GRADE 10 ACCOUNTING: TERM 3 CASE STUDY

PART A:

FIXED ASSETS

The bookkeeper for Zuks Hardware Store presented you with information relating to the fixed assets of the store. The financial year ended on 28 February 2018.

	28 February 2018	1 March 2017
Vehicles	998 000	830 000
Equipment	675 000	?
Accumulated depreciation on vehicles	?	?
Accumulated depreciation on equipment	?	193 400

Details of vehicles:

	Date purchased	Cost	Accumulated Depreciation as at 28 February 2018
Vehicle 1	1 March 2014	R240 000	R108 000
Vehicle 2	1 September 2015	R300 000	R67 500
Vehicle 3	1 October 2016	R290 000	?
Vehicle 4	1 May 2017	?	?

- Vehicles are depreciated at 15% p.a. on cost.

Details of Equipment:

- New equipment, cost R182 000, was purchased on credit on 1 December 2017.
- Equipment is depreciated at 20% on the diminishing balance method.

REQUIRED:

1.1 Explain why the business would use different depreciation policies for the different categories of fixed assets. (3)

Taking into account that equipment comprises of furniture and other electronic equipment such as fax machines and computers, do you agree with the depreciation policy for equipment? Explain. Provide TWO reasons. (4)

1.2 Calculate the total depreciation on vehicles and on equipment for the current financial year. Show all workings in detail. (16)

1.3 Complete the General Ledger accounts as per the Answer Book. (20)

1.4 Create an asset register card/entry for the new vehicle purchased on 1 May 2017. (8)

1.5 Zuks wants to offer a free delivery service to clients within a certain km radius of the business.
   - Provide THREE points that he should consider before taking this decision. (6)
   - What advice would you offer him? Provide ONE point. (2)

PART B:

INTERPRETATION OF FINANCIAL INFORMATION

The information relates to Sandy Traders for the financial year ended 28 February 2018.
The business uses a profit mark-up of 50% on cost.

REQUIRED:

Quote relevant figures (financial indicators) to support your explanations.
Show all calculations where financial indicators are used.

2.1   Sandy was concerned that the business may have to close down due to the high loan balance.
- Was she justified? Explain.   (2)
- Identify TWO steps she has taken to address this concern and provide a reason for each.   (4)
  Comment on the solvency of the business.   (7)

2.2   Sandy is convinced that all goods were marked up by 50% on cost. She is confused as to why the profit is so low.
- Provide TWO reasons/explanations. Make reference to the percentage achieved.   (6)

2.3   Will Sandy be able to pay the creditors in the next financial year? Explain. Make reference to TWO financial indicators.   (11)

2.4   Sandy feels that her return on investment in the business is not what she expected and regrets not investing in a fixed deposit.
- Explain why you think she feels this way.   (7)
- Provide TWO suggestions that she can use to improve her returns.   (4)

INFORMATION:

A.   **Information from the financial statements:**

	28 Feb 2018	1 March 2017
Sales	916 880	879 100
Cost of sales	628 000	590 000
Net profit	109 200	103 400
Fixed assets (at carrying value)	1 320 000	1 128 000
Investments (fixed deposits)	180 000	240 000
Current assets	373 400	432 000
Current liabilities	280 000	240 000
Owner's equity	1 008 400	940 000
Loan: Post Bank	585 000	620 000
Trading stock (included in Current Assets)	160 000	163 000

B.   **Financial indicators**

	28 Feb 2017	1 March 2016
Solvency ratio	?	2,1 : 1
Current ratio	?	1,8 : 1
Acid-test ratio	?	1,1 : 1
Return on owner's equity	?	11%
Gross profit percentage achieved	?	49%
Gross profit on sales	31,5%	33%
Interest rate on fixed deposit	10,5%	12%

TOTAL: 100/2 = 50