

EXAMINATIONS COUNCIL OF ESWATINI

EPCSE

EXAMINATION REPORT

FOR

BUSINESS ACCOUNTING (5921)

YEAR

2022

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EPCSE Business Accounting**5921/02****General Comments**

This paper comprised of five questions drawn from the syllabus. In Section A there were two questions each of which consisted of short answer questions marked out of 40 marks and section B consisted of three structured questions marked out of 60 marks. All questions in this paper were compulsory and the paper was written in two hours.

The overall performance of candidates in this examination was extremely poor with some candidates obtaining very low marks yet they had attempted all questions. The performance suggested that the candidates were not adequately prepared for the examination. This was evident because even in recall type of questions such as 1(a), 1(c) and 2(a), the candidates rarely obtained maximum marks. Some candidates lost marks because of the choice of words they used in their responses. For example, in question 1(a) some candidates stated that operating as a sole trader makes decision making to be easy instead of stating that it would be quick. This is disputable as individual decisions might be difficult to make as one might still need to make a cost benefit analysis.

It was noted that in question 2(d)(ii) and 4(c) candidates failed to pay attention to rubrics as they suggested ways of improving working capital, yet they were required to suggest ways of improving cash flow. In the latter question candidates stated effects of the errors on the income statement yet they were required to state the effects of the errors on the statement of financial position.

In question 3(b)(i) some candidates prepared current accounts within a statement of financial position, yet the question was clear that the accounts were supposed to be presented as separate accounts or in columnar format. It is therefore disturbing how the candidates prepared a statement of financial position extract showing the current accounts within it.

Comments on specific questions

Question 1

- (a) In this question candidates were required to state advantages of operating as a sole trader. Most candidates gave the correct advantages of operating as a sole trader. However, some of those who were not able to score maximum marks on this part stated that decision making is easy. This is inappropriate as there is no guarantee that decisions made as an individual are easy to make. The sole trader might still need to consider the costs and benefits of different options before reaching a final conclusion and therefore it is debatable whether it is easy. The fact that there are normally no consultations required does not make it easy but rather makes it quick. Some of the expected responses were: entitled to all business profit, easy to set up, few regulations about accounting records, may be able to plan their own hours of work, no risk of disagreements with co-owners, decision making may be quick.
- (b) This question required candidates to state reasons why it is important for a trader to prepare financial statements. A majority of the candidates obtained half of the marks allocated for this part. The most stated reason for Ayentiwe to prepare financial statements was to determine the business profit or loss for the year. They rarely mentioned other correct responses such as to determine the financial position at the end of each year, to assist in decision making, used as a basis for calculating ratios, to assist in planning for the future, to determine if remedial action is required. Some candidates could not obtain all the marks as they repeated the same point by stating that financial statements were used to determine whether a business makes profit or loss and stating that they are used to determine financial performance. It should be noted that financial performance is same as measuring profitability.
- (c) This question was generally well attempted by most candidates. Most of the candidates were able to name the business entity principle as the principle that requires a distinction to be made between the financial transactions of a business and those of the owner. Those who were not able to obtain the mark allocated for this question gave money measurement as their response. Candidates should be familiar with all accounting principles in the syllabus and be able to apply them in different cases.
- (d) In this question candidates were required to state conditions for financial statements to be regarded as reliable. This question was poorly done, with some candidates not obtaining even a single mark. Instead of stating the conditions for financial statements to be regarded as reliable, most candidates listed the other objectives of selecting accounting policies such as relevance, comparability and understandability.

The expected responses were: capable of being depended upon, capable of being independently verified, free from material error, free from bias and prepared with suitable caution applied to any judgments and estimates.

- (e) This question required candidates to complete a table to state the value of each item after given transactions had taken place. The question was generally well done by most candidates. Common errors were on the calculation of cash at bank and the amount for trade receivables. For cash at bank some candidates only subtracted E1000 for repayment of the loan from Big Finance and forgot to add the cheque of E 4400 received from M. Motsa.

For the trade receivables amount, instead of subtracting E4400 from the trade receivables balance on 1 July 2022, some candidates added it which is incorrect because when a cheque is received from a trade receivable, the balance owed by the trade receivable decreases.

Expected responses:

Item	Calculation	Amount E
Capital	$31\,500 - 700$	30 800
Inventory	$7\,000 - 700$	6 300
Trade payables		11 000
Trade receivables	$17\,000 - 4\,400$	12 600
Cash at bank	$8\,000 + 4\,400 - 1\,000$	11 400
Loan from Big Finance	$6\,000 - 1\,000$	5 000

- (f) This question was challenging to most candidates as they rarely obtained any mark on this part. Instead of suggesting reasons why it was important for Ayentiwe to apply the consistency principle when preparing financial statements, some candidates gave the general explanation of the consistency principle which was not the requirement of the question. Educators are encouraged to familiarise candidates with high order questions as they are always part of their examination.

Expected responses:

To enable the financial statements to be compared with those of previous years, to enable ratios to be compared with those of previous years and to ensure that the profit is not distorted.

Question 2

- (a) In this question candidates were required to complete a table by placing a tick (✓) to indicate whether given items would be debited or credited in a purchases ledger control account. They were also required to name the source of information for each item. Most candidates failed to obtain all the marks in this question. Those who scored marks obtained marks from the first part of the question where they were required to place a tick. They failed to name the correct source of information for each of the purchases ledger control items. Some candidates named source documents as the source of information for preparing a purchases ledger control account yet information to prepare control accounts is taken from subsidiary books. It is neither taken from source documents nor the ledger.

Expected responses:

	Entry in purchases ledger control account		Source of information
	Debit	Credit	
Cheques paid to suppliers	✓		Cash book
Contra entry to sales ledger account	✓		General journal
Interest charged by supplier on overdue account		✓	General journal

- (b) (i) This question required candidates to calculate the bank balance on 1 September 2022. They were given the bank balance on 1 August 2022 which was overdrawn and transactions that occurred during the month of August 2022. Most candidates calculated the correct bank balance for Takhona's business. Those who failed to obtain full marks reversed some of the entries. Instead of crediting the cheque paid for rent they were debiting it. Some candidates were not recording all the items given on the question, yet they all affected the bank balance. It should be noted that candidates should have prepared a bank account or used simple addition and subtraction of the entries as shown below.

Opening overdraft E42 568 + rent paid E5 500 – cheque received from Mancoba – interest received – refund from Mavela = Closing overdraft E36 068

(ii) In this part question, candidates were supposed to use their answer in (b)(i) to state whether Takhona's bank balance on 1 September 2022 was a debit balance or credit balance. The common mistake was that candidates failed to link their responses to their answer to (b)(i) thus losing the mark. It was necessary that the candidates interpret their own balance in part (b)(i) to earn the mark.

- (c) (i) In this question candidates were expected to interpret entries from a given capital account and state the double entry for each transaction. Most correct responses were on 1 October 2021 and 30 September 2022. For the entry on 1 October 2021 they were able to explain that this is the amount of capital Takhona had at the beginning of the current financial year. However, some candidates explained this as the amount that Takhona used to start her business which is incorrect because the fact that Takhona's capital account had a balance brought down on that date is enough to inform us that this business had been operating even in the previous financial period. Other candidates used the given word balance in their explanation which is not acceptable.

For the entry on 1 January 2022 most candidates stated that Takhona bought a motor vehicle which is inappropriate. On this date Takhona introduced her personal motor vehicle for business use.

In the entry on 30 September candidates stated that Takhona took goods for private use or money for private use. Even though they were not penalised for this response it should be noted that the most appropriate response is Takhona took value amounting to E7500 for personal use. This is because we cannot be sure whether Takhona took money, goods or both on that particular date.

Surprisingly, even those who correctly explained the entries failed to state the double entry for each transaction yet double entry is the most basic topic applied in accounting.

Expected responses:

2021

Oct 1 debit side of capital account of previous financial period

2022

Jan 1 debit side of motor vehicle account

Sept 30 credit side of drawings account

(ii) In this question candidates were required to explain why it is not satisfactory to measure profit by changes in capital. Most candidates failed to obtain any mark on this part. Those who obtained a mark stated the reason without adequate explanation. They stated that only an estimated figure of profit would be available without substantiating that. The reason was supposed to be explained to obtain full marks. The expected response was:

This method provides only an estimated profit figure.

Either no details will be available of the gross profit, sales, purchases and expenses

Or informed decisions cannot be made as there will be lack of information

Or as an analysis of results will not be available.

(d) (i) This question was generally well done by most candidates. They stated that cash flow is the inflow and outflow of cash during a specific period. Candidates who failed to earn the mark allocated for this part stated that cash flow is money available in the business, which is incorrect. Other candidates stated the meaning of a cash flow statement which was not a requirement of the question.

(ii) This question required candidates to suggest ways in which Takhona could improve her cash flow. Most responses given by candidates were incomplete. They suggested ways such as selling non-current assets or reducing drawings. These responses are incomplete because drawings could be of inventory and that would not improve cash flow. On the same note, non-current assets could be sold on credit which cannot improve cash flow. It was necessary to mention that the non-current assets should be sold for cash to make the response qualify as a method to improve cash flow. Other candidates suggested ways of

increasing profit such as increasing selling prices and buying from cheaper suppliers. They were only awarded a mark for the first point which was in line with increasing profit and the other points were regarded as repetition. Other expected responses included; introduction of further capital in cash or by cheque, obtaining long-term loans, delaying purchasing non-current assets, increasing profit, delaying payment to suppliers, increasing proportion of cash sales, encourage trade receivables to pay quicker.

Question 3

- (a) **In this question** candidates were required to state the differences between a trading business and service business. Candidates who were not able to score all the marks gave negative responses such as trading business sells goods while service business does not. In this response they were supposed to clearly state what a service business sells or provides services than just merely highlighting that it does not sell goods. That is a negative answer which is not acceptable. Some candidates could not properly present their differences as they wrote a feature which is true for trading business in the first point without mentioning anything about a service business. In the space provided for the second difference they wrote a feature which is true for service business. This is not a proper way of stating differences. A comparison between the two businesses was supposed to be made at each point to obtain marks.

Expected responses:

A trading business sells goods to customers while a service business provides a service to customers.

In a trading business inventory is held while in a service business no inventory is held.

A trading account is part of the financial statements of a trading business while in a service business there is no trading account.

- (b) (i) This question required candidates to prepare current accounts for Mayenzi and Abongwe for the year ended 30 September 2022. The accounts were supposed to be presented as separate accounts or in columnar format. This question was poorly answered by most candidates as some prepared a statement of financial position extract showing the current accounts within the statement. They did not obtain any mark as this was not the requirement of the question.

Those who prepared current accounts as per the requirement of the question did not calculate the share of losses for each partner. Other candidates calculated the share of losses from the partially completed appropriation account but entered the losses on the wrong sides of the current accounts. Other candidates included aliens such as the capital account balances within the current accounts which is unacceptable. Dates continue to be a problem for some candidates as there were some candidates who did not write dates. They also did not bring down the current account balances on 1 October 2022, yet this was clearly stated in the question.

Expected responses:

Mayenzi Current account					
2022		E	2021		E
Sept 30	Drawings	4500	Oct 1	Balance b/d	600
	Interest on drawings	90	2022		
	Share of loss	1620	Sept 30	Interest on capital	2160
Sept 30	Balance c/d	1950			
		9450			9450
			Oct 1	Balance b/d	1950

Abongwe Current account					
2021		E	2022		E
Oct 1	Balance b/d	2250	Sept 30	Interest on capital	1440
2022				Salary	7500
Sept 30	Drawings	6000	Sept 30	Balance c/d	510
	Interest on drawings	120			
	Share of loss	1080			
		9450			9450
Oct 1	Balance b/d	510			

OR

Current accounts							
		Mayenzi	Abongwe			Mayenzi	Abongwe
2021 Oct 1	Balance b/d	-	2250	2021 Oct 1	Balance b/d	6000	-
2022 Sept 30	Interest on drawings	90	120	2022 Sept 30	Interest on capital	2160	1440
Sept 30	Share of loss	1620	1080	Sept 30	Salary	-	7500
Sept 30	Balance c/d	1950		Sept 30	Balance c/d		510
		8160	9450			8160	9450
Oct 1	Balance b/d		510	Oct 1	Balance b/d	1950	

(ii) In this question candidates were required to state the meaning of Mayenzi and Abongwe's current accounts balances on 1 October 2021. Most candidates were not able to obtain all the marks allocated for this part. Some candidates' responses were the opposite of the expected answer. Instead of stating that Mayenzi's balance represents the amount owed by the business to Mayenzi they stated that Mayenzi owed the business and Abongwe is owed by the business. Some candidates used terms that are not normally used to interpret current account balances such as favourable and unfavourable commonly used to refer to a bank account with debit balance and an overdraft. Other candidates interpreted the balances on 1 October 2022 which was not the requirement of the question. They interpreted the closing balances of the current accounts they prepared in (b)(i) which was not required. The expected responses were:

Mayenzi - the amount owed to Mayenzi by the business.

Abongwe - the amount owed by Abongwe to the business.

(b) This question required the candidates to calculate, correct to two decimal places, the partnership business' return on capital employed on 30 September 2022. Most of the candidates were not able to calculate the correct return on capital employed. For the capital employed they either used the capital

account balances or the current account balances from (b)(i) yet they were supposed to sum up the capital accounts and current accounts balances. Some candidates did not show their final answers correct to two decimal places. Educators are encouraged to emphasise the importance of paying attention to rubrics specific to each question.

Expected response:

$$\begin{aligned} \text{Return on capital employed} &= \frac{\text{Profit for the year} \times 100}{\text{Capital employed}} \\ &= \frac{\text{E}8190 \times 100}{\text{E}54\,000 + \text{E}36\,000 + \text{E}1\,950 - \text{E}510} \\ &= \frac{\text{E}8\,190 \times 100}{\text{E}91\,440} = 8.96\% \end{aligned}$$

- (c) In this question candidates were required to suggest reasons why the return on capital employed is important to Mayenzi and Abongwe. The question was poorly done by most candidates. They gave incorrect responses such as to measure the capital used for every E100 of profit which is not true. Some candidates were talking about return on inventory turnover in their responses, yet inventory turnover was not part of the question. The analysis and interpretation of financial statements is seemingly challenging to most candidates. Educators are encouraged to adequately cover this topic.

Expected responses:

- To measure the profit earned for every E100 used in the business.
- To know if the profit generated from the funds used is adequate.
- To check that funds are being used effectively.
- To check if corrective measures are needed to improve the return.
- To be able to compare with the return from alternative investments.

- (d) In this question candidates were required to suggest ways in which Mayenzi and Abongwe could increase the return on capital employed. Performance on this question was average. The most suggested way of improving the return on capital employed was increasing profit. Some candidates were repeating this point as they suggested increasing selling prices or reducing expenses. The question was not entirely about the ways of improving profit, but it was on ways of improving return on capital employed. Other expected responses were; reducing capital employed and using resources more efficiently.

Question 4

- (a) In this question candidates were required to state reasons why a suspense account is useful. Very few candidates obtained maximum marks. Common incorrect responses included; to correct errors, to locate errors, to record errors. All these responses are inappropriate as the suspense account is not used to correct errors. The expected answers were: to make the totals of the trial balance to agree, it enables draft financial statements to be prepared and it acts as a holding account until the errors are found.
- (b) In this question most, candidates failed to correct the errors by means of journal entries. In the first error which was of complete reversal, most candidates had correct entries with wrong amount. The rent account was debited, and bank account credited with E300 instead of E600.

In the second error entries for most candidates showed either E850 or E750. Some candidates who wrote the correct amount which was E100 debited bank and credited Mandla thus losing marks.

The third error was also a challenge to some candidates. They made an entry in the sales returns account instead of returns outwards account. Some debited Nqaba and credited the returns outwards account. Other candidates recorded either E356 or E536 instead of E180. In fourth error some candidates wrote discount without specifying whether they were referring to discount allowed or discount received account. Most candidates debited discount received and credited discount allowed while some debited discount allowed and credited discount received and only obtained one mark.

The last error was also poorly done. Some candidates failed to realise that it affected the suspense account as they debited the bank and credited sales.

Expected response:

Thembeka General journal			
		Debit E	Credit E
1	Rent Bank	600	600
2	Mandla Suspense	100	100
3	Returns outwards Nqaba	180	180
4	Discount allowed Discount received Suspense	70 70	140
5	Suspense Sales	800	800

- (c) Performance was not pleasing in this part of the question as the candidates stated the effects of the errors on the income statement, yet the question required them to state effects of the errors on statement of financial position. Their responses referred to items of the income statement such as purchases, purchases returns, discount allowed, discount received yet these are not statement of financial position items.

Expected responses:

Error 2: current liabilities were overstated by E600

Error 3: capital overstated by E180

current liabilities understated by E180

Error 4: capital overstated by E140

- (d) In this question, candidates were expected to prepare a statement to calculate Thembeka's profit after the correction of errors 1-5. This is another question which was poorly done by most candidates. Some candidates did not attempt this question at all. Those who attempted the question included items that do not affect the calculation of profit for the year like the cheque paid to Mandla. Even those who included the correct items like rent, discount allowed, and discount received recorded the wrong amounts. Some candidates added items that were supposed to be subtracted and subtracted items that were supposed to be added. The item which was most recorded correctly was the cash sales directly deposited.

Expected response:

Thembeka Statement of corrected profit for the year ended 31 July 2022			
	E	E	E
Draft profit for the year			15 810
Add: sales			800
			16 610
Less : Discount allowed		70	
Rent paid		600	
Discount received		70	
Returns outwards		180	(920)
Corrected profit for the year			15 690

Question 5

In this question candidates were required to state the meaning of the term non-current liabilities. Those who were not able to score any mark on this question gave incomplete responses like 'debts of the business payable over a long period of time'. The long period of time should be qualified to make the response complete. The expected response was: Amounts owed which are not due for repayment within the next twelve months.

- (a) The performance of candidates on this part of the question was not good. To calculate the capital owned from the given data, some candidates added the profit for the year to the capital without subtracting the drawings while others only subtracted the drawings without adding the profit for the year. There were other candidates who did not include the capital in their calculations, yet the question required them to calculate capital owned.

Expected response:

Capital E63000 + Profit for the year E17 000 – Drawings E8 000 = E72 000

- (b) In this question candidates were required to complete a table to indicate the effect of each transaction on Vusimuzi's current ratio. They were also required to give a reason in each case. This part was poorly done by most candidates. Most candidates obtained marks indicating the effect of each transaction on the current ratio. They failed to give the reason for the effect on the current ratio, yet an example was given.

For the transaction where a credit customer paid E800 by cheque some candidates indicated that the effect on the current ratio was an increase while others indicated that it would be a decrease. This is incorrect because even though the bank balance has increased, this is offset by the decrease in trade receivables which are also a current asset.

In the transaction where a credit supplier was paid E900 by cheque in full settlement of a debt of E910, candidates indicated that there was no effect on the current ratio while others indicated that there was a decrease. This is inappropriate since the decrease in trade payables exceeded the decrease in bank balance therefore the overall effect will be an increase in the current ratio.

When a short-term loan of E15 000 was obtained from a bank, candidates indicated that there would be no effect on the current ratio yet there would be a decrease because the current liabilities increased in greater proportion to the current assets. Candidates were supposed to be cognisant of the fact that a short-term loan is repaid with interest.

Expected responses:

Transaction	Effect on the current ratio			Reason
	increase	Decrease	No effect	
A credit customer paid E800 by cheque			✓	Current assets will not change because trade receivables decrease, and the bank balance increases by the same amount
Paid a credit customer, E900, by cheque, in full settlement of a debt of E910	✓			Decrease in current liabilities exceeds decrease in current assets
Obtained a short-term loan of E15 000		✓		Current assets and current liabilities increase by same amount, but the liabilities increase by a greater proportion

**EPCSE Business Accounting
Paper 3 - Practical Paper**

Key Points to Note

Centres were given two similar projects to be evenly distributed to candidates. Both projects were on partnership businesses. The paper is comprised of **three** stages. Candidates were required to answer **all** the questions. Stage 1, candidates mainly were required to explain accounting records each trader would use, justify the use of the record and name the source of information for each record. Candidates doing Project A were also required to explain two advantages and two disadvantages of a partnership business while those doing Project B, were further required to answer questions which required them to give documents that can be exchanged in business but not recorded; and to explain the importance of drawing a partnership agreement.

Stage 2, candidates were required to record information from given source documents in the correct subsidiary books, post to the ledger, close accounts, prepare the reconciliation statement and trial balance, prepare financial statements.

Stage 3, candidates were asked to calculate profitability and liquidity ratios, interpret them, recommend/comment or advise the business owner.

The overall performance of the candidates was somehow below average. The 2022 cohort was weak as some candidates failed to post entries correctly from subsidiary books to the ledger hence, transferring wrong figures to the trial balance, financial statements and when calculating ratios.

Centres are, however, advised to ensure that candidates pay attention to detail as some in Project A, ignored the instruction and gave a list of advantages instead of the stipulated number. It was also disappointing that some candidates scored low marks in stage 1 yet on the question paper candidates were instructed to proceed to stage 2 after their teachers' approval. Centres are urged.

to familiarise themselves with the rubrics of all the stages for proper guidance of their candidates and to avoid unnecessary loss of marks.

The performance of the candidates in stage 2 was generally good. Most candidates were able to record transactions from source documents to subsidiary books. However, some ignored cash discounts in the cash book and failed to close accounts in preparation for financial statements. Some would use untraceable figures when preparing the trial balance, hence lost marks.

In stage 3, most candidates were able to calculate the expected ratios but did not do well on the interpretations, comments and giving of advice for the future.

Comments on Specific Questions

Stage One

Task One

All candidates were to give the records the businesses will use to record their transactions, justify the use of the record and name the source of information for each record.

This question was fairly done as the majority were able to identify quite a number of records especially the subsidiary books. However, some left out the different types of the ledger and some candidates were very economical with words just wrote, cash book, journal and ledger not specifying the types of journals or of the ledger. Thus, the candidates lost marks.

Expected response:

1. **Three Column Cash Book**

To record all monies received and paid by cash

To record all monies received and paid through the bank

To make a note of any discount allowed and received

Sources of information: Paying in book counterfoils/ duplicate deposit slips

Cheques/cheque counterfoils

Receipts/ cash slips

Bank statements

2. **Purchases Journal**

To record all goods purchased on credit

Sources of information: Invoices received

3. **Returns Outward Journal**

To record all goods purchased on credit which were returned to the supplier

Sources of information: Credit notes received

4. Sales Journal

To record all goods sold on credit

Sources of information: Copy of invoices issued

5. Returns Inward Journal

To record all goods sold on credit which were returned by the customer

Sources of information: Copy of credit notes issued

6. General Journal

To record all transactions not recorded in any other subsidiary book

To prepare the partnership opening journal entries

Sources of information: Invoices received for the purchase of non-current assets on credit

Invoices issued for the sale of non-current assets on credit

Invoices received for expenses incurred on credit

Information provided by the owner(s) where no document is issued/ provided

7. Purchases Ledger

To record credit suppliers' accounts

Sources of information: Purchases journal

Returns outward journal

Cash book

General journal

8. Sales Ledger

To record all credit customers' accounts

Sources of information: Sales journal

Returns inward journal

Cash book

General journal

9. General Ledger

To record all other accounts apart from credit customers and credit suppliers (i.e. assets, liabilities, drawings, revenue, expenses, costs, other income)

Sources of information: Cash book
Purchases journal
Returns outward journal
Sales journal
Returns inward journal
General journal

Project A additional question

1. Candidates were required to give two advantages and two disadvantages of partnership rather than as sole traders. The question was well answered by the majority. However, some candidates failed to clearly give correct answers.

Expected responses.Advantages of trading as a partnership

Additional finance
Share losses
Share responsibilities and workload
Discussions can take place before decisions are taken
Additional knowledge and expertise are available

Disadvantages of trading as a partnership

Share profits
Disagreements may occur
Decisions may take longer to put into effect
Decisions have to be recognised by all partners
All partners are responsible for the debts of the business

Project B additional questions

- B. Candidates were required to give business source documents that may be exchanged but not entered in the accounting records.

Documents not entered in the Accounting records**1. Debit notes received**

Requests from customers for reduction in invoice for returns, overcharge etc. This transaction can only be recorded when the request has been accepted and a credit note issued.

2. Debit notes issued

Requests to suppliers for reduction in invoice for returns, overcharge etc. This transaction can only be recorded when the request has been accepted and a credit note received.

3. Statements of account received

A summary of customers' accounts in each supplier's ledger. Act as a request/reminder of payment due. Act as a check on the supplier's account in the customer's ledger. No transaction has taken place, so no entry is required.

4. Statements of account issued

A summary of customer's account in each supplier's ledger. Act as a request/reminder of payment due. Act as a check on the supplier's account in the customer's ledger. No transaction has taken place, so no entry is required.

- C. This question required to explain the importance of drawing up a partnership agreement. The question was fairly done as a majority of candidates were able to give the correct document but failed to explain its importance. The correct answer was: The partnership agreement serves as a guide on how the business is operated as it contains the partnership rules hence help eliminate unnecessary conflicts among partners.

Stage 2

Candidates were given information relating to the business and source documents to record in subsidiary books, post to the different types of ledgers, prepare a reconciliation statement and a trial balance, prepare an income statement and statement of financial position.

General journal

A majority of candidates were able to prepare an opening journal correctly but there were those who failed to calculate the opening inventory correctly. Some candidates prepared the opening statement like a trial balance, hence lost marks. A majority of candidates did not demonstrate that the calculation of capital was for a partnership business. Only one capital figure was presented instead of two. Centres are reminded that for every journal entry, the account to be debited is entered first, in this case since there were a number of items to be debited, they were supposed to be all listed first then the accounts to credited.

Wrong responses included the following: Example from Project A

Wrong response example

General Journal

2022		E	E
March 1	Fittings and equipment	60 000	
	Loan Sipho		250 000
	Inventory	115 160	
	Cash	4 840	
	Capital: Siboniso		190 000
	Senteni		190 000
	Bank	<u>450 000</u>	
		<u>630 000</u>	<u>630 000</u>

Note that no marks were allocated for this journal entry on March 1 because the principle of showing debit entry first was not followed, the loan and bank accounts were misplaced.

Project A, a majority of candidates only had only the opening journal entry in the general journal and left out the transactions on March 31 for an item taken from goods for resale to be used in the business and another for a motor van introduced by a partner as capital on April 1.

For project B, candidates failed to record the irrecoverable bad debt written off and the motor vehicle purchased on credit in the general journal.

Project A

Expected response:

General Journal

2022		E	E
March 1	Fittings and equipment	60 000	
	Inventory	115 160	
	Cash	4 840	
	Bank	450 000	
	Loan Sipho		250 000
	Capital: Siboniso		190 000
	Senteni		<u>190 000</u>
		<u>630 000</u>	<u>630 000</u>
March 31	Fittings and equipment	7 200	
	Purchases		7 200
	Item taken from goods for resale for use in the business		
April 1	Motor van	100 000	
	Capital Siboniso		100 000
	Motor van introduced into the business by partner		

A majority of the candidates did not have any other journal entry except the opening journal entry. Purchases journal, Purchases returns journal, Sales journal, Sales returns journal and Cash book. A majority of the candidates performed well in these subsidiary books showing entries and totals transferred to the general ledger for each month, but there were cases where they included a laptop taken for office use and motor vehicle purchased on credit. The motor vehicle purchased on credit was incorrectly recorded in the purchases journal this error increased the purchases figure and the cost of sales hence reducing the gross profit and profit for the year. There were also some candidates who had a challenge with the recording of the discount amounts in the cash book as they were either omitted or wrongly calculated. This error affected the totals posted to the ledger.

The Ledger

This book is divided into three types. It was noted that a majority of candidates did not classify the ledger into either sales ledger, purchases ledger or the general ledger. The presentation of accounts was not good as accounts supposed to be recorded in the general ledger were sometimes mixed with either sales or purchases ledger accounts. Centres are urged to ensure that each type of ledger is distinctly displayed, and the correct accounts are recorded under each.

General ledger

The majority of candidates were able to post entries from subsidiary books to this type of ledger. However, quite a number of candidates lost a lot of marks because they did not transfer correct amounts from subsidiary books, further, when closing nominal accounts, amounts transferred to the income statement at the end of the three months trading period were usually not shown or presented as balances. Also, the candidates failed to show profit and drawings in the partners' capital accounts at the end of the three months trading period. Candidates used one capital account for both partners instead of two clearly labelled partners' names.

Project A correct capital accounts

Siboniso Capital account

2021		E	2021		E
Aug 31	Balance	293 817	June 1	Balance	190 000
	c/d		July 1	Motor van	100 000
		<u> </u>	Aug 30	Profit	<u> 3 817</u>
		<u>293 817</u>	Sept 1	Balance b/d	<u>293 817</u>
					293 817

Senteni Capital account

2021		E	20 21		E
Aug 31	Balance	193 817	June 1	Balance	190 000
	c/d	<u> </u>	Aug 31	Profit	<u> 3 817</u>
		<u>193 187</u>	Sept 1	Balance b/d	<u>193 817</u>
					193 817

Purchases ledger and Sales ledger

This part was done well by a majority as they identified personal accounts to be entered in each book. However, there were cases where some ignored the recording of the opening balances and failure to post discount received/allowed amounts from the cash book to the supplier's account. This omission resulted in the wrong personal accounts balances and ultimately affecting trade payables account or trade receivables account.

Bank reconciliation statement

This part was well done by a majority of candidates. But there were cases where some did not earn all the marks even after identifying correctly cheques not yet credited and cheques not yet presented, because they changed the balance as per the bank statement. It is however, advisable that candidates always start with the balance from the given bank statement and work to derive the balance as per the cash book. This will confirm whether the cash book balance is correct or not.

Trial balance

Most candidates performed satisfactory with the preparation of a trial balance. However, some ignored amounts from their ledger accounts and used untraceable amounts. This failed to earn marks as a trial balance is extracted from ledger balances.

Financial statements

The preparation of an income statement and statement of financial position was fairly done. Candidates were able to prepare financial statements using the correct presentation. However, it was noted that some used figures which were different from those in the trial balance. Hence their records lacked consistency as figures kept on changing that is, an item would have a different figure in the ledger, a different figure in the trial balance and a different one used for financial statements. This resulted in the loss of marks and further affected the calculation of ratios. A majority showed only one combined capital account for both partners.

Stage 3**Calculation of accounting ratios**

A majority of candidates performed well in this part, but some candidates showed their final answers leaving out the working. Hence, lost marks as some were allocated for the working. It was also noted that some candidates used wrong figures ignoring the ones from their income statement and statement of financial position. Centres are urged to train candidates to use their own figures as they unnecessarily lose marks by introducing new figures where they were supposed to transfer it from their previously prepared part question.

Interpretation of accounting ratios

Most candidates performed fairly well because they were able to interpret correctly according to the figures they calculated. However, there were some candidates whose interpretations were not relevant to the calculated ratios.

Recommendations, comments or advice

This part was poorly done by the majority of the candidates. Most candidates wrote general comments and did not relate to the business in question. In fact, some candidates just wrote comments which did not relate to their businesses.

Centres are advised to train their candidates to have at least two general comments, these can include:

- the accounts are only for three months; the owner must prepare financial statements at the end of the year for
- Compare results with those of similar businesses.
- Take steps to ensure funds being used effectively

For an old business may include - compare results with previous years' results to determine the trends. After these general comments or recommendations, candidates should present comments that relate to their businesses; for example, if the trade receivables figure is too high, the advice could be consider creating the provision for doubtful debt account or encourage them to pay on time **if** there are signs of delayed payments. Candidates were expected to comment on all aspects affecting the business profitability and liquidity.

An example from Project A

Calculation of Ratios

1	Gross Margin	$\frac{75\,420 \times 100}{442\,754}$	17.03%
2	Profit Margin	$\frac{7\,634 \times 100}{442\,754}$	1.72%
3	Rate of inventory turnover	$\frac{367\,334}{(115\,160 + 220\,083)/2}$	2.19 times
4	Current ratio	707 979 : 133 395	5.31 : 1
5	Quick ratio	(707 979 – 220 083) : 133 395	3.66 : 1
6	Return on capital employed (opening)	$\frac{7\,634 + 1\,875 \times 100}{630\,000}$	1.51%

Interpretation, Comments on Ratios

General Point The ratios are calculated after three months' trading

Compare results with those of similar businesses

Take steps to ensure funds being used effectively

Gross margin	Appears to be a rather low (possibly a result of selling a number of low-value items with only a low margin) Need to compare with similar businesses
Profit margin	Very low Need to compare with similar businesses. Largest expenses relate to motor vehicle and discount allowed (apart from rent which is a necessity)
Rate of inventory turnover	Low But is the first three months of a new business
Current ratio	Extremely high, well above benchmark/ acceptable range of 1.5:1 and 2:1 Quite large inventory Quite a large amount of trade receivables Funds not being utilized effectively
Quick ratio	Very high, well above benchmark/ acceptable range of 0.7:1 and 1:1 Liquid assets not being utilised effectively
Return on capital	Calculation based on opening capital employed employed Very low (but is for only three months) Would be even lower if take into consideration the introduction of extra capital in Month 2

Recommendations for future

General comments

Formalise the partnership by drawing up a partnership agreement

Maintain a current account for each partner in addition to their capital account

Inventory

Introduce inventory valuation system using inventory cards for each item. To ensure that - no items will be out of stock (several items are out of stock).

slow-selling items are high-lighted (e.g. scanner Model S21, filing cabinet Model 4)).

excess stock of some items is reduced

money tied up in inventory is reduced

Credit customers

Obtain credit references before selling on credit (there were no irrecoverable debts this period but one cheque was dishonoured).

Credit control system appears to be working as statements of account are issued regularly and there are no overdue accounts

Consider making provision for irrecoverable debts.

Credit suppliers

As funds are available ensure accounts are paid on time to obtain cash discount (two accounts were paid after the due date and the cash discount forfeited).

Current assets

Bank balance has fallen significantly in the period.

Both the current ratio and the quick ratio are very high indicating that funds could be used much more effectively.

Expenses

Consider whether the acquisition of the motor van was really necessary – quite a high amount of expenses relate to this.

Review situation at end of financial year.