GRADE 11 EXAMINATION
NOVEMBER 2007

ACCOUNTING PAPER II
MARKING GUIDELINES

Time: 2 hours 100 marks

The marking guide is a working document prepared for use by teachers as they assess the Grade 11 externally set examinations.

There may be different interpretations of the marking guidelines but the teacher should keep as closely as possible to the suggested way of assessing. When in doubt, a teacher should check with another member of the cluster or with the relevant Assessment Specialist.

QUESTION 1

PART A

1.1.1 2 – 20 partners ✓
Can attract more people with capital or skills
Risk is shared between more than one person (1)

1.1.2 Unlimited liability for debts ✓
Jointly and separately liable for debts
Lacks continuity (1)

1.1.3 Concern regarding loan

- Borrowed capital increases ; this could negatively affect the debt to equity ratio ✓✓
- Borrowed capital must be repaid
- Interest must be paid on the money borrowed
- Could have a negative effect on the liquidity of the business

Concern regarding additional investor

- Less say in the business ✓✓
- Decisions could take longer to implement as more people have to be consulted
- Could earn less profit and it would affect the profit sharing ratio (4)

PART B

1.2.1 **Assets:** (780 000 + 200 000 + 310 000 + 160 000 + 50 000) = R1 500 000 ✓✓✓
Liabilities: (380 000 + 200 000) = R580 000 ✓✓
Value of business: R920 000 ✓ (6)

1.2.2 Yes or No ✓ (1)

1.2.3 ✓✓✓ for the calculation (the amount should be greater than R920 000). Learners could value the land and buildings at a higher value as long as they refer to market trends and they could also value the equipment at a different value. Trading stock and debtors could also be valued at a lower value (due to obsolete stock or provision for bad debts being considered). Learners could also determine future profits as well as goodwill that could be lost.

✓✓✓ for explanation based on above. (6)

PART C

1.3.1 Earnings: R20 000 + 120 000 + 10 000 = R150 000 ✓
Average investment: (500 000 + 110 000) ÷ 2 = R305 000 ✓

150 000 ÷ 305 000 x 100 = 49,18% ✓✓ (4)

1.3.2 ✓✓✓✓ Dependent on their answer in 1.2.3. Geeling and Spencer should receive the same percentage as that is how it is at the moment. (4)

27 marks

QUESTION 2

PART A

2.1.1 Current assets excluding trading stock: (80 000 + 175 000) = R255 000 ✓✓
Current liabilities: R252 000 ✓

255 000 : 252 000
1,01 : 1 ✓ (4)

2.1.2 Worsened ✓

- Trading stock has increased by R36 000 ✓✓
- Creditors control has increased by R100 000 ✓✓
- Debtor control decreased by R20 000 (5)

2.1.3 No ✓

- Invest the money in a call account and earn interest ✓✓
- Invest a large portion of the money in shares in order to earn dividends and growth in value ✓✓
- Repay your own debt i.e. creditors – this will improve the liquidity position of the business. (5)

2.1.4
a.

- Discounts being offered (including the business having a sale) ✓✓
- Obsolete stock being sold off ✓✓
- Goods being incorrectly marked
- Theft (4)

b. Bad ✓

- Business in bad liquidity position and carrying too much stock does not benefit the business. ✓✓
- If stock does not sell, business could sit with too much stock on hand that could become obsolete. ✓✓
- Theft could happen with too much stock on hand. The business must ensure that they have a good stock control system in place. (5)

PART B

COS: (R150 000 ✓ + 556 200 ✓ + 21 000 ✓ – 186 000 ✓) = R541 200 ✓

GP: [(R1 021 200 ✓ – 541 200 ✓ = R480 000 ✓

Gross profit if no stock was stolen
1 021 200 ✓ x 100 ✓ ÷ 200 = R510 600 ✓
Stock stolen: R510 600 ✓ – 480 000
= R30 600 ✓

(13)

PART C

2.3.1 No, it is not ethical ✓
Reasons:
- Toys bought from a family member; one should not mix family and business ✓✓
- Goods bought at a low price but cannot return goods if they are unsuitable ✓✓
- The receiving of a gift for the order is not right
- Accept any other reasonable explanation (6)

2.3.2
- Bar coding system could be put in place with scanners imputing receipt and recording sale of goods ✓✓
- Spot checks on goods could be carried out as well as spot checks to check that goods are correctly priced ✓✓
- Use FIFO method to control stock to ensure that old stock is sold first before new stock is put on the shelf ✓✓
- Annual stock taking (6)

48 marks

QUESTION 3

3.1 Represents the point at which costs are covered by sales. The point at which no profit or loss is made. ✓✓✓ (3)

3.2 Fixed costs ÷ (SP per unit – VC per unit)

Fixed costs = R64 400 ✓
Selling price = R100 per unit ✓
Variable cost = (271 600 ÷ 5600) = R48,50 ✓✓✓

64 400 ÷ (100 – 48,50)
= 1 250,5 units (accept 1250 or 1251) ✓ (6)

3.3 Depreciation ✓
Insurance ✓
Salary for factory supervisor (2)

3.4 Direct raw material costs will increase ✓

196 000 ÷ 5600 = R35 ✓
R35 x 700 = R294 000 ✓✓ (4)

3.5
- Buy in bulk and try to negotiate a cheaper price. ✓✓
- Seek alternative suppliers. ✓✓ (4)

3.6 Income: (750 x 80) x 12 = R720 000
Manufacturing costs = R500 000
Profit = R260 000 ✓✓

I would not advise him to lock himself into the contract:

Reasons:

- Profit only increases by R36 000 for the year ✓✓
- If business gets into financial difficulty he could lose the contract ✓✓
- Reliant on payment and payment terms of Toys for All

I would advise him to lock himself into the contract

Reasons:

- Fixed monthly income
- Increase in profits
- Security for employees (6)

25 marks

Total: 100 marks