EXAMINATIONS COUNCIL OF ESWATINI

Eswatini Prevocational Certificate of Secondary Education

Business Accounting (5921)

Examination Report for 2024

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EPCSE

Business Accounting

5921/02 Theory

General Comments

The general performance of the cohort was poor as the majority of candidates got very low scores. Centres are advised to prepare their candidates for external examinations.

Candidates failed to pay attention to rubrics resulting in loss of marks. In some questions they failed to present answers in the correct structure like the manufacturing account. Some responses were very difficult to mark as it was not possible to follow what was written as they showed that there had no clue of what was required. Questions on principles and ratios had the most irrelevant responses.

Specific comments

Question 1

(a) (i) Candidates were given an electricity account and were asked to explain the entries. Most entries were answered correctly, but some could not distinctly explain the meaning of balance c/d and b/d often these were written as if they were the same thing.

(ii) This part question required candidates to explain how the prudence principle was applied when recording the closing balances of the electricity account in financial statements. Most candidates could not give correct responses to this question. Some even left it unanswered. The correct answer was:

The amount prepaid was deducted from the total paid during the year which related to that financial year to avoid understating profits for the year.

Or prepaid electricity was recorded as a current asset to avoid understating assets.

(b) This part question required candidates to name the financial statement used for carriage inwards and cash in hand. This question was well answered by most candidates, there were those who wrote current assets where the financial statement was a statement of financial position. This did not earn a mark.

(c) (i) A list of balances from Tenele books was given to candidates and were required to explain the meaning of working capital. This question was correctly answered by the majority.

(ii) This question required candidates to calculate Tenele's working capital. This part question was fairly attempted as some candidates were able to select correct items to calculate the working capital; but others included the non-current assets hence got a wrong answer. Electricity E1500 Dr – was often entered under current liabilities instead of current assets.

(iii) Candidates were asked to suggest four ways in which Tenele could improve her working capital. This part question was often answered wrongly. A majority of candidates had points on increasing profit instead of working capital. Expected responses included:

Additional capital introduced by the owner

Obtaining long-term loans
Selling old non-current assets
Delay purchasing non-current assets
Reducing drawings by the owner
Increasing profits

(d) (i) This part question required candidates to explain one reason why suppliers may be interested in

Tenele's financial statements. This question seemed to be difficult to many yet there were those who were able to give correct responses. The correct answer was:

Liquidity position of Tenele's business to assess ability to pay for goods bought on credit.

***Or** Tenele's trade payable turnover to determine how long Tenele takes to pay for goods bought on credit*
***Or** To determine whether Tenele will be able to pay if goods were sold to her on credit*

(ii) The question required candidates to state three types of users of Tenele's financial statements, other than suppliers. Almost every candidate got this question correctly except for some few who failed to give correct responses.

Question 2

(a) The question required candidates to explain disadvantages of operating as a sole trader. This question was well answered by a number of candidates as the disadvantages were well explained.

(b) (i) Candidates were required to name the division of the ledger in which the trader would maintain given ledger accounts. This question was fairly done but some candidates classified the sales and returns outwards accounts under the sales ledger instead of the general ledger.

(ii) This question required candidates to state advantages to the sole trader of dividing the ledger into sections. Most candidates were able to give correct responses.

(c) Candidates were required to prepare journal entries to correct the given errors.

This question was fairly done as some candidates were able to give correct responses, but some entered amounts on the opposite sides; debiting an account that was supposed to be credited and crediting the account that was supposed to be debited. In that case, candidates lost all the marks.

Secondly, the 4th error where commission received in cash, E275 had been debited in the commission received account and credited to the cash account. To correct this error, candidates were supposed to debit cash account and credit the commission account. Further, double the amount to correct amounts recorded on the wrong sides. A majority of candidates failed to get this part correct.

The correct answer was:

Phumzile
General journal

	Debit (E)	*Credit (E)*
Cash	*550*	
Commission receivable		*550*

Question 3

Candidates were given sales ledger balances on 1 July 2024; Khaya E800, Busi E1400 and Sihle's account with a credit balance of E50. Further, subsidiary books for July 2024 from Zulu's books were given: the sales journal, returns inwards journal, general journal and the debit side of the cash book. The subsidiary books were displayed as follows:

Sales Journal			
2024			E
Jul 5	Muhle		1600
10	Sihle		800
17	Khaya		1220
22	Busi		680

Returns Inwards Journal			
2024			E
Jul 7	Muhle		400
20	Khaya		500

General Journal			
2024		E	E
Jul 31	Trade payable Busi	250	
	Trade receivable Busi		250
Cash Book (debit side)			
2024		E	E
Jul 11	Khaya	20	780
15	Busi	35	1365
29	Muhle	40	1560

On 1 August 2024 there was a credit balance of E400 on the sales ledger control account.

This question was challenging to a number of candidates. The way data was displayed seemed to have confused quite a number of candidates as they gave irrelevant responses.

(a) Candidates were required to explain two reasons that could have caused Sihle's credit balance of E50 in the sales ledger. This question was not answered well by the majority. Some answers were: Sihle had an overdraft and there were too many debts unsettled.

The correct answer was:

an overpayment by Sihle
Sihle returning goods after payment of her account
Sihle paying in advance for goods
cash discount not being deducted before payment was made

(b) This part question required candidates to prepare Zulu's sales ledger control account. The question proved to be challenging for most candidates. Candidates failed to calculate the totals of the journals in order to post them to the sales ledger control account but instead they posted the individual entries in no order, showing signs that they had no idea of the preparation of this account. Some recorded the balance b/d correctly but left the balance c/d. The general ledger entry was often ignored or recorded in any side as Busi instead of contra entry or set off.

The correct answer was:

Zulu

Sales ledger control account

2024	*E*	*2024*	*E*
Jul 1 Balance b/d	*2200*	*Jul 1 Balance b/d*	*50*
31 Sales	*4300*	*31 Returns inwards*	*900*
31 Balance c/d	*400*	*31 Bank*	*3705*
		31 Discount allowed	*95*
		31 Contra entry	*250*
		31 Balance c/d	*1900*
	6900		*6900*
Aug 1 Balance b/d	*1900*	*Aug 1 Balance b/d*	*400*

(c) In this part question, candidates were required to explain three ways in which Zulu will benefit from maintaining a sales ledger control account. This was also challenging to most candidates who gave irrelevant responses. Expected responses included:

It assists in locating errors when the trial balance fails to balance.

It acts as proof of the arithmetical accuracy of the sales ledger.

Draft financial statements can be prepared quickly because of the balance provided by the sales ledger control account.

It helps to reduce fraud as the sales ledger control account is prepared by someone who has not been involved in preparing the sales ledger.

It provides a summary of the transactions affecting the trade receivables for the financial period.
The balance on this account is considered equal to the total of trade receivable, so this information is available immediately.

It assists in locating errors when the trial balance fails to balance.

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Draft financial statements can be prepared quickly because of the balance provided by the sales ledger control account.

It helps to reduce fraud as the sales ledger control account is prepared by someone who has not been involved in preparing the sales ledger.

It provides a summary of the transactions affecting the trade receivables for the financial period.

The balance on this account is considered equal to the total of trade receivable, so this information is available immediately.

Question 4

Candidates were given data from Masakhe's, a manufacturer, books of accounts for the end of the financial year ended 31 August 2024.

	E
Inventory 1 September 2023	
Raw materials	25 350
Work in progress	15 600
Finished goods	33 440
Returns inwards	6 500
Purchases raw materials	250 000
Returns of purchases of raw materials	1 500
Wages	
Factory operatives	120 000
Factory supervisors	75 800
Office and sales staff	59 000
General expenses	81 000
Trade receivables	92 400
Trade payables	42 490
Bank overdraft	54 300
Premises at cost	100 000
Factory machinery at cost	90 000
Office equipment at cost	36 000
Loose tools at valuation 1 September 2023	13 210
Provision for depreciation 1 September 2023	
Factory machinery	40 000
Office equipment	16 200
Capital at 1 September 2023	212 940
Drawings	15 000

The following additional information was available.

1 At 31 August 2024 E

Inventory	raw materials	23 880
	work in progress	16 300
	finished goods	30 200
Wages accrued	factory supervisors	6 000
	office staff	2 500
Value of loose tools		9 680

2 The loose tools are revalued at the end of each financial year.

3 The factory machinery is to be depreciated at 20% per annum using the reducing balance method.

4 The office equipment is to be depreciated at 15% per annum using the straight line method.

5 The general expenses are to be apportioned 2/3 to the factory and 1/3 to the office.

(a) This part question required candidates to prepare Masakhe's manufacturing account taking into consideration the additional information. A majority of candidates showed no knowledge of the manufacturing account in terms of structure and items recorded in this account. Only a few had the correct structure, but they also had difficulty in calculating the production cost as they failed to select correct items recorded in this account.

The correct answer was:

Masakhe

Manufacturing Account for the year ended 31 August 2024

	E	*E*	*E*
Raw materials consumed			
Opening inventory			*25 350*
Purchases		*250 000*	
Less returns outwards		*1 500*	
			248 500
			273 850
Less closing inventory			*23 880*
			249 970
Direct factory wages			*120 000*
Prime costs			*369 970*
Factory overheads			
Factory supervisor's wages (75 800 + 6 000)		*81 800*	
General expenses (81 000 x 2/3)		*54 000*	
Depreciation			
Factory machinery (90 000 – 40 000 x 20%)		*10 000*	
Loose tools (13 210 – 9 680)		*3 530*	
			149 330
			519 300
Add opening work in progress			*15 600*
			534 900
Less closing work in progress			*16 300*
Production cost			*518 600*

(b) Candidates were given profit for the year and were required to prepare Masakhe's statement of financial position. The better part of this question was done correctly by a majority but the different types of inventories (raw materials, finished goods and work in progress) were not included, hence lost some marks. The loose tools treatment was often done wrongly or just left out from the answer. Furthermore, the calculation and recording of depreciation on non-current assets was usually done incorrectly.

The correct answer was:

Masakhe Statement of Financial Position at 31 August 2024			
	E	E	E
Non-current assets	Cost	Depreciation to date	Book value
Premises	100 000	-	100 000
Machinery	90 000	50 000	40 000
Office equipment	36 000	21 600	14 400
	226 000	71 600	154 400
Loose tools at valuation			9 680
			164 080
Current assets			
Inventory: raw materials	23 880		
Work in progress	16 300		
Finished goods	30 200		
		70 380	
Trade receivables		92 400	
			162 780
Total assets			326 860
Financed by:			
Capital			212 940
Profit for the year			23 630
			236 570
Less drawings			15 000
			221 570
Current liabilities			
Trade payables		42 490	
Bank overdraft		54 300	
Wages accrued		8 500	
			105 290
			326 860

(c) The question required candidates to explain two implications of not applying the consistency principle when depreciating non-current assets. This question was either left not attempted or responses would be wrong. The correct answer was:

Comparison of financial statements from year to year would be impossible
Profits of a particular year could be distorted

The same problem applied to (d) where candidates were to explain how Masakhe applied assumed continuity when recording non-current assets in the statement of financial position. Answers to these part questions relating to accounting principles, were usually wrong. The correct answer was:

Using this principle the non-current assets are shown in their book value
If it was intended to close the business in the near future, they would be shown at expected sale value.

(e) Candidates were required to suggest three possible reasons why Masakhe required a bank overdraft. One common answer was “to pay debts” not specifying short-term debts. Short term was key here since this was a bank overdraft. The correct answer was:

High levels of trade receivables / trade receivables slow to settle debts
To meet short-term debts when they fall due
To improve cash flow / liquidity
Expenses not controlled efficiently
To purchase additional non-current assets / expand the business
To take advantage of business opportunities as they arise

Question 5
Candidates were presented with data relating to Bhanyaza’s records.

	E
Inventory (1 July 2023)	23 300
Inventory (30 June 2024)	22 200
Information for the year ended 30 June 2024	
Sales	75 000
Purchases	55 300
Operating expenses	8 600

The questions were on ratios. This was the worse performed question yet candidates cover ratios extensively in paper 3. It was disappointing that most candidates failed even to correctly calculate and comment on these ratios.

(a) (i) This question required candidates to calculate Bhanyaza’s cost of sales and gross profit. The question was mostly done correctly but some confused operating expenses for trading expenses hence got a wrong gross profit.

(ii) Candidates were asked to calculate gross margin, mark up, profit margin and rate of inventory turnover. These posed a challenge to a number of candidates as they failed to use correct amounts. The rate of inventory turnover proved to be more difficult as nearly every candidate failed to calculate it correctly. Candidates also ignored the instruction to calculate the ratios correct to two decimal places. This disadvantaged them as no mark was awarded if the instruction was not adhered to. The correct answer was:

(b) (i) *Calculation of cost of sales and gross profit*

	E	E
Sales		*75 000*
Inventory (1 July 2023)	*23 300*	
Purchases	*+ 55 300*	
	78 600	
Inventory (30 June 2024)	*- 22 200*	
Cost of sales		*56 400*
Gross profit		*18 600*

(ii) *Gross margin* $= \frac{18\,600}{75\,000} \times \frac{100}{1} = 24.80\%$

Mark up $= \frac{18\,600}{56\,400} \times \frac{100}{1} = 32.98\%$

Profit margin $= \frac{10\,000}{75\,000} \times \frac{100}{1} = 13.33\%$

Rate of inventory turnover $= \frac{56400}{(23\,300 + 22\,200)/2} = \frac{56\,400}{22\,750} = 2.48$ *times*

(c) Candidates were given that the profit margin for the year ended 30 June 2023 was higher than that for the year ended 30 June 2024.

(i) This part question required candidates to suggest two possible problems that may arise because of the fall in Bhanyaza's profit margin. This question was not well answered by a number of candidates.

The correct answer was:

may face cash flow problems
delay expansion
prospective investors might not be willing to invest to the business

may be difficult to access loans
Bhanyaza may be discouraged from continuing with the business

(ii) The question required candidates to suggest two reasons for the fall in the profit margin. This question was not done well as some did not attempt to answer the question or wrote irrelevant responses. Correct responses included:

decrease in gross margin
an unfavourable change in the type of expense
an increase in expenses

(c) Candidates were asked to suggest two ways in which Bhanyaza could improve the rate of inventory turnover. This question was challenging to candidates as a majority failed to give correct responses.

The correct answer was:

reduce inventory levels
more sales activity

EPCSE

EPCSE Business Accounting

5921/03 Practical Paper

General comments

Centres were given two similar projects to be evenly distributed to candidates. Both projects were on partnership businesses. Each project comprised of **three** stages. Stage 1 on theory questions, stage 2 on of recording business transactions using source documents in subsidiary books, post to the different types of the ledger and prepare financial statements and stage 3 calculation of profitability and liquidity ratios analyzing, interpreting, commenting and recommending on how businesses could improve in future. Candidates were required to answer **all** the questions.

The overall performance of the candidates was fairly good. The 2024 cohort was stronger than that of 2023. Although some candidates failed to record correct amounts in subsidiary books hence lost marks for the entry in the subsidiary books and also the ledger entries. The recording wrong and or different amounts in the trial balance and in financial statements was also common.

Centres are advised to ensure that candidates pay attention to detail in all the stages. Each document begins with rubrics. Candidates are advised to adhere to these instructions to avoid losing marks.

Comments on Specific Questions

Stage One – Task One

Candidates were to answer questions from **Document A** for this task.

Project A

Part A candidates were required to explain one advantages of partnership business and four contents on a partnership agreement.

This part was well done by a majority especially with the advantages of a partnership business. Contents of a partnership agreement were fairly done but there were some candidates who gave vague answers, for example, address; not specifying whose address; date, not specifying which date. Correct responses included the following:

Advantages of partnership business

- *sharing of skills and ideas – partners will come with different skills and ideas that will contribute to the success of the business*
- *more capital is raised – each partner will contribute capital*
- *losses are shared – losses incurred by the business will be shared by the partners*
- *responsibilities are shared – different tasks will be performed by different partners*

Contents of a partnership agreement

- *Name and address of the partnership business*
- *Name and address of each partner*
- *Date of commencement of the partnership business*
- *Amount of capital contributed by each partner*
- *The ration in which profits or losses will be shared*

- *The rate of interest on capital*
- *The rate of interest on drawings*

Part B Candidates were required to identify accounting records each trader would use, justify the use of the record and name the source of information for each record.

This was part A of project B

This part question was fairly done by a majority of candidates. Although there were some candidates who only did the first part and did not attempt the second part of the stage 1.
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 just wrote, cash book, journal and ledger not specifying the types of journal or of the ledger, hence lost marks

The correct answer was:

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

Project B

Part B This part question required candidates to explain the importance of a partnership agreement. A majority of candidates did well on this part question.

The correct answer was:

The partnership agreement serves as a guide on how the business is operated because it contains the partnership rules hence help eliminate unnecessary conflicts among partners.

Centres are urged to ensure that candidates **use Document A** to answer at this stage and **refrain** from using the instructions to candidates. The later gives candidates an overview of the components of the whole project, it is supposed to be given to candidates before they start doing the project. It does not have specific questions to the project.

Stage 2

Candidates were given source documents for three months and were required to record 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. This is part of the general journal so it should not be a separate journal entry. There were a few candidates who prepared the opening journal entry as if it was 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 credited the difference between totals of the columns being capital. Since these projects were on partnership businesses; capital amount for each partner was supposed to be shown. This was not done by some candidates who presented one figure as capital amount. 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.

Project A, a majority of candidates only had only the opening journal entry in the general journal but left out the interest payable charged by a supplier and the irrecoverable debt written off.

For project B, candidates failed to record equipment bought on credit, drawings of goods by one partner (Soba) and an irrecoverable debt written off.

Project A

The correct answer was.

General Journal

2024		*Debit*	*Credit*

		E	E
March 1	*Premises at cost*	*450 000*	
	Fixtures and fittings at cost	*85 000*	
	Cash in hand	*2 491*	
	Cash at bank	*345 924*	
	Inventory	*192 585*	
	Trade receivables- Vuli Computers	*39 500*	
	Woza Computer Shop	*24 900*	
	Electricity accrued		*6 000*
	Trade payables – Zama and Sons		*75 900*
	Provision for depreciation – Fixtures and fittings		*8 500*
	Capital: Lizwe		*700 000*
	Mandla		*350 000*
	Assets, liabilities and capital at 1 March 2024	*1 140 400*	*1 140 400*
	Interest payable	*1 518*	
	Zama and Sons		*1 518*
April 14	*Interest charged on overdue account*		
	Irrecoverable debts	*5 270*	
	Vuli Computers		*5 270*
May 31	*Irrecoverable debt written off*		

Project B

General Journal

2024		E	E

March 1	*Fixtures and equipment (at cost)*	*90 000*	
	Inventory	*97 440*	
	Cash at bank	*200 000*	
	Cash in hand	*4 560*	
	Capital account – Soba (392 000 x 3/5)		*235 200*
	Capital account – Sotja (392 000 x 2/5)		*156 800*
	Assets, liabilities and capital at this date	*392 000*	*392 000*
March 31	*Fixtures and equipment*	*30 000*	
	Bonga		*30 000*
	Equipment bought on credit		
April 26	*Drawings – Soba*	*4 080*	
	Purchases		*4 080*
	Goods taken by partner for own use		
May 20	*Irrecoverable debts*	*19 100*	
	TK Stores		*19 100*
	TK Stores account written off as irrecoverable debt		

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 book for each month; for example: opening a purchases journal for March, a separate one for April and another for May. This resulted in wrong nominal accounts balances. The cash book was well done but there were also some candidates who had a challenge with the recording of the discount amounts they either omitted them or entered wrong amounts. The returns journals were sometimes wrong because some candidates used the debit note dates instead of the credit note date when recording in the subsidiary books and in the ledger. This did not earn any mark as credit note dates are used when recording returns.

The Ledger

This book is divided into three types. A majority of candidates had correct headings separating the ledger as sales ledger, purchases ledger or the general ledger. Most presented the accounts correctly under the correct division of the ledger but some ignored the classification of accounts, mixed general ledger accounts with either sales or purchases ledger accounts. 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. Centres are urged to ensure that each type of ledger is distinctly displayed and the correct accounts are recorded under each. Further ensure that one account is used for same transactions given in different months

The problem of closing nominal accounts still persisted. Amounts transferred to the income statement at the end of the three months trading period were either wrong or written as balance. Also, candidates failed to show profit and drawings in the capital account at the end of the three months trading period as per the instruction on documents.

Project A correct capital account

Capital – Lizwe account

2024		*E*	*2024*		*E*
May 31	*Drawings*	*1 000*	*March 1*	*Balance*	*700 000*
31	*Balance c/d*	*718 669*	*May 31*	*Share of profit*	*19 669*
		719 669			*719 669*
			June 1	*Balance b/d*	*718 669*

Capital - Mandla account

2024		*E*	*2024*		*E*

May 31	*Balance c/d*	*359 834*	*March 1*	*Balance*	*350 000*
			May 31	*Share of profit*	*9 834*
		359 834			*359 834*
			June 1	*Balance b/d*	*359 834*

Project B correct capital account

General Ledger

Capital account - Soba

2024		*E*	*2024*		*E*
May 31	*Drawings*	*4 080**(1)***	*March 1*	*Balance*	*235 200*
31	*Balance c/d*	*259 852*	*May 31*	*Profit*	*28 732*
		263 932			*263 932*
			June 1	*Balance b/d*	*259 852*

Capital account - Sotja

2024		*E*	*2024*		*E*
May 31	*Drawings*	*10 500**(1)***	*March 1*	*Balance*	*156 800*
31	*Balance c/d*	*165 455*	*May 31*	*Profit*	*19 155*
		175 955			*175 955*
			June 1	*Balance b/d*	*165 455*

Bank reconciliation statement

A majority of candidates had the correct structure of a bank reconciliation statement but failed to correctly calculate the balance as per cash book or bank statement since the balance was a bank overdraft. It is however advisable that candidates begin with the balance as per bank statement since it is given and then calculate the balance as per the cash book. This helps avoid arriving at a wrong bank balance in case the balance as per cash book was wrong.

Trial balance

This part was generally correctly done. However, most candidates lost marks for not using amounts from their ledger accounts. Candidates were expected to use ledger accounts balances from their records to prepare the trial balance. Some candidates then used different figures. This failed to earn them marks because reference was made to their ledgers for each account balance.

Financial statements

The income statement and statement of financial position were generally prepared correctly. Candidates earned high marks on this part except for those who used different amounts from those listed in their trial balance. Records that lacked consistency, that is, changing accounts amounts at each stage, lost marks. A majority of candidates used the acceptable formats of presenting financial statements and that is commendable. However, a majority failed to effect adjustments which led to loss of marks.

Stage 3

This part question required candidates to calculate profitability and liquidity ratios, interpret them, recommend/comment or advice the partners for future.

A majority of candidates earned good marks on this stage but there were centres whose candidates did not attempt to answer this part question thus lost 25 marks. Centres are encouraged to ensure that their candidates complete the project. Further, some candidates used ratios which are out of the syllabus scope. This also failed to earn marks.

Calculation of accounting ratios

This part was done well by a majority of candidates. However, there were some candidates who used amounts whose source could not be traced. These amounts were not from their income statement nor statement of financial position, hence did not attract any mark. Some candidates gave final figures for each ratio without any working. To avoid the unnecessary loss of marks, candidates should ensure that the ratios calculation includes the working for each ratio and that amounts used are from their financial statements.

Interpretation and comments of accounting ratios

This part question was done well by a majority of candidates as interpretations related to the calculated ratios. But, there were some candidates whose interpretations were not good enough to earn a mark and some were not relevant to the calculated ratios. Reference was made to the calculated ratios for each interpretation.

Recommendations or advice

A majority of the candidates had a challenge on this part question. A majority of candidates wrote general comments and did not relate to the partnership business in question. Some comments had no link to their businesses, and this is discouraging. Centres are advised to train their candidates to refer to their records for proper comments and recommendations; for example, if the current ratio is high, check what caused it to be high, for example, it could be that the inventory figure or the bank balance are too high.

- *the accounts are only for three months; the owner has to 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, 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.

Interpretation and comments on ratios

Gross Margin	*For every E100 of revenue the business is making a gross profit of E19.13* *Appears profitable*
Profit Margin	*For every E100 of revenue the business is making a profit of E8.73* *Appears profitable*
Rate of inventory turnover	*The business was able to sell and replace inventory only 1.21 times in the three-months period.* *It is low for a business that is in its second year of trading.* *Measures should be taken to improve the inventory turnover.* *The business should consider advertising its products and reduce inventory levels.*
Current ratio	*It is too high, way above benchmark.* *Quite large inventory and high bank balance.* *More funds are tied-up in the current assets.* *Funds not being utilized effectively*
Quick ratio	*It is very high, way above benchmark.* *It indicates poor management of liquid assets*
Return on capital employed	*Calculation based on opening capital employed* *For every E100 capital employed the business is making E2.81 profit.* *The assets were not used effectively to generate Enough profit.* *The business should consider renting out part of the*

premises to other wholesalers which may need storage space to generate other income.

Recommendations / advice

General point

Calculate ratios at the end of the financial year to get a true picture of the business performance and liquidity

Compare with other similar businesses

Take steps to ensure that funds are used effectively

Inventory

Introduce inventory valuation system using inventory cards for each item to ensure that no item will be out of stock e.g Aspire and Victus and slow selling items like Zen book and Viva book are high-lighted, excess stock of some items is reduced, funds tied up in inventory is reduced.

Trade receivables

Obtain credit reference before selling on credit (to try to avoid irrecoverable debts like Vuli).
Credit control system appears to be working as statements of accounts are issued regularly
Consider making provision for irrecoverable debts.

Trade payables

As funds are available ensure accounts are paid on time.
Must pay credit suppliers on time to avoid interest on overdue account like Zama and Sons and also take advantage of cash discount.

Current assets

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

Expenses

Consider advertising to try to increase sales

<u>The correct answer for Project B was:</u>

Calculation of Ratios

1.	*Gross Margin*	*117 390 x 100* *593 700*	*19.77%*
2.	*Profit Margin*	*47 887 x 100* *593 700*	*8.07%*
3.	*Rate of Inventory Turnover*	*476 310* *(97 440 + 151 140)/2*	*3. 83 times*
4.	*Current ratio*	*426 400 : 208 093*	*2.05 :1*
5.	*Quick ratio*	*275 260 : 208 093*	*1.32 : 1*
6.	*Return on capital employed (opening)*	*47 887 + 750 x 100* *(392 000 + 50 000)*	*11.00%*

Interpretation and comments on ratios

Gross Margin — *The partnership business made a gross profit of E19.77 for every E100 revenue in the three months trading period.*

Looks satisfactory, compare with similar businesses

Profit Margin — *The partnership business made a profit of E8.07 for every E100 revenue in the three months trading period*

It's reasonably profitable

Some expenses are a bit high for a new business for example rent.

Rate of Inventory Turnover — *The partnership business sold and replaced its inventory 3.83 times in the three months trading period.*

	It looks satisfactory
	The value of inventory has increased significantly from E97 440 to E151 140 over the three months.
Current ratio	*Slightly above the benchmark 1.5:1 to 2.0:1.*
	Current assets can meet immediate liabilities as they fall due
	The current assets include a high level of inventory/ and trade receivables
Quick ratio	*Just slightly above the benchmark 1:1.*
	Liquid assets are sufficient to meet immediate liabilities as they fall due
	A high reliance on trade receivables
Return on capital employed	*The partners made a return of E11.00 for every E100 used in the business.*
	Profitable as profit has been calculated for only three months trading period.

Recommendations / advice

General point

These ratios are only for three months of trading

Calculate ratios at the end of the business financial year to get 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. This helps to easily identify items to order since the system would indicate re-order levels. It ensures no items will be out of stock like the 3-piece Timber wall unit and 5-piece Timber wall unit. It also ensures that slow-selling items are high-lighted like Crystal TV stand (medium) and Crystal round coffee table.

Credit customers

Have a credit limit for each customer in order to reduce the high figure for total trade receivables. / The credit control system appears to be working as statements of account are issued regularly but consider creating a provision for doubtful debts as the business had an irrecoverable debt.

Credit suppliers

Consider if could buy from cheaper suppliers. / all accounts were paid in time to earn a cash discount.

Liquidity

High amount of trade receivables and inventory mean that funds could be used more effectively/ Take steps to ensure funds are being used efficiently.

Bank

The balance drastically declined. /The business should consider buying non-current assets on credit to avoid paying large sums of money at the same time as the motor vehicle was paid by cheque.

Expenses

Reduce expenses to maximise profit e.g. renting cheaper premises /; not employing assistant; reducing rate of discount allowed.

Review expenses after 12 months

Increase sales or generate more income

Comments on Specific Questions

Question 1

(a) **(i)** The question required candidates to name the part labelled **A** in seed 2 The question was not well attempted. Most candidates failed to name the radicle. They incorrectly named it as a plumule, radius or root instead of a radicle.