



Examination Report

Business Accounting

5921

EPCSE

2025

General comments

The paper was divided into two sections, A and B. It was marked out of 100 marks. Section A comprised of two (2) short answer questions marked out of 40 marks. Section B comprised three structured questions marked out of 60 marks. All five questions were compulsory and written in 2 hours. The overall performance of the 2025 cohort was generally poor as the majority of candidates got very low scores. The highest score was 66% better than that of 2024. The lowest score was 8%.

Candidates lost marks due to failure to pay attention to rubrics, leaving dates or writing wrong dates for ledger accounts and failure to present answers in the correct structure. In some responses like the statement of changes in equity, the majority of candidates showed that there had no clue of what was required as they filled up all the blank spaces instead of identifying the correct items affected.

Specific comments

Question 1

This question proved to be very easy for a majority of candidates as they got most of the questions correctly.

(a) Candidates were required to fill in missing information on a given a source document.

A majority of candidates failed to give the correct name of the document but were able to calculate correctly the missing figures. Very few got wrong calculations. The document was a statement of account.

(b) This part question required candidates to state the reason why Hlomulo Wholesale sent the document to Sam Retailers
This question was answered well by many but some wrote that it was to demand payment. Correct responses included the following.

- provides summary of transactions that occurred between Hlomulo Wholesale and Sam Retailers
- shows amount owed by Sam Retailers
- act as a reminder to Sam Retailers to pay the amount due

(c) (i) Required candidates to state the type of discount stipulated at the end of the document and (ii) state one reason for giving the discount. This was a cash discount. A majority got these questions correctly. There were candidates who wrote discount allowed/discount received as the answer; and this did not earn a mark. Very few confused the trade discount with cash discount as they wrote a wrong type of discount but reason was to encourage prompt payment.

(d) The question required candidates to state subsidiary books used for different entries. For candidates who identified correctly the source document, it was easy. However, there were those who failed to earn a mark here. The correct response was:

6 July 2025 – sales journal

8 July 2025 – returns inwards journal/sales returns journal

29 July 2025 – cash book

Candidates were told that Hlomulo Wholesale applies the duality principle when maintaining accounting records.

- (e) (i) his question required candidates to explain the duality principle and (ii) and to complete a table relating to transaction o 6 July 2025. The first part was easy to many but failed to correctly fill the table. The correct responses were:
- (ii) Principle of duality – every transaction has two aspects/accounts – the giving and receiving. The giving aspect/account is credited and the receiving aspect is debited.
- (iii)

Document issued	Name of the business issuing the document	Entries made by Hlomulo Wholesale	
		Account debited	Account credited
invoice	Hlomulo Wholesale	Sam Retailers	sales

Question 2

The first part of the question (a) was easy to the majority and the rest were challenging to some candidates.

- (a) This question required candidates to state uses of a general journal. This question was answered correctly by the majority of candidates. The correct responses included the following:

- to record purchase of non-current asset on credit
- to record sale of non-current asset on credit
- to record expenses incurred on credit
- to record interest charged and earned
- to record irrecoverable debts written off
- to record opening journal entries
- to record adjustments to financial statements
- to record drawings for purchases

(b) Candidates were required to prepare journal entries to correct the following errors.

- 1 The rent payable account was undercast by E1700
- 2 Credit purchases, E880, from Thoba recorded in Thabo's account
- 3 No entry was made for cash sales , E9000.

This part question was a challenge to many as wrong responses were given. A majority could not identify errors affecting two accounts and one where suspense account was to be used to correct the error. The correct answer was:

Lindelwa
General Journal

	Debit	Credit
	E	E
Rent payable	1700	
Suspense		1700
Correction of an error where rent payable was undercast.		
Thabo	880	
Thoba		880
Correction of an error where credit purchases from Thabo were recorded in Thoba's account/an error of commission.		
Cash	9800	
Sales		9800
Correction of an error where cash sales were omitted from the books of accounts/ an error of omission.		

(c) This part question required candidates to prepare a statement of corrected profit the year, given that profit for the year calculated from draft statement of account was E12 900. This was one question that was difficult for the majority as very few prepared a statement that one could understand its contents. Candidate would add or subtract every amount given in the question instead of identifying those affecting profit.

The correct answer was:

Lindelwa	
Statement of corrected profit for the year ended 31 July 2025	
	E
Profit for the year from draft income statement	12 900
Add sales omitted	<u>9 800</u>
	22 700
Less rent payable undercast	<u>1 700</u>
Corrected profit for the year	<u><u>21 000</u></u>

Question 3

Candidates were given information from Mohale's business on 1 September 2024 (the beginning of the financial year) and on 31 August 2025 (the end of the financial year). Further, they were also provided with information regarding receipts, payments and additional information for the year.

- (a) This question required candidates to prepare Mohale's income statement for the year ended 31 August 2025 showing calculations of purchases and sales.

The majority of candidates failed to calculate the sales and purchases figures from the given information. In fact, very few attempted to do the calculations. Most would just take one figure like payments to suppliers or cheques from trade receivables and use them as purchases and sales. Hence, failed to get the correct gross profit and profit for the year. This question was one of the worst performed.

The correct answer was:

Mohale		
Income statement for the year ended 31 August 2025		
		E
Sales (134 300 + 35 640 – 43 600)		126 340
Less cost of sales		
Opening inventory	36 500	
Purchases (59 500 + 28 300 – 25 700)	<u>62 100</u>	
	98 600	
Closing inventory	<u>22 450</u>	
		<u>76 150</u>
Gross profit		50 190
Less expenses		
Motor expenses (5 200 – 800 + 1200)	5 600	
General expenses (6 800 – 300)	6 500	
Provision for doubtful debts (35 640 x 5%)	1 782	
Depreciation of equipment ((40 000 + 25 000) x 20%)	13 000	
Depreciation of motor vehicle (72 000 x 20%)	<u>14 400</u>	
		<u>41 282</u>
Profit for the year		<u>8 908</u>

- (b) This part question required candidates to prepare Mohale's statement of financial position at 31 August 2025. A majority of candidates were able to identify some current assets and current liabilities but had difficulty in correctly presenting non-current assets. For equipment, some used the amount given at the beginning of the year and ignored the equipment bought during the year. Further the accumulated depreciation amounts were often wrong as only depreciation for the year ended 31 August 2025 was used by the majority. The correct answer was:

Mohale			
Statement of financial position at 31 August 2025			
	E	E	E
Non-current assets	Cost	Depreciation to date	Book value
Equipment (40 000 + 25 000)	65 000	21 000	44 000
Motor vehicle	<u>90 000</u>	<u>32 400</u>	<u>57 600</u>
	<u>155 000</u>	<u>53 400</u>	101 600
Current assets			
Inventory		22 450	
Trade receivables	35 640		
Less provision for doubtful debts	<u>1 782</u>	33 858	
General expenses prepaid		300	
Bank		<u>27 560</u>	
		<u>84 168</u>	
			<u>185 768</u>
Financed by:			
Capital			167 360
Profit for the year			<u>8 908</u>
			176 268
Less drawings			<u>20 000</u>
			156 268
Current liabilities			
Trade payables		28 300	
Motor expenses owing		<u>1 200</u>	
			<u>29 500</u>
			<u>185 768</u>

Question 4

The question was on MXW Limited a public limited company registered on October 2022.

- (a) This part question required candidates to state the difference between (i) limited liability and unlimited liability; and (ii) private company and public company.

This question was well answered by many. Very few could not clearly state the differences. Some used wrong terms like members and partners when referring to shareholders; this did not attract any mark.

The correct answers were: (i) Limited liability – when liability for the debts of the company is limited to the amount the shareholder agreed to contribute to the capital of the company

Unlimited liability – when the owners of a business are personally responsible for all the debts of the business

(ii) Private company – a company which is not allowed to offer its shares to the general public

Public company – a company which is allowed to offer its shares to the general public

Candidates were then given that after calculating profit for the year ended 30 September 2025, MXW Limited discovered the following errors.

Error 1 Cost of repairing the interior of motor vehicle, E8000, had been debited to the motor vehicle account

Error 2 Rent received from a tenant, E600, had been credited to the premises account.

Error 3 Carriage on sales, E350, was included in the sales account.

Error 4 Legal costs on the purchase of a new warehouse, E2500, had been debited to the general expenses account.

(b) This part question required candidates to complete a table identifying the effect of each error on MWX Limited's non-current assets. Candidates were to state whether the noncurrent assets were overstated, understated or that the error had no effect and indicate the amount. The first one was completed as an example.

A Majority of candidates had difficulty in correctly answering this question.

The correct answer was:

Error	Effect on non-current assets
Error 1	<i>overstated by E8000</i>
Error 2	understated by E600
Error 3	no effect
Error 4	understated by E2500

Further the following information was given MXW Limited information on the start of the the financial year on 1 October 2024.

	E
Ordinary share capital	350 000
General reserve	34 000
Retained earnings	21 450

Additional information on 30 September 2025

- 1 The amended profit for the was E67 400
- 2 A dividend of E24 000 was paid on the ordinary shares
- 3 A transfer of E8 500 was made to general reserve

- (c) Required candidates to complete a table of a statement of changes in equity for the year ended 30 September 2025. Candidates were expected to fill in amounts under correct headings. However, some showed no clue of what they were supposed to do by either filling in each item amount under all headings or leaving the table blank. Very few attempted this correctly but some lost marks because the amount would be entered correctly under one heading and wrongly entered on the second one; yet to earn (1) mark here the whole row had to be correct.

The correct answer was:

Details	Ordinary Share capital E	General reserve E	Retained earnings E	Total E	
Balance at 1 October 2024	350 000	34 000	21 450	405 450	(1) row
Profit for the year			67 400	67 400	(1) row
Dividend paid			(24 000)	(24 000)	(1) row
Transfer to general reserve		8 500	(8 500)	0	(1) row
Balance at 30 September 2025	350 000	42 500	56 350	448 850	(1) row

Candidates were told that MXW Limited wants to raise funds for expansion. The company is considering issuing either additional ordinary shares or debentures.

- (d) (i) candidates were required to suggest two ways in which the issue of debentures may affect the existing ordinary shareholders.

It was exciting to note that most candidates attempted this part question correctly, but some gave irrelevant responses.

The correct answer was:

- less profits available for distribution of dividends
- ordinary share dividends are paid after interest on debentures
- funds must be available when repayment of debentures is due
- prior claim on the assets of the company upon liquidation

- (ii) the question required candidates to suggest two ways in which the issue of additional ordinary shares may affect existing ordinary shareholders. This part question was challenging to the majority such that it was common that the answer given in (i) be repeated here. Candidates could not clearly distinguish how existing shareholders would be affected by an issue of new shares.

Correct responses included:

will have less voting power as all shares carry one vote

less dividend available to existing shareholders

upon liquidation the remaining assets have to be shared between more shareholders

- (e) This question required candidates to complete a table by placing a tick under the correct column to indicate the effect of each statement on equity of MXW Limited.

Most candidates correctly completed most parts of the table.

The correct answer was:

	Effect on equity		
	Increase	Decrease	No effect
Issue of additional ordinary shares	✓		
Proposal of ordinary share dividend			✓
Payment of interest on debentures		✓	
A transfer from retained earnings to general reserve			✓

Question 5

Candidates were presented with data taken from Wemusa's books

	E
Non-current assets	122 800
Current assets	36 400
Current liabilities	14 300
Profit for the year	12 350

- (a) (i) the question required candidates to calculate Wemusa's current ratio, correct to two decimal places.

A majority of candidates calculated the ratio correctly. However, there were some who used the quick ratio formula.

The correct answer was:

current assets: current liabilities

36 400: 14 300

2.55: 1

Some candidates lost marks because they presented their answer as:

= 2.545 : 1 Or 2.5 : 1 Or just 2.55 All these did not attract any mark.

Others wrote the answer as 2.54 : 1 ignoring the principle of rounding up.

- (ii) This part question required candidates to comment on Wemusa's current ratio. comments based on (a) (i), This question was answered correctly by the majority but there were some who wrote contradicting comments like satisfactory and further stated that it showed that funds are not effectively utilized. OR
Satisfactory but unused non-current assets should be sold and access funds invested.
These responses showed that candidates did not understand the meaning of 'satisfactory'.

Correct comments included:

unsatisfactory, it is too high

above benchmark of 1.5: 1 to 2: 1

funds tied up in current assets could be utilised more effectively

- (b) (i) The question required candidates to define capital employed. Although this part question proved to be easy for many some confused capital employed with working capital.

The correct answer was:

The total funds used by a business.

- (ii) candidates were required to calculate Wemusa's return on capital employed, correct to two decimal places. This part was difficult for many as some used wrong formulas, substituted wrongly having capital

employed as numerator and profit for the year as a denominator. Some did not multiply the answer by 100 to present it as a percentage.

The correct answer was:

$$\frac{\text{profit for the year} \times 100}{\text{Capital employed}}$$

$$\frac{12\,350}{122\,800 + (36\,400 - 14\,300)} \times 100$$

$$\frac{12\,350}{141\,900} \times 100 = 8.52\%$$

(iii) Candidates were required to comment on Wemusa's return on capital employed. This part was badly performed as most of the answers in (b) (ii) were not relevant.

The correct answer was:

Wemusa's business earned E8.52 for every E100 it employed.

(c) Candidates were asked to complete a table showing the effect of each action on the return on capital employed. This part was perfectly done by some candidates but proved to be difficult to others as some would get almost all parts correct and others get everything wrong or just one correct.

The correct answer was:

Action		Effect on return on capital employed		
		Increase	Decrease	No effect
1	purchasing motor vehicle on credit			✓
2	reducing operating expenses	✓		
3	obtaining long-term loan		✓	
4	selling goods on cash basis only			✓
5	taking advantage of cash discounts offered by suppliers	✓		
6	introducing additional capital		✓	

Candidates were informed that Wemusa wish to compare his trading results with another business.

(d) This question required candidates to explain two factors Wemusa should consider when comparing his trading results with another business.

Most candidates failed to earn full marks for each point because they only stated the points with no explanation

Correct responses included:

The type of business organisation

Wemusa 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/industry

Wemusa 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

Wemusa 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

Wemusa 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

Wemusa 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

Wemusa should compare with a business that has been operating for approximately the same number of years as his business

Paper 5921/03

General comments

Candidates were given a project on a sole trade business. The project comprised of **three** stages. Stage 1 on theory questions, stage 2 on of recording business transactions using source documents in subsidiary books, posting to the different types of the ledger, prepare the bank reconciliation statement, trial balance and financial statements. Stage 3 include the calculation of profitability and liquidity ratios, interpretation of the ratios, comments and recommendations on how the business could improve in future. All questions were compulsory.

The overall performance of the candidates was fairly good, similar to that of 2024. The highest score was 75% and the lowest was 3%. Candidates recorded business transactions using documents for three months. Some candidates failed to sequence and organize their work properly hence difficult to follow their records. Some would use correct subsidiary books but failed to organize the ledger according the different types (general, purchases and sales). At the end of each month, some candidates failed to make transfers from the different journals and balance accounts yet each document began with rubrics that clearly state what to do.

Comments on specific questions

Stage One – Task One

Document A

This document comprised of two questions. Candidates were supposed to answer all questions.

A. Candidates were required to give advantages of a sole trade business.

B. Required to explain accounting records the trader would use, justify the use of the record and name the source of information for each record.

Both questions were generally done well by a majority of candidates. The majority of candidates were able to give advantages of a sole trader and identify the accounting records the trader would use. However, some centres only gave subsidiary books as accounting records ignoring the different types of the ledger. While, some candidates listed the books as cash book, journal and ledger and this did not attract a mark as candidates were expected to specify the names of accounting records.

Despite the improvement in answering this part, the tendency of focusing on the main question, that is, the accounting records, still persists. Some candidates did not answer the question on advantages of a sole trader. Centres are advised to ensure that candidates **use Document A** when doing the proposal and refrain from using the instructions to candidates which gives an overview of the components of the project.

The correct answers were:

A. Explanation of Advantages of a Sole Trader

- Easy to establish as a few formalities are required
- The owner is entitled to all the profit
- The owner has complete control
- Decisions can be quickly

B. 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

Stage 2

Candidates were given source documents for three months (March, April and May) and were required to record them in the correct subsidiary books, making month end transfers at the end of March and April; post to the ledger, close the ledger accounts at the end of May in preparation of financial statements; prepare a bank reconciliation statement; prepare a trial balance; calculate closing inventory and prepare financial statements.

Subsidiary books

Candidates recorded transactions correctly in the various subsidiary books. However, there were centres where candidates prepared subsidiary books for each month separately. For example; having 3 separate purchases journals, one for March, another for April and May. For example:

Purchases Journal

2025	Details	E	E
Mar 2	Sun Tyres Manufacturers		19 500
7	Hazy Stone Tyres		<u>36 140</u>
31	Transfer to purchases account		<u>55 640</u>

Purchases Journal

2025	Details	E	E
Apr 3	Sky Tyres International		<u>24 400</u>
30	Transfer to purchases account		<u>24 400</u>

Purchases Journal

2025	Details	E	E
May 2	Hazy Stone Tyres		35 880
10	Sun Tyres Manufacturers		<u>35 790</u>
31	Transfer to purchases account		<u>71 670</u>

These three would appear in different pages each following different subsidiary books and ledger accounts. This was confusing. Candidates should ensure that their work is organized properly. In fact it is expected that each subsidiary book is prepared under one heading.

The correct answer was:

Purchases Journal

The tendency of preparing the same subsidiary book for each month was also common with the general journal in almost all the centres. Candidates would prepare a general journal for opening entries for the calculation of capital and another for the other general journal entries. Although most general journal narratives were written correctly, narrative for opening entries were often wrong. The narrative for journal totals should be: assets, liabilities and capital to date. The private motor vehicle brought by the owner to the business was often mistakenly recorded in the cash book instead of the general journal.

Candidates recorded cash transactions correctly in the cash book but some had a challenge of recording correct discounts amounts. Some candidates ignored the use of the discounts columns or just recorded wrong amounts whose calculations were difficult to follow. Also, some candidates could not update the cash book correctly. There were some candidates who displayed their cash book on a portrait page which resulted in some information left out on the hard copies submitted. It is recommended the cash book page be landscape to allow all the information on it to come out when printed.

The Ledger

After the preparation of subsidiary books, candidates were required to prepare ledger accounts applying the duality concept. Candidates were expected to classify accounts according to their types; the purchases ledger, sales ledger and general ledger. A majority of candidates did not classify the ledger into their types. Occasionally, some had the headings of the ledger types but the accounts would be mixed up; that is, one would get general ledger accounts displayed under the sales ledger or purchases ledger. Some candidates

2025	Details	E	E
Mar 2	Sun Tyres Manufacturers		19 500
	Hazy Stone Tyres		<u>36 140</u>
7	Transfer to purchases account		<u>55 640</u>
31			
	Sky Tyres International		<u>24 400</u>
Apr 3	Transfer to purchases account		<u>24 400</u>
30			
	Hazy Stone Tyres		35 880
May 2	Sun Tyres Manufacturers		<u>35 790</u>
10	Transfer to purchases account		<u>71 670</u>
31			

opened several or multiple of the same account. This is not acceptable. One account should be used to record all data for that account; for example, if there are five transactions on

purchases, that does not mean there should be five purchases account but all the information on purchases

should be recorded under one heading. This should be done even if the transactions are for different months, one account should be used. Candidates should **not** have purchases account for March, another for April and another one for May. There were centres where candidates did not post entries from subsidiary books surprisingly, prepared financial statements

Some candidates had a challenge in closing nominal accounts in preparation of financial statements. The amounts transferred to the income statement at the end of the three months trading period were usually not shown or if shown they were presented as balances. Also, they were not able to adjust amounts where there were notes that required the amounts adjustment for the period. Further, the closing of the proprietary accounts is still not done correctly. When closing proprietary accounts, candidates are expected to transfer amounts to the capital account; that is, the capital account would show profit and drawings at the end of the three months trading period.

The correct capital and drawings account were:

Capital account

2025		E	2025		E
May 31	Drawings	2 040	Mar 1	Balance	154 000
31	Balance	298 981	Apr 1	Motor vehicle	140 000
	c/d		May 31	Profit	<u>7 021</u>
		<u>301 021</u>	June 1	Balance b/d	<u>301 021</u>
					298 981

Drawings account

2025		E	2025		E
Apr 16	Purchases	<u>2040</u>	May 31	Capital	<u>2040</u>

Bank reconciliation statement

This part was easy for many however, some candidates failed to identify the correct cash book balance used in the reconciliation statement. There were candidates who used the bank balance before updating the cash book and that was wrong. Others did not get a mark for the bank balance given in the bank statement because they had different amounts from the one given in the bank statement. Further, some candidates could not identify unpresented cheques and uncredited deposits.

Trial balance

Generally, this part was done well. Except for some candidates who would not use figures from their ledger accounts. Also, there were cases where candidates had few ledger accounts but had a long list of accounts in the trial balance. This failed to earn them marks because for each entry reference was made to ledger accounts to confirm if they were extracted from the candidate's books. Candidates who ignored the fact that a trial balance is extracted from the ledger lost marks. If ledger accounts were not prepared, no mark was awarded.

Financial statements

The preparation of an income statement and statement of financial position were generally fairly done. Candidates were able to prepare financial statements using the correct format. However, it was noted that some used figures which were different from those in their trial balance. In fact, some records lacked consistency, that is, candidates changed accounts amounts at each stage, hence, lost marks.

The correct income statement and statement of financial position were:

Income Statement for the year ended 31 May 2025

	E	E	E
Revenue			182 390
Less returns inward			<u>7 830</u>
Turnover			174 560
Less cost of sales			
Inventory on 1 March 2025		26 682	
Purchases	149 670		
Less returns outward	<u>1 020</u>	<u>148 650</u>	
		175 332	
Less inventory on 31 May 2025		<u>32 884</u>	
Cost of sales			<u>142 448</u>
Gross Profit			32 112
Add Discount received			1 773
Interest received			<u>558</u>
		2 010	34 443
Less expenses		6 000	
Insurance (4 020 – 2 010)		500	
Rent (8 000 – 2 000)		9 000	
Telephone expenses		2 532	
Salaries		1 875	
Discount allowed		195	
Interest on loan		810	
Bank charges		1 000	
Motor expenses		<u>3 500</u>	
Depreciation:			<u>27 422</u>
Fixtures and equipment (80 000 x 5% x 3/12)			<u>7 021</u>
Motor vehicle (140 000 x 15% x 2/12)			
Total expenses			
Profit for the three months' period			

Statement of Financial Position at 31 May 2025

	E	E	E
Non-current assets	Cost	Depreciation to date	Book value
Fixtures and equipment	80 000	1 000	79 000
Motor vehicle	<u>140 000</u>	<u>3 500</u>	<u>136 500</u>
	<u>220 000</u>	<u>4 500</u>	215 500
Current assets			
Inventory 31 May 2025		32 884	
Trade receivables		71 560	
Other receivables (2010 + 2000)		4 010	
Bank		190 009	
Cash		<u>6 008</u>	<u>304 471</u>
			<u>519 971</u>
Capital			
Opening balance			
Add Capital introduced		154 000	
Profit for the period		140 000	
Less Drawings		<u>7 021</u>	
		<u>2 040</u>	
Non-current liabilities			298 981
Loan - Khula Cooperatives			
			150 000
Current liabilities			
Trade payables			<u>70 990</u>
			<u>519 971</u>

Stage 3

This part question is marked out of 25 marks. Candidates were required to calculate profitability and liquidity ratios. Further, candidates were supposed to interpret the ratios, comment and make future recommendations to the business owner based on the analysis of the ratios. It was noted that some centres did not do this part hence candidates losing all 25 marks.

Calculation of accounting ratios

A majority of candidates who attempted this part did well, except for those who did not use amounts from their financial statements. To calculate profitability ratios, candidates were expected to use figures from their income statement and for liquidity ratios used figures from their statement of financial position. Some candidates used amounts that could not be traced as they did not appear in either their income statement nor statement of financial position. To earn full marks on this part, candidates were to show their working. That is, the formula for each ratio substituted correctly using figures from their financial statements. Candidates should ensure that they use the correct formula for each and every ratio.

The correct answer was:

Calculation of ratios

1	Gross margin	$\frac{32\,112}{174\,560} \times \frac{100}{1}$	18.40%
2	Profit margin	$\frac{7\,021}{174\,560} \times \frac{100}{1}$	4.02%
3	Rate of inventory turnover	$\frac{142\,448}{(26\,682 + 32\,884)/2}$	4.78 times
4	Current ratio	$\frac{304\,471}{70\,990}$	4.29:1
5	Quick ratio	$\frac{(304\,471 - 32\,884)}{70\,990}$	3.83:1
6	Return on capital employed	$\frac{7\,021}{304\,000} \times \frac{100}{1}$	2.31%

Note: All the calculations are to be based on own figures.

Interpretation of accounting ratios

This part was fairly done by many as candidates were able to interpret ratios correctly as per the results of each ratio. However, there were some candidates whose interpretations showed lack of understanding of the ratios. Like, with the profitability ratios, the gross margin was 18.40% and interpretation would be: A gross profit of E18.40 is earned for every E100 of sales for the business. Some candidates' responses were: The business earns 18.40% for every E100/ E1 of sales and/ The business earns E18.40 for every E1 of sales. These did not earn any mark as the percentage has to be changed to Emalangen; and making E18.40 gross profit for every E1 of sales showed that there is lack of understanding of the ratio.

Interpretation of ratios were:

Gross margin	18.40%	A gross profit of E 18.40 is earned for every E100 of sales for the business.
Profit margin	4.02%	A Profit of E4.02 was earned for every E 100 of revenue. / The business was not able to control its expenses.
Rate of inventory turnover	4.78 times	The business sold and replaced its inventory 4.87 times in the three months period. Satisfactory
Current ratio	4.29:1	The current ratio is 4.29:1 it is too high above the benchmark 1.5:1 to 2.0:1. /current assets can meet immediate liabilities as they fall due but means bad management of current assets.
Quick ratio	3.83:1	The quick ratio 3.83:1 it's above the benchmark 0.7: 1 to 1:1. / Liquid assets are sufficient to meet immediate liabilities as they fall due, but shows bad management of liquid assets.
Return on capital employed	2.31%	The business made a return of E2.31 for every E100 used in the business / Profit has been calculated for only three months trading period, business should compare ratio with other businesses in the industry.

Recommendations, comments or advice

There was a slight improvement in doing this part as some candidates did this part correctly. Most candidates had general comments and that was commendable. However, the expectation is that comment and recommendations should be based on the results of the analysis of the business ratios. Candidates should give examples relating to the business for example; the current ratio is high due to the high bank balance and then make recommendation that the money in the bank should be invested.

Correct responses included the following:

Comments

These ratios are only for three months of trading

Prepare financial statements at the end of the financial year

Compare business performance with other similar businesses and with previous years

Rate of turnover

It has been calculated only for three months and value of inventory has increased from E26 682 to E32 884 over the three months

Current ratio

The current assets include a large sum of money in the bank and high level of trade receivables Quick ratio

A high level of trade receivables the loan received in the first month of trading increased a bank balance

Liquid assets are sufficient to meet immediate liabilities as they fall due, but the business needs to invest the cash to an interest-bearing bank account or deposit account.

Return on capital employed

This is based on the opening capital. The business is profitable but would be lower in the next trading period as there is an additional capital of E140 000.

The business should compare ratio with other businesses in the same industry.

Note: all interpretations to be based on own figures

Recommendations for future

The ratios should be calculated after a twelve-months trading period as this would show a true picture of the business performance and liquidity in light of differences in the seasons of the year

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 15"195/65 Hazy Stone Tyre, 14"195/65 Sky Tyre and 16"215/65 Sky Tyre. This also ensures that slow-selling items are high-lighted like 14"175/60 Hazy Stone Tyre. / Reduce excess stock of some items e.g. 14"185/70 Hazy Stone Tyre/ too much money tied up in the high level of inventory

Credit customers

Have a credit limit for each customer so that it would 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 there is likelihood of irrecoverable debts e.g. Abdul Tyre Services was charged interest on overdue account

Credit suppliers

Buy from cheaper suppliers. / all accounts were paid in time to earn a cash discount

Liquidity

The long-term loan has increased the bank balance. Take steps to ensure funds are being used efficiently.

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

Note: all recommendations to be based on own figures