



**ACCOUNTING PAPER II**

Time: 2 hours

100 marks

**READ THE FOLLOWING INSTRUCTIONS CAREFULLY**

1. This paper consists of 8 pages. Please check that your question paper is complete.
2. Read the questions carefully.
3. There is a **separate** Answer Book. There is a clearly marked page for each answer.
4. It is in your own interest to write legibly and to present your work neatly.
5. You may **not** use green or red ink. **You may use a pencil, but please use a soft, dark pencil.**
6. The allocation of marks and the appropriate time to be taken for each question are as follows:

<b>Question 1: 27 marks; 32 minutes</b>	
<b>Learning outcome</b>	<b>Assessment Standards</b>
LO 1 – Financial information	<ul style="list-style-type: none"> <li>• AS 1 – Define and explain accounting concepts for a partnership.</li> <li>• AS 2 – Interpret the ledger accounts of a partnership.</li> <li>• AS 3 – Analyse transactions according to accounting equation.</li> <li>• AS 5 – Interpret financial information.</li> </ul>
<b>Question 2: 48 marks; 58 minutes</b>	
<b>Learning outcome</b>	<b>Assessment Standards</b>
LO 1 – Financial information LO 3 – Managing resources	<ul style="list-style-type: none"> <li>• AS 5 – Interpret financial information</li> <li>• AS 2 – Utilising periodic inventory systems</li> <li>• AS 3 – Identify and analyse ethical behaviour</li> <li>• AS 4 – Internal controls</li> </ul>
<b>Question 3: 25 marks; 30 minutes</b>	
<b>Learning outcome</b>	<b>Assessment Standards</b>
LO 2 – Managerial accounting	<ul style="list-style-type: none"> <li>• AS 2 – Apply costing principles</li> </ul>

**QUESTION 1**

This question consists of three parts.

**PART A****1.1 Required**

Read the information given below; then answer the questions that follow.

**Information**

K Geeling and K Spencer are partners in a clothing business, Hip and Happening. They have two branches at present, one in Claremont in Cape Town and the other in Rosebank in Johannesburg. They want to expand their business further and want to open a third branch in Durban at the Pavilion Mall. The cost to set up the new branch including shop fittings, equipment and stock will be R500 000. As the new branch will be in a shopping mall, the property will be rented and not bought by the partners. Geeling and Spencer do not have the cash themselves so they have two options available to them: one is to take out a loan and the other is to take on an additional partner.

**Questions to be answered**

- 1.1.1 Supply **one** advantage of a partnership as a form of ownership. (1)
- 1.1.2 Supply **one** disadvantage of a partnership as a form of ownership. (1)
- 1.1.3 In order to grow their business the partners will have to take out a loan or take on an additional partner. List **one** concern the partners would have for taking out an additional loan and **one** concern that the partners could have taking on an additional partner. (4)

**PART B**

1.2 Study the following information and then answer the questions that follow.

**Information**

The following information was extracted from the accounting records of Hip and Happening on 31 October 2007, the last day of the financial year:

	R
Capital: K Geeling	250 000
Capital: K Spencer	250 000
Current account: K Geeling	60 000
Current account: K Spencer	40 000
Land and buildings at cost:	
Claremont property	400 000
Rosebank property	380 000
Mortgage bond:	
Claremont property	180 000
Rosebank property	200 000
Equipment and shop fittings	350 000
Accumulated depreciation on equipment and shop fittings	150 000
Trading stock	310 000
Debtors control	160 000
Bank	50 000
Creditors control	200 000

**Questions to be answered**

- 1.2.1 Calculate the value of the business according to the accounting equation. (6)
- 1.2.2 Do you think the value calculated in 1.2.1 above is a realistic valuation for the business? (1)
- 1.2.3 At what price would you value the business? In your answer you must show a calculation and explain how you arrived at this amount. (6)

**PART C**

1.3 Study the following ledger account then answer the questions that follow.

**Information**

1. From the General ledger of Hip and Happening

**Appropriation account**

2007 Oct	31	Interest on capital	GJ	40 000	2007 Oct	31	Profit and loss	GJ	300 000
	31	Salary: Geeling	GJ	120 000					
	31	Salary: Spencer	GJ	120 000					
	31	Current account: Geeling	GJ	10 000					
	31	Current account: Spencer	GJ	10 000					
				<b>300 000</b>					<b>300 000</b>

2. From the Balance sheet on

	31 October 2007	31 October 2006
Capital: K Geeling	250 000	250 000
Capital: K Spencer	250 000	250 000
Current account: K Geeling	60 000	50 000
Current account: K Spencer	40 000	5 000(dr)

Answer the following questions.

1.3.1 Calculate the average return earned by K Geeling on her investment in the partnership for the year ended 31 October 2007. (4)

1.3.2 The additional investor in Hip and Happening intends investing R500 000 in the partnership. Referring to your calculation in 1.2.3 explain in what ratio the remaining profit should be shared for the financial year ended 31 October 2008. (4)

<b>27 marks</b>
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**QUESTION 2**

Laugh A Lot is a toy shop that is owned by Chippy Goldstein. The business sells a variety of low value toys and games and uses the **periodic inventory system** to control stock.

This question consists of three parts.

**PART A**

The following information was extracted from the accounting records of Laugh A Lot for the financial years ended 30 September 2007 and 30 September 2006.

**2.1 Required**

Study the given information then answer the questions that follow.

**Information**

30 September 2007		30 September 2006	
Current ratio	1,75 : 1	Current ratio	2,5 : 1
Acid test ratio	?	Acid test ratio	1,51 : 1
Trading stock	186 000	Trading stock	150 000
Debtors control	80 000	Debtors control	100 000
Bank	175 000	Bank	130 000
Creditors control	252 000	Creditors control	152 000

**Questions to be answered**

- 2.1.1 Calculate the acid test ratio for 2007. (4)
- 2.1.2 Has the liquidity position of the business improved or worsened from 2006 to 2007? Indicate in your answer two reasons for the improvement and/or worsening of the liquidity position. (5)
- 2.1.3 The business has a bank balance of R175 000 on 30 September 2007. Do you think it is wise to keep so much money in their current banking account? Suggest two alternatives that the business could investigate rather than keeping the R175 000 in their bank account. (5)
- 2.1.4 Laugh A Lot Traders adds a profit mark-up of 100% to all the goods they sell. The actual mark-up achieved for the financial year ended 30 September 2007 was 96%.
- (a) Supply two reasons for the intended mark-up of 100% not being achieved by the business. (4)
- (b) Trading stock has increased from R150 000 in 2006 to R186 000 in 2007. Is this good or bad for the business? Supply two reasons to substantiate your answer. (5)

**PART B**

2.2 A burglary took place on 22 September 2007 and as he does not keep detailed stock records, he has a problem in determining the value of the stock that has been stolen and determining the value of his claim against Oust Surance.

Help Chippie with this problem by calculating the value of the stock that has been stolen. (13)

**Information**

1. Laugh A Lot adds a profit mark-up of 100% to its cost price.
2. The following balances appeared in the books of the business on 30 September 2007, the last day of the financial year.

Trading stock (1 October 2006)	R150 000	Carriage on purchases	R21 000
Purchases	556 200	Carriage on sales	5 400
Sales	1 021 200	Trading stock (30 September 2007)	186 000

A burglary took place on 22 September 2007 and stock was stolen.

**PART C**

2.3 Read the following information carefully then answer the questions that follow.

**Information**

Henry Fenn is the buyer for Laugh A Lot. During the course of the year he bought a large consignment of toys from Monopo Toys. His cousin, Tarryn Shaw, is co-owner of Monopo Toys and she offered him the consignment at a very low price on the condition that he bought the goods in bulk and that he could not return any of the goods. In gratitude for the business Monopo Toys gave Henry Fenn a free weekend trip to Durban, all expenses paid.

Answer the following questions.

- 2.3.1 Is it ethical for Henry Fenn to have bought the consignment of toys from Monopo Toys? Explain the consequence of Henry's actions and the effects this could have on Laugh A Lot Toys. (6)
- 2.3.2 Laugh A Lot uses the periodic inventory method to record stock in the business. By using this method of stock control it is often difficult to control stock. Explain what measures should be put in place to ensure effective control over stock in the business. (6)

<b>48 marks</b>
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**QUESTION 3**

Crazy Clowns is a manufacturing business owned by Chris Williams. The business manufactures clown mobiles. The following costs are applicable to the manufacture of clown mobiles for the year ended 31 October 2007:

**Direct raw material costs = R196 000:**

- Fabric, R116 000
- Filling, R72 000
- Wool, R3 200
- Buttons, bells, etc., R4 800

**Indirect raw materials = R5 000****Labour costs = R103 200:**

- Persons involved in the production process, R75 600 (consisting of three labourers who each earn R2 100 per month)
- Factory supervisor, R27 600

**Manufacturing overheads = R31 800:**

- Water and electricity, R6 800
- Rates and taxes, R5 200
- Depreciation, R7 000
- Insurance, R8 000
- Cleaning and sundry expenses, R4 800

Total manufacturing costs amounted to R336 000 and during the financial year 5 600 units were produced. Total profit for the year amounted to R224 000.

**Total fixed costs amounted to R64 400 and total variable costs amounted to R271 600.**

Crazy Clowns supplies 300 units a month to Toys for All at R100 per unit. Toys for All have offered Crazy Clowns an exclusive contract to provide them with 750 clowns per month at R80 per unit as from 1 November 2007.

**Questions to be answered**

- 3.1 One of Chris's employees has asked him how many units must be produced in order for the business to break even. Chris did not have an answer for his employee as he did not understand what break-even was. Explain to Chris what break even means. (3)
- 3.2 Calculate the number of units Chris has to produce for the year ending 30 November 2007 in order to break even. (6)
- 3.3 Identify two costs that would not change if production increases to 700 units per month as from 1 November 2007. (2)
- 3.4 Briefly explain what would happen to the direct raw material costs if production is increased to 700 units per month. Show a calculation to substantiate your explanation. (4)

- 3.5 List two measures that Chris Williams could put in place to ensure that the cost of his raw materials do not increase in the next financial year. (4)
- 3.6 Total manufacturing costs will increase to R500 000 for the financial year ended 30 November 2008 for the production of 9 000 units in the next financial year.

Chris is not sure if he will benefit financially from locking himself into a contract to produce clowns exclusively for Toys for All. Advise Chris if he should lock himself into a contract to produce exclusively for Toys for All. (6)

<b>25 marks</b>
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**Total: 100 marks**