



EXAMINATIONS COUNCIL OF ESWATINI

Eswatini Prevocational Certificate of Secondary Education

Business Accounting (5921)

Examination Report for 2023

Table of Contents

<u>Subject Code:</u>	<u>Name of Component:</u>	<u>Page No:</u>
5921	Business Accounting P2	3-14
5921	Business Accounting P3	15-30

EPCSE Business Accounting 5921/02
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General Comments

The paper was divided into two (2) sections, A and B. There were two (2) short answer questions in section A marked out of 40 marks. Section B comprised three (3) structured questions marked out of 60 marks, resulting in 5 (five) questions. All five questions were compulsory and had to be completed within 2 hours. The general performance of the 2023 cohort was very poor with all candidates getting low scores. Centres are advised to prepare candidates for examinations.

Some candidates lost marks because they had failed to pay attention to rubrics. In question 5(c) candidates were required to give the effect of errors on financial statements, most of the comments forwarded were irrelevant.

Question 4(d), the required candidates to explain five factors to be considered when comparing trading results with other businesses. Some candidates gave reasons for comparing business results with other businesses while some explained the accounting policies.

There were centres who used the columnar format to present ledger accounts. Candidates who used this format lost marks as their accounts often had two columns instead of three columns, leaving the balance column. Centres are urged to ensure that if this format is used, it should be correctly done.

Specific comments

Question 1

- (a) This question required candidates to define accounting. Many candidates were able to earn 1 mark for this part question as they only defined Bookkeeping and did not include the preparation of financial statements and that it assists in decision making.
- (b) (i) Candidates were asked to state the meaning of intangible assets. Most candidates were able to answer this part of the question correctly. However, some candidates failed to give correct examples of intangible assets in (b)(ii). Candidates' answers included overdraft, cash at bank, internet services, trade receivables etc. The correct answer ought to have been goodwill, trademarks and brand names.

(c) (i) Required candidates to state the purpose of an invoice. This question was not answered well by quite a number of candidates. Most candidates confused an invoice with a statement of account. The correct answer was: To notify a credit customer of details of goods supplied on credit. Candidates however performed well in part (ii); giving the contents of an invoice.

(d) This question required candidates to state the meaning of money measurement and give an example of its application. The question proved to be difficult for a majority of candidates as they failed to give a correct meaning of the principle.

The correct answer was: Money measurement principle states that only items that can be expressed in monetary terms are recorded in the books of accounts.

Examples: items that cannot be expressed in monetary terms such as; morale of workforce, effectiveness of good manager, benefits of a staff training course, increased competition should not be recorded.

(e) This question required candidates to state two advantages of maintaining a purchases journal. Most candidates wrote that it shows the amount owed to suppliers which was incorrect.

The correct answer was:

Provides a record of the total credit purchases for each month.

Useful for reference for credit purchases.

Reduces the number of entries in the purchases account.

Provides information for the preparation of the purchases ledger control accounts

Along with other subsidiary books allows for division of labour.

(f) The question required candidates to name two external users of accounting information. This question was well answered by many candidates stating bank managers, customers, government departments, etc.

Question 2

- (a) (i) Candidates were required to state the purpose of an opening journal entry and in part (ii) to prepare a journal entry given opening balances. Although most candidates showed no knowledge of the purpose of an opening journal, a majority prepared the opening journal correctly. However, there were some who prepared it like a trial balance instead of listing accounts to be debited before showing accounts to be credited, hence lost some marks.

The expected response for the purpose of an opening journal entry was: it is a journal entry made when a business first starts or when accounting records are started to show assets, liabilities and capital at that date.

- (b) (i) Candidates were required to prepare an updated cash book and in (ii) prepare a bank reconciliation statement. This question proved to be difficult for most candidates. They failed to recognize that the credit cash book balance meant that it was an overdraft hence failed to prepare a correct statement. Others confused themselves by having both a cash and bank columns in the cash book.

The correct answer was:

(i)

Amahle					
Cash book (bank columns only)					
Date	Details	Bank(E)	Date	Details	Bank (E)
2022			2022		
Aug 1	Zulu: credit transfer	750	Aug 1	Balance b/d	15 800
	Correction of error	200		Bank charges	145
	Balance c/d	16 295		Veli (dishonored)	1 300
		17 245			17 245
			Aug 1	Balance b/d	16 295

(ii)

Amahle		
Bank reconciliation statement at 1 August 2022		
	E	E
Balance as per bank statement		(17 445)
Add: uncredited amount –cash sales		1 450
Bank error		600
		(15 395)
Less unrepresented cheque –Bhekani		900
Balance as per cash book		(16 295)

Remember when the reconciliation statement starts with the cash book balance, unrepresented cheque are added and deduct uncredited amounts and the amount to correct the error. However, it is advisable that candidates begin with the balance as per bank statement because it is given, hence correct.

Question 2

(i) candidates were required to prepare a rent account at year end, (ii) show income statement and statement of financial position extracts; (iii) explain how the matching principle was applied. A vast majority failed to prepare a correct rent account hence could not get **part (ii)** correct.

Candidates failed to show the amount transferred to the income statement since the account was prepared at the end of the financial year. They then could not get the amount shown in the statement of financial position correctly.

The correct answer was:

(i)

Rent account					
2022			2022		
Aug 1	Bank	2800	Jul 1	Balance b/d	700
2023			2023	Income statement	
Apr 1	Bank	1750	Jun 30		4200
Jun 30	Balance c/d	350			
		4900			4900
			2023		
			Jul 1	Balance b/d	350

Amahle

(ii) Income statement extract for the year ended 30 June 2023

Expenses	E
Rent	4200

Amahle

Statement of financial position extract on 30 June 2023

Current liability	E
Rent accrued	350

(iii) The question required candidates to explain how the matching principle was applied. This part question was difficult for a majority.

Only the rent relating to the financial year ended on 30 June 2023 was transferred to the income statement. **Or** The amount actually paid was adjusted for the opening and closing amounts accrued.

Question 3

- (a) The question required candidates to prepare a machinery account showing entries for three years. A majority of candidates were able to record the purchase of machines correctly but failed to show the machine sold. The correct answer was:

Philani					
Machinery account					
2022			2023	Machinery disposal	
Sept 1	Balance b/d	7 000	Feb 28		7 000
Sept 1	Sizanani Machines	8 000	Aug 31	Balance c/d	14 000
2023					
Feb 1	Bank	6 000			
		21 000			21 000
2023					
Sept 1	Balance b/d	14 000			

- (b) (i) The question required candidates to prepare a provision for depreciation on machinery account, showing calculations on a given working box. This was one of the worst performed question as a majority failed to calculate correct depreciation amounts. They then failed to answer (ii) correctly as wrong amounts to be transferred to the statement of financial position were written.

The correct answer was:

Philani Machinery provision for depreciation account					
2023 Feb 28	Machinery disposal 2520(1)+ 448(1)	2968	2022 Sept 1	Balance b/d	2520
Aug 31	Balance c/d	2300	2023 Aug 31	Income statement A (7000-2520) (1) x 20% x 6/12(1) = 448 B 8000 x 20% = 1600(1) C 6000 x 20%(1) x 7/12(1) = 700	2748
		5268			5268
			2023 Sept 1	Balance b/d	2300(1)

Please note that more marks were allocated for the working. It was disappointing that a majority of candidates ignored the working box and left it blank, hence lost marks.

- (ii) The correct amount transferred to the statement of financial position was E2300, which is the provision for depreciation account balance.
- (c) (i) The question required candidates to prepare a machinery disposal account. Most candidates failed to get a mark from this part question as they showed no knowledge of how this account was prepared.

The correct answer was:

Philani					
Machinery Disposal account					
2023			2023		
Feb 28	Machinery	7000	Feb 28	Provision for depreciation	2968
			Feb 28	Cash	2000
			Aug 31	Income statement	2032
		7000			7000

- (ii) This part question required candidates to state whether profit or loss was made on the disposal of the machinery. Candidates could not answer this question since they failed to prepare a correct machinery disposal account. Most answers were purely guess work as candidates gave an answer to this part question even if they did not attempt to answer **part (i)**. Answers to **part (ii)** stating that the business made a profit or loss on the sale of machine did not attract any mark if the machinery disposal account was not prepared.

The correct answer was loss.

Question 4

(a) Candidates were required to state the meaning of inventory. This question was well answered by a majority, hence got the mark.

(b) Candidates were required to calculate inventory using the LIFO method. This was another question that proved difficult to the majority. Candidates wrote answers that were irrelevant hence lost marks. In fact, a majority of candidates showed no knowledge of how inventory is calculated.

The correct answer was:

Date	Received	Issued	Inventory after each transaction
2022 October	10 @ E30 each		10 @ E30 = <u>E300</u>
November	15 @ E32 each		10 @ E30 = E300 15 @ E32 = <u>E480</u> <u>E780</u>
December		8 @ E32	10 @ E30 = E300 7 @ E32 = <u>E224</u> <u>E524</u>
2023 March	15 @ E34 each		10 @ E30 = E300 7 @ E32 = E224 15 @ E34 = <u>E510</u> <u>E1034</u>
July	25 @ E40 each		10 @ E30 = E300 7 @ E32 = E224 15 @ E34 = E510 25 @ E40 = <u>E1000</u> <u>E2034</u>
August		25 @ E40 15 @ E34 5 @ E32	10 @ E30 = E300 2 @ E32 = <u>E 64</u> <u>E364</u>

(c) The question required candidates to suggest two reasons why it was important for a business to have more current assets than current liabilities.

A few candidates gave the correct answer to this question however, some did not attempt to answer it.

Correct responses included the following:

To be able to meet short-term debts when they fall due - This will mean that Titselo can take advantage of cash discount OR have a good relationship with his suppliers OR will not incur interest charges.

To be able to take advantage of business opportunities - This means that Titselo has funds available for bulk buying OR has the opportunity to invest in new non-current assets.

To be able to obtain further supplies on credit - This means that Titselo will have a good credit profile OR suppliers will be willing to sell goods on credit to Titselo.

- (d) The question required candidates to explain five factors to be considered when comparing trading results with other businesses.

The question proved difficult for the majority of candidates with very few giving correct responses. Others were giving reasons why a business should compare its results with other businesses. There were also some who gave accounting policies eg reliability, understandability, etc.

The correct answer was:

The type of business organisation - Titselo is a sole trader so he should compare with another sole trader's business as different forms of business will have different capital structures.

The type of goods bought and sold - Titselo should compare with a business which is selling the same type of goods as goods have different margins, different rates of inventory turnover, etc.

The accounting policies used - Titselo should compare with a business that uses the same accounting policy as some businesses might use different depreciation policies or inventory valuation methods.

The operating policies used - Titselo should compare with a business that uses the same operating policies as some businesses might rent premises or make use of long-term loans to finance its operations.

The dates at which financial year ends - Titselo should compare with a business whose financial year ends on approximately the same date as results of businesses with different year ends cannot be easily compared.

The period for which the business has been operating - Titselo should compare with a business that has been operating for approximately the same number of years as his business.

Question 5

- (a) Candidates were required to prepare a trading section of an income statement, calculating purchases and cost of sales figures given the mark up, revenue and opening and closing inventory. Candidates who attempted to answer this question ignored the rubrics and presented calculations without including purchases and the cost of sales. Most answers deducted closing inventory from the opening inventory to get cost of sales resulting in abnormal profits. To answer this question, candidates were supposed to first change mark up to margin to calculate gross profit then work backwards in the trading account to get the cost of sales and then purchases.

The correct answer was:

Vumile			
Revenue			155 880
<u>Less cost of sales</u>			
Opening inventory		38 800	
Purchases		139 224	
Cost of goods available for sale		178 024	
Less closing inventory		53 320	
Cost of sales			124 704
Gross profit			<u>31 176</u>

- (b) (i) The question required candidates to calculate quick ratio, (ii) comment on the quick ratio and (iii) explain why the quick ratio was regarded as the most reliable measure of liquidity.

A majority of candidates who answered this question did not get it correct, while others did not attempt to answer it. Most candidates failed to identify correct items to be used when calculating this ratio and further to write the answer correct to two decimal places. Most comments were irrelevant, like the business is doing well or making more profit and, in most cases, (iii) was not attempted.

The correct answer was:

(i) $(15\,540 + 5\,200) : (6\,400 + 3\,500 + 8\,800)$

$20\,740 : 18\,700 = 1.11 : 1$

(ii) Comment to answer to b(i)

Vumile's quick ratio is satisfactory.

Ratio is very slightly above the benchmark.

Management of liquid assets is satisfactory.

- (b) (iii) Candidates were asked to explain why the quick ratio was regarded as the most reliable measure of liquidity. This question was not attempted by many and those who tried to answer it, gave unsatisfactory answers.

The correct answer was:

Inventory is excluded - Inventory is the least liquid asset **Or** Inventory is two stages away from being cash.

- (c) Candidates were told that two errors were made and were asked to state the effect of the errors on (i) the income statement and on (ii) the statement of financial position.

Very few candidates attempted to answer this part question.

Information given in the question was:

After the preparation of financial statements, the following errors were found:

- 1 An irrecoverable debt of E240 should have been written off
- 2 A provision for doubtful debts of 2% of trade receivables should have been created

The correct answer was:

(i) Effect of the errors on the income statement

1 Profit will be overstated by E240

2 Profit will be overstated by E306

(ii) Effect of the errors on the statement of financial position

1 Capital overstated by E240

Current assets overstated by E240

2 Capital overstated by E306

Non-current assets overstated by E306

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

General comments

This was a project. Centres were given two similar projects to be evenly distributed to candidates. Candidates were required to answer **all** the questions in the project of their choice. Both projects were on sole trade businesses. The paper comprised of **three** stages.

The overall performance of the candidates was very poor. Some candidates failed to record correct amounts in subsidiary books hence posting wrong amounts and failed to post correct entries to the ledger, hence transferring wrong/different amounts to the trial balance, financial statements which then resulted in miscalculated ratios.

Centres are advised to ensure that candidates pay attention to detail. In stage 1, for instance, a majority of candidates ignored the questions on documents not entered in accounting records; they failed to state ways to check accuracy of recording; explain and give source of information or to identify financial statements used to review business performance and position, explaining and giving source of information for each. It was disappointing that some candidates scored very 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. Centres should ensure that every candidate gets the correct set of questions and refrain from using the instructions to candidates which summarises what candidates are expected to do because this is just a guide, it does not have specific questions to the project.

The performance of the candidates in stage 2 was bad. A majority of candidates made too many errors which were not corrected even when the trial balance failed to agree. A majority of candidates were able to record transactions from source documents to subsidiary books. However, the recording of cash discounts in the cash book is still a challenge as some candidates did not include them in the cash book. Some candidates failed to close accounts in preparation for financial statements.

In stage 3, most candidates did not attempt this part question hence losing 25 marks, those who attempted this part question were able to calculate the expected ratios but others were not using their figures hence losing marks. The interpretations, comments and advice for the future were irrelevant in most cases.

Comments on specific questions

Stage One

Candidates were required to explain accounting records which each trader would use, justify the use of the record and name the source of information for each record and to give documents that can be exchanged in business but not recorded. Candidates doing project A were further asked to identify ways used to check the accuracy of recording, explain and give the source of information. While candidates who did project B were further asked to identify financial statements used to review financial performance and position, explain and give the sources of information for each financial statement.

Most candidates answered only the first part and left two-part questions and that caused candidates to lose half of the marks. Centres are urged to ensure that candidates **use Document A** to answer at this stage. Centres should refrain from using the instructions to candidates as this gives a brief summary of what candidates are expected to do in the project.

Task One

For both projects, 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 journal or of the ledger. Thus the candidates lost marks.

The correct answer was:

A Accounting records

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

B. 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' 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.

4. Statements of account issued

A summary of customers 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.

Project A additional question**C. Ways used to check the accuracy of recording – identification, explanation and source of information****1. Trial balance**

Checks the arithmetical accuracy of the double entry
Ledger balances and cash book balances

2. Bank reconciliation statement

Checks the accuracy of the bank balance in the cash book
Cash book and bank statement

3. Control accounts

Checks the accuracy of the total of the balances in the sales ledger
and the total of the balances in the purchase ledger.

Sources of Information:

Purchases journal, sales journal, returns inwards journal, returns
outwards journal, general journal, cash book

Project B additional questions

A. Financial statements used to review financial performance and position-

Identification, explanation, and sources of information

1. Income statement

This is a financial statement used to determine the financial performance of a business for a specific financial period. It is used to calculate the profit or loss for a specific period.

Trial balance

Notes provided by business owner

2. Statement of financial position

This is a statement of assets and liabilities of a business at a specific date. It is used to determine the net worth/net assets value of the business at a specific date.

Trial balance

Income statement

Notes provided by business owner

Stage 2

Candidates were given source documents for three months and were required to record them in the correct subsidiary books; post to the ledger; close the ledger accounts; prepare a bank reconciliation statement; prepare a trial balance; calculate closing inventory and prepare financial statements.

General journal

A majority of candidates were able to prepare an opening journal entry but there were those who prepared the opening journal entry like a trial balance, hence lost marks. 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 be credited the difference between totals of the columns being capital. The narrative for the totals should be: assets, liabilities and capital to date.

A majority of candidates only showed the opening journal entry in the general journal yet for both projects had two other journal entries.

In project A, a majority of candidates only had only the opening journal entry in the general journal but left out the purchase of motor vehicle on credit and a transaction where the sole trader used his own money to fuel the motor vehicle.

For project B, candidates failed to record the carriage inwards incurred on credit and the laptop introduced as capital by the owner.

Project A

The correct answer was.

General Journal

2023		Debit E	Credit E
March 1	Fixtures and fittings	110 400	
	Inventory	114 840	
	Bank	186 000	
	Loan – Boniswa		10 000
	Capital		401 240
	Assets, liabilities and capital at this date	<u>411 240</u>	<u>411 240</u>
March 1	Motor vehicle Mamai Motors	80 000	
	Motor vehicle bought on credit		80 000
March 3	Motor expenses Capital	1 500	
	Wethu used own money to fuel the motor vehicle		1 500

Project B

General Journal

2023		Debit E	Credit E
March 1	Fixtures and fittings	30 000	
	Balance at bank	18 672	
	Cash	9 855	
	Trade receivable: Q & T Plastics	20 200	
	Inventory	137 448	
	Trade payable: Malini		43 000
	Sellappa Plastics		35 000
	Capital	<u> </u>	<u>138 175</u>
	Assets, liabilities and capital at this date	<u>216 175</u>	<u>216 175</u>
	Carriage inwards		
	Thula Transport	4 500	4 500
April 1	Cost of transport for goods purchased from Malini		
	Office equipment		
	Capital	8 000	8 000
April 30	Owner introduced personal laptop to the business		

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 some candidates prepared separate subsidiary books for each month; for example: opening a purchases journal for March, a separate one for April and another for May. The motor vehicle purchased on credit was sometimes 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.

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. Some candidates opened accounts for every transaction instead of recording similar items under one account, like having a separate sales account each month; one for March, another for April and another one for May.

There was a problem of 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, candidates did not show profit and drawings in the capital account at the end of the three months trading period.

Project A correct capital account

Capital account

2023		E	2023		E
May 31	Balance c/d	453 331	Mar 1	Balance	401 240
			May 31	Motor expenses	1 500(1)
			31	Profit	<u>50 591(1)</u>
		<u>453 331</u>	Jun 1	Balance b/d	<u>453 331</u>
					453 331(1)

Project B correct capital account

Capital account

2023		E	2023		E
May 31	Balance c/d	162 725	Mar 1	Balance	138175
			Apr 30	Office equipment	8 000(1) <u>6</u>
			May31	Profit	<u>550(1)</u>
		<u>162 725</u>	Jun 1	Balance b/d	<u>162 725</u>
					162 725(1)

Bank reconciliation statement

This part was well done by a majority of candidates however, some candidates started with the balance as per cash book and because this balance was wrong, they then changed the balance given in the bank statement. For that reason, it is advisable that candidates always start with the balance given in the bank statement and then calculate the balance as per the cash book.

Trial balance

The trial balance was generally done correctly. However, some candidates ignored amounts from their ledger accounts and used different amounts. This failed to earn them marks because for each account reference was made to the ledger to confirm if they were extracted from the candidate's books.

Financial statements

The preparation of an income statement and statement of financial position was generally 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. In fact, the records that lacked consistency, that is, changing accounts amounts at each stage, lost marks.

Stage 3

Candidates were required to calculate profitability and liquidity ratios, interpret them, recommend/comment or advice the business owner.

Calculation of accounting ratios

A majority of candidates did not attempt to do this stage hence losing 25 marks but those who attempted it performed well. However, there were some candidates who used amounts that were untraceable as the figures were not from their income statement nor statement of financial position. This did not earn them any mark as marks are allocated for own figures. Also, on ratio calculation, some candidates did not show their working. Centres are urged to train their candidates to include the working when calculating ratios and use amounts from their financial statements to avoid the unnecessary loss of marks.

Interpretation of accounting ratios

A majority of 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 their calculated ratios.

Recommendations, comments or advice

This part was a challenge to the majority of the candidates. A majority of candidates wrote general comments and did not relate to the business in question in other words most comments had no link to their businesses. Centres are advised to train their candidates to have at least two general comments, these may include:

- the accounts are only for three months; the owner has to prepare financial statements at the end of the year.
- Compare results with those of similar businesses;
- Take steps to ensure funds are 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, it is important that candidates' comments relate to their businesses giving examples, like, inventory figure is too high, the advice could be consider introducing a system that will inform them of inventory levels. Candidates comments were supposed to be on the businesses profitability and liquidity.

The correct answer for Project A was:

Calculation of Ratios

Calculation of Ratios

1	Gross Margin	$\frac{166\,946}{550\,410} \times \frac{100}{1}$	30.33%
2	Profit Margin	$\frac{50\,591}{550\,410} \times \frac{100}{1}$	9.19%
3	Rate of inventory turnover	$\frac{383\,464}{(114\,840 + 161\,856)/2}$	2.77 times
4	Current ratio	521 771 : 193 080	2.70 : 1
5	Quick ratio	(521 771 – 161 856) : 193 080	1.86 : 1
6	Return on capital employed (opening)	$\frac{50\,591}{402\,740} \times \frac{100}{1}$	12.56%

Interpretation of Ratios

Gross Margin	30.33%	A gross profit of E30.33 is earned for every E100 of sales for the business. Appears satisfactory
Profit Margin	9.19%	A profit of E9.19 was earned for every E100 of revenue. Very satisfactory for the first three months' trading Need to consider the type of expenses and whether any can be reduced
Rate of Inventory Turnover	2.77 times	The business sold and replaced its inventory 2.77 times in the three-month period. Appears to be very satisfactory for the type and age of the business
Current ratio	2.70 : 1	The business can pay for its short term debts 2.70 times using available current assets. Trade receivables and inventory are relatively high Satisfactory but slightly above the bench mark Consider if are making best use of the current assets
Quick ratio	1.86 : 1	The business can pay for its short term debts 1.86 times using available liquid assets. Above the bench mark 1:1 Trade receivables are relatively high
Return on capital employed	12.56%	A profit of E12.56 was earned for every E100 capital employed. The calculation is based on the opening capital Very high considering this is the first three months of trading - may not maintain this level Take steps to ensure funds being used effectively

Recommendations for the future

General

Calculate ratios after one year of trading for a true picture of the business performance and liquidity
Compare business performance with other similar businesses.

Inventory

Introduce inventory valuation system using inventory cards for each item to easily monitor the movement of inventory. To ensure that -

1. The risk of being out of stock is avoided for items such as 240 litres double door refrigerator, electric fan and Tubi laptop which has very few items left in stock.
2. Re-order levels are indicated such as Tubi laptops were out stock for a period from 18 March to 6 April and had only 3 automatic washing machines in stock from 11 April to 3 May.
3. Slow-selling items such as the microwave are high-lighted
4. Money tied up in inventory is reduced

Trade receivables

Consider increasing the provision for doubtful debts (there were no irrecoverable debts this period but the amount owed by trade receivables is quite high) and Fika's balance is overdue.

Credit control system appears to be working as most trade receivables do not pay on time and statements of account are issued regularly.

Trade payables

The business should continue paying credit suppliers on time to take advantage of cash discount and also to avoid interest on overdue account.

Wethu owes quite high amount and could consider whether he could reduce purchases or purchase cheaper goods.

Current assets

The business should closely monitor its expenditure to avoid cash flow problems.

Both the current ratio and the quick ratio are a little higher than desirable indicating that funds could be used much more effectively.

Expenses

The business expenses are 22.36 % of revenue. There is a need to control some expenses like motor expenses to improve profitability.

The correct answer for Project B was:

Calculation of Ratios

1	Gross Margin	$\frac{71\,598}{358\,620} \times \frac{100}{1}$	19.96%
2	Profit Margin	$\frac{16\,550}{358\,620} \times \frac{100}{1}$	4.61%
3	Rate of inventory turnover	$\frac{287\,022}{(137\,448 + 161\,252)/2}$	1.92 times
4	Current ratio	325 733 : 150 458	2.16 : 1
5	Quick ratio	(325 733 – 161 252) : 150 458	1.09 : 1
6	Return on capital employed (opening)	$\frac{16\,550}{138\,175} \times \frac{100}{1}$	11.98%

Interpretation and Comments on Ratios

Gross Margin	19.96%	A gross profit of E19.96 is earned for every E100 of sales for the business. The trader was able to mark up her products in a way that was able to earn her profit. Appears satisfactory
Profit Margin	4.61%	A profit of E4.61 was earned for every E100 of revenue. Rather low for a business that has been trading for several years Need to consider the type of expenses and whether any can be reduced
Rate of Inventory Turnover	1.92 times	The business replaced its inventory 1.92 times in the three-month period. Is reasonable for this type of goods
Current ratio	2.16 : 1	A little high as is slightly above the bench mark The business can easily meet its short term liabilities from its immediate assets.
Quick ratio	1.09 : 1	The ratio is a little high as is above the benchmark Trade receivables are relatively high Consider if are making best use of the current assets
Return on capital employed(opening)	11.98%	For every E100 of capital employed a profit of E11.98 was earned The business is doing exceptional good

Recommendations for future

Advice

- Calculate ratios after one year of trading for a true picture of the business performance and liquidity
- Compare business performance with other similar businesses
- Take steps to ensure funds being used efficiently

Inventory

- Introduce inventory valuation system using inventory cards for each item
- To easily identify items to order since the system inventory cards each item.
- at the end of May – no stock of oval basin-30 litres
- at the end of May - very low stock of two types of basins: 1 of oval basin-50 litres, 2 of round basins
- 35 litres
- at the end of March only had 3 sets of medium trays and only 2 oval basins-30 litres in stock
- at the end of March had no sets of large dust bins and round basins in stock

Trade receivables

- Credit control system appears to be working for two of the three customers (but Naledi's account is slightly overdue – but not worryingly so)
- Conduct a credit on new or potential customers
- Consider the creation of provision for doubtful debts

Trade payables

- Soso owes quite a high amount and could consider whether she could reduce purchases or purchase cheaper goods
- Should ensure suppliers are paid on time in order to earn cash discount (has forfeited the opportunity to earn cash discount by not paying Mobophe within the credit period)

Expenses

- Consider ways in which expenses can be reduced and whether they are all necessary. Some expenses are fixed so are more difficult to reduce but other expenses are variable and can be controlled more easily

Current assets

- Both current and quick ratios are a little higher than desirable so could consider ways funds can be used more effectively