

**GRADE 10 ACCOUNTING: TERM 3 CASE STUDY
MARKING GUIDELINE**

PART A: FIXED ASSETS

1.1

Explain why the business would use different depreciation policies for the different categories of fixed assets.

Explanation ✓✓✓ part marks for incomplete/unclear answers

Fixed assets lose value due to usage over time (besides land and buildings). The useful life period (life-span) of the assets would vary. Some lose value quicker than others. The business would also consider the replacement value, and/or the value they would expect to receive when they dispose or trade-in the asset.

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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.

TWO valid reasons ✓✓ ✓✓

The business can use different policies for different items (categories) within the equipment account.
Furniture may have a longer useful life and would only be needed to be replaced after long periods.
Technological equipment has a shorter life-span due to rapid changes and upgrades in systems.
Old equipment would become outdated/redundant/obsolete.
Updating equipment would contribute to efficiency.

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1.2

WORKINGS	ANSWER
<p>Calculate: Depreciation on vehicles:</p> <p>Old vehicles: $830\,000 \checkmark \times 15\% = 124\,500 \checkmark \checkmark$</p> <p>New vehicle: $998\,000 - 830\,000 = 168\,000 \checkmark \checkmark$ (cost) $168\,000 \times 15\% \times 10/12 \checkmark = 21\,000 \checkmark$</p> <p style="text-align: right;">8</p>	<p>145 500 <input checked="" type="checkbox"/></p>
<p>Calculate: Depreciation on equipment:</p> <p>New equipment: $182\,000 \checkmark \times 20\% \times 3/12 \checkmark = 9\,100 \checkmark$</p> <p>Old equipment: $675\,000 - 182\,000 = 493\,000 \checkmark \checkmark$</p> <p>$(493\,000 - 193\,400 \checkmark) \times 20\% = 59\,920 \checkmark$ <small>299 600</small></p> <p style="text-align: right;">8</p>	<p>69 020 <input checked="" type="checkbox"/></p>

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EQUIPMENT (B6)

2017 Mar	1	Balance	b/d	493 000 <input checked="" type="checkbox"/>					
Dec	1	Creditors control ✓	DJ	182 000 <input checked="" type="checkbox"/>					
					2018 Feb	28	Balance	c/d	675 000 <input checked="" type="checkbox"/>
				675 000 <input checked="" type="checkbox"/>					675 000
Dates ✓									

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ACCUMULATED DEPRECIATION ON VEHICLES (B7)

					2017 Mar	1	Balance	b/d	193 625 <input checked="" type="checkbox"/>
							108 000 ✓ + 67 500 ✓ + 18 125 ✓✓		
					2018 Feb	28	Depreciation ✓	GJ	145 500 <input checked="" type="checkbox"/>
									339 125 <input checked="" type="checkbox"/>
									8

DEPRECIATION (N11)

2018 Feb	28	Accumulated depreciation on vehicles ✓	GJ	145 500 <input checked="" type="checkbox"/>	2017 Mar	31	Profit and loss ✓		62 640 <input checked="" type="checkbox"/>
		Accumulated depreciation on equipment ✓	GJ	69 020 <input checked="" type="checkbox"/>					
				62 640 ✓					62 640
									7

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FIXED ASSET REGISTER			
Name/Make:	✓		
Cost price:	R168 000 <input checked="" type="checkbox"/>		
Description	✓		
Depreciation policy	15% on cost ✓		
DATE	DEPRECIATION	ACCUMULATED DEPRECIATION	CARRYING VALUE
1 May 2017 ✓	21 000 <input checked="" type="checkbox"/>	21 000 <input checked="" type="checkbox"/>	147 000 <input checked="" type="checkbox"/>

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1.5 **Zuks wants to offer a free delivery service to clients within a certain km radius of the business.**

<p>Provide THREE points that he should consider before taking this decision.</p> <p>THREE valid points ✓✓ ✓✓ ✓✓</p> <p>The economy is moving into recession, cost of fuel is ever-increasing. Service and maintenance is expensive (the plan is for a limited period) Salary of the driver and the assistants must increase due to inflation each year. Building supplies is not purchased everyday – not sure if sales will increase. Impact on sales and profits</p>	<div style="border: 1px solid black; width: 30px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">6</div>
<p>What advice would you offer him? Provide ONE point.</p> <p>Valid answer ✓✓</p> <p>Building supplies is generally large items that must be delivered. He will receive more clients. He can increase his mark-up slightly to cover costs. He can implement on a trial basis and assess monthly. Provide other incentives for those using this service</p>	<div style="border: 1px solid black; width: 30px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">2</div>

PART B: INTERPRETATION OF FINANCIAL INFORMATION

2.1 **Sandy was concerned that the business may have to close down due to the high loan balance. Was she justified? Explain.**

<p>ONE point ✓✓</p> <p>The solvency ratio of 2,1 : 1 suggest that the business can pay of ALL its debts. She may be concerned that the loan is high (66% of the owners' equity)</p>	<div style="border: 1px solid black; width: 30px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">2</div>
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<p>Identify TWO steps she has taken to address her concern and provide a reason for each.</p> <p>Any TWO steps ✓✓ ✓✓</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 35%;">Decreased the loan</td> <td style="width: 35%;">to reduce the reliance on borrowed capital and to decrease interest payments.</td> <td style="width: 30%;"></td> </tr> <tr> <td>Decreased investments</td> <td>to possible address cash flow problems.</td> <td></td> </tr> <tr> <td>Decrease in current assets</td> <td>avoiding stock piling. Improving sales</td> <td></td> </tr> <tr> <td>Increase in current liabilities</td> <td>making use of short term finance. Better terms with creditors</td> <td></td> </tr> <tr> <td></td> <td>to improve cash flow problems in the short term.</td> <td></td> </tr> </table>	Decreased the loan	to reduce the reliance on borrowed capital and to decrease interest payments.		Decreased investments	to possible address cash flow problems.		Decrease in current assets	avoiding stock piling. Improving sales		Increase in current liabilities	making use of short term finance. Better terms with creditors			to improve cash flow problems in the short term.		<div style="border: 1px solid black; width: 30px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">4</div>
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<p>Comment on the solvency of the business.</p> <p>Total assets: 1 320 000 + 180 000 + 373 400 = 1 873 400 ✓☑ Total liabilities: 585 000 + 280 000 = 865 000 ✓☑ 2,1 : 1 ☑ Solvency has improved due to some the steps taken above. ✓✓</p>	<div style="border: 1px solid black; width: 30px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">7</div>
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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.**

<p>Gross profit % achieved: $\frac{(916\,880 - 628\,000)}{628\,000} \times 100 = 46\% \quad \checkmark \square$</p> <p>Any TWO reasons ✓ ✓</p> <p>Too much discounts offered; Goods sold below selling price (mark downs) Clearance sales of slow moving products Errors in calculations</p>	<div style="border: 1px solid black; width: 30px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">6</div>
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2.3

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

Current ratio: 373 400 ✓ : 280 000 ✓ 1,3 : 1 worse than the 1,8 : 1 last year ✓

Acid-test ratio 373 400 ✓ – 160 000 ✓ : 280 000 ✓ 0,8 : 1 worse than 1,1 : 1 last year ✓

Comment ✓✓

The liquidity ratios are not favourable. This trend suggest that the business will experience meeting short term debts in future. Some corrective measures taken by the business may leave to an improvement in the long run.

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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.

Return on equity:
$$\frac{109\,200 \checkmark}{\frac{1}{2} \checkmark (1\,008\,400 \checkmark + 940\,000 \checkmark)} \times 100 = 11,2\% \checkmark$$

974 200

Comment ✓✓

The improvement in returns was 0,2% more than last year (moved from 11% to 11,2%)

Alternative investments performed better last year (12%).

She needs to improve the performance of the business as interest on fixed deposits are also dropping. She is at least showing an upward trend.

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Provide TWO suggestions that she can use to improve her returns.

TWO suggestions ✓✓ ✓✓

Control expenses to increase net profit.

Reduce the mark-up to increase turnover, sell more stock.

Consider paying back the loan if interest is too high / or make better use of the loan to increase advertising/sales promotion.

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TOTAL MARKS :	100	
CONVERTED TO:	50	