
<b>PROFIT BEFORE INTEREST EXPENSE</b>		✓	352 900
Interest Expense 12 600 + 10 500 or 14 000 + 9 100 Or 21 000 + 2 100	one part correct	✓✓	(23 100)
<b>NET PROFIT</b>	9	✓	329 800

<b>TOTAL MARKS</b>
<b>45</b>

**QUESTION 3**

**3.1 CONCEPTS: State TRUE or FALSE**

<b>3.1.1</b>	<b>3.1.2</b>	<b>3.1.3</b>
True ✓	False ✓	False ✓

3

**3.2.1 VENUS TRADERSNOTES TO THE BALANCE SHEET**



**Note 2: INVENTORIES**

<b>Trading stock 310 000 – 11 000 ✓</b>	299 000 ✓
✓Packing material (consumable stores) on hand	7 300 ✓
<b>306 300 ✓</b>	

5

**Note 3: TRADE AND OTHER RECEIVABLES**

<b>Debtors control</b>	<b>48 700</b>
✓Prepaid expenses	14 000 ✓
✓Accrued income (receivable)	8 000 ✓
<b>70 700 ✓</b>	

5

**Note 4: CASH AND CASH EQUIVALENTS**

<b>Petty cash</b>	<b>1 200</b>
Fixed deposit	25 000 ✓✓
<b>26 200 ✓</b>	

3

**Note 5: CAPITAL**

<b>Balance at the beginning of the year</b>	850 000 ✓✓
<b>Additional capital</b>	180 000 ✓
Net income	235 000 ✓
Drawings 125 000 ✓ + 11 000 ✓	(136 000) ✓
<b>Balance at the end of the year</b>	<b>1 129 000 ✓</b>

8

**Note 6: TRADE AND OTHER PAYABLES**

<b>Trade creditors</b>	<b>74 800</b>
✓Accrued expenses (payable)	3 900 ✓
✓Income received in advance (deferred)	15 000 ✓
<b>93 700 ✓</b>	

5

3.2.2 BALANCE SHEET ON 28 FEBRUARY 2018

	ASSETS	Note	R
	<b>Non-current assets</b>		1 254 200 <input checked="" type="checkbox"/>
	<b>Fixed assets 1 191 200 – 32 000 ✓</b>	<b>1</b>	1 159 200 <input checked="" type="checkbox"/>
6	Investments 120 000 ✓ – 25 000 ✓		95 000 ✓
	<b>Current assets</b>		403 200 <input checked="" type="checkbox"/>
	Inventories	2	306 300 <input checked="" type="checkbox"/>
	Trade and other receivables	3	70 700 <input checked="" type="checkbox"/>
	Cash and cash equivalents	4	26 200 <input checked="" type="checkbox"/>
5	<b>TOTAL ASSETS</b>		1 657 400 <input checked="" type="checkbox"/>
	<b>EQUITY AND LIABILITIES</b>		
	<b>Owner's equity</b>		1 129 000
1	Capital	5	1 129 000 <input checked="" type="checkbox"/>
	<b>Non-current liabilities</b>		335 000
3	Loan from Star Bank 350 000 ✓ – 15 000 ✓		335 000 <input checked="" type="checkbox"/>
	<b>Current liabilities</b>		193 400 <input checked="" type="checkbox"/>
	Trade and other payables	6	93 700 <input checked="" type="checkbox"/>
	Bank overdraft 64 700 ✓ + 15 000 ✓		99 700 ✓
6	<b>TOTAL EQUITY AND LIABILITIES</b>		1 657 400 <input checked="" type="checkbox"/>

21
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<b>TOTAL MARKS</b>
50

4.1 CALCULATE THE MISSING FINANCIAL INDICATORS FOR 2018.

4.1.1 The percentage operating expenses on sales

$$\frac{566\,400}{2\,560\,000} \times \frac{100}{1} = 22,1\%$$

3

4.1.2 Current Ratio

$$270\,000 : 108\,000 = 2,5 : 1$$

3

4.1.3 Acid-test Ratio

$$(77\,000 + 58\,000) \text{ OR } (270\,000 - 135\,000)$$

$$135\,000 : 108\,000 = 1,3 : 1$$

4

4.1.4 The percentage return on average equity

$$\frac{423\,600}{\frac{1}{2}(1\,647\,000 + 1\,213\,000)} \times \frac{100}{1} = 29,6\%$$

5

4.2 Explain whether Rebecca should be happy with the solvency of the business.

Quote indicator & trend:

Solvency ratio improve from 4,5:1 to 6,8:1

Explanation:

The business should not have any problem in settling in all its debts.

Further valid clarification:

- Total assets exceed total liabilities by a considerable amount

3



**4.3 Explain whether Rebecca should be happy with the liquidity of the business. Quote TWO financial indicators and their trends in this case.**

**Quote indicators & trends:**

- Current ratio changed from 3 :1 to 2,5 :1
- Acid-test ratio changed from 0,75 ; 1 to 1,3: 1

**Explanation:** ✓✓

- The business is able to settle its current debts.
- Acid-test ratio was too low in 2017 / now acceptable as liquid assets (T&OR and C&CE) now exceed CL
- Current ratio was acceptable in 2017 and has decreased, but still enough money to pay the debts.

4

**4.4 Rebecca has change the mark-up % in 2018. Explain why Rebecca's decision was wrong. Quote figures to support your answer.**

**Quote indicator & trend:**

Mark-up % ✓ changed from 75% to 60% ✓

**Explanation (with figures):** ✓✓

Although this led to an increase in sales of R285 000, the gross profit has decreased by R15 000

Or

Although this led to an increase in goods sold (cost of sales of R300 000) the gross profit has decreased by R15 000

4

**4.5 Explain why Rebecca should be happy with the % return on equity. Quote ONE financial indicators and their trends in this case.**

**Quote indicator & trend:**

% return on equity ✓ changed from 27,2% to 29,6% ✓

**Explanation:**

This exceeds return on alternative investments ✓✓

4



<b>TOTAL MARKS</b>
30