

ACCOUNTING

8244
Paper 1

1 GENERAL COMMENTS

There were many learners writing the AS Level examination who are not able to cope with the challenges and difficulties of Accounting AS Level.

Teachers are encouraged to continue emphasizing the importance of dates, names of contra accounts, layout of statements, etc. It is also of vital importance that learners are taught to show their calculations. It is important that teachers ensure that the entire syllabus is taught. It is obvious that some topics are not covered sufficiently well e.g., managerial accounting.

Some learners struggled to finish the paper and teachers are encouraged to teach time management skills in answering an examination paper during the year.

Teachers are requested to train learners to read carefully and with understanding, especially the requirements of a question and to answer only what is asked.

The neatness of the learner's work can improve. Abbreviations are not allowed.

2. COMMENTS ON INDIVIDUAL QUESTIONS

- 1 (a) Well answered. Learners could define the principles, however, they struggled to give a proper example that is linked to the principle.

Answers

- (i) The money measurement principle states that only transactions with a monetary value can be recorded, (1) e.g., the loyalty of the work force cannot be recorded. (1)
Any suitable example. [2]
- (ii) The business entity principle states that the owner and the business are separate entities and, therefore, the private transactions of the owner should be recorded separately in the business books, (1) e.g., the private expenses of the owner are recorded in the drawings account. (1) [2]

- (b) Well answered. The majority of the learners knew the layout of the income statement and could, therefore, find the correct gross profit.
A lot of learners incorrectly recorded the payment of the trade receivable (P Louw) as a bad debt recovered.
Interest on loan seems to be a challenging calculation for some learners.
Learners did not show the calculation.

Answer

Coast Traders
Income Statement for the year ended 30 September 2021

	N\$	N\$	
Sales (675 300 – 5 300)		670 000 (1)	
Less Cost of sales		427 000 (1) O/F	
Opening inventory	15 000		
Add Purchases (432 800 – 7 800)	425 000 (1)		
	440 000		
Less Closing inventory	13 000		
Gross profit		243 000 (1) O/F	
Add Other income		30 150	
Commission received (35 000 – 5 000) (1)			W1
Provision for doubtful debts (1 500 – 1350 (1))	150 (1)		W2
		273 150	
Less Expenses		90 850	
Bad debts (1 700 + 900)	2 600 (1)		W3
Interest on loan (11 250 (1) + 3 000 (1))	14 250		W4
Water and electricity (37 500 – 7 500 (1))	30 000 (1)		W5
Depreciation (36 000 (1) + 6 000 (1))	42 000		W6
Vehicle disposal (loss on disposal)	2 000 (1)		
Profit for the year		182 300 (1) O/F	

[17]

Workings

W1 $35\,000 \div 14 = 2\,500$

$$2\,500 \times 2 = 5\,000$$

W2 $(28\,500 - 1\,500) \times 5\% = 1\,350$

W3 $1\,700 + (1\,500 \times 0,6) = 2\,600$

W4 $100\,000 \times \frac{15}{100} \times \frac{9}{12} = 11\,250$

$$80\,000 \times \frac{15}{100} \times \frac{3}{12} = 3\,000$$

14 250

OR

$$80\,000 \times \frac{15}{100} \times \frac{12}{12} = 12\,000$$

$$20\,000 \times \frac{15}{100} \times \frac{9}{12} = 2\,250$$

14 250

W5 $(37\,500 \div 15) \times 3 = 7\,500$

W6 Vehicles: $180\,000 \times \frac{15}{100} = 36\,000$

Equipment: $(80\,000 - 20\,000) \times 10\% = 6\,000$

- (c) Fairly well answered. Most learners could identify the principles but failed to correctly explain and link them to adjustment for interest on loan.

Answer

Matching/Accrual (1)

Matching states that the income of one financial year must be matched to the expenses of the same financial year. (1)

Prudence (1)

Prudence states that all known losses and expenses must be written off immediately so the profit will not be overstated. (1)

Interest on loan was accrued with N\$2 250 and if it was not added to the interest on loan paid, the profit for the year will be overstated. (1)

[5]

- (d) Well answered.

Answer

Answer "Yes" or "appropriate method" (1)

Reasons

1. Machinery loses value faster during the earlier years of its life. (1)
2. Maintenance cost will increase as the machinery gets older. (1)
3. Machinery never reaches to a zero value.(1)
4. May show machinery at a more realistic book value. (1)

Any acceptable/suitable reason.

Any **two**

[3]

- 2 (a) Fairly well answered. Learners did not use the correct dates and the correct contra account names. Some learners became confused between the closing balances of the account and the amount that needs to be transferred to the income statement.

Answers

(i)

Stationery Account

		N\$			N\$
2020 Jul 1	Balance b/d	1 300	2021 Jun 30	Income Statement	6 700 (1) O/F
2021 Mar 31	Khomas Stationers	1 200 (1)		Balance c/d	600
Jun 30	Bank	4 800 (1)			
		<u>7 300</u>			<u>7 300</u>
Jul 1	Balance b/d	600 (1)			

[5]

(ii)

Advertising Account

		N\$			N\$
2020 Jul 31	Bank	400 (1)	2021 Jun 30	Income Statement	7 300 (1) O/F
Aug 1	Bank	6 000 (1)		Balance c/d (500 (1) + 600 (1))	1 100
2021 April 1	Bank	2 400 (1)			
Jun 30	Bank	8 800			8 800
Jul 1	Balance b/d	1 100			

[7]

(iii)

Interest on fixed deposit Account

		N\$			N\$		
2020 Jul 1	Balance	b/d	900 (1)	2021 Jun 30	Bank	6 500 (1)	
2021 Jun 30	Income Statement		7 200 (1)		Balance	c/d	1 600
Jun 30	Bank		8 100				8 100
Jul 1	Balance	b/d	1 600 (1) O/F				

[4]

(iv)

Rent income Account

		N\$			N\$		
2021 Jun 30	Income Statement		15 600 (1)	2020 Jul 1	Balance	b/d	2 400 (1)
	Balance	c/d	2 600	2021 Jun 30	Bank		15 800 (1)
			18 200				18 200
				Jul 1	Balance	b/d	2 600 (1) O/F

[4]

- (b) Poorly answered. Learners knew the difference between the two accounts but failed to explain the difference properly. The treatment of the two accounts was also omitted or incorrectly explained.

Answer

Bad debts are the actual amount that a business will not be able to collect from trade receivables. (1)
Amounts that are written off during the current financial year. (1)

This amount will be shown in the income statement as a bad debt. (1)

Any **two**

Provision for doubtful debts is an estimate of the amount which the business may lose to possible bad debts in the next financial year. (1)

It is deducted from trade receivables in the statement of financial position. (1)

The adjustment is written off to the income statement. (1)

Maintaining a provision complies with the prudence concept. (1)

Any **two**

[4]

- 3 (a) Fairly well answered. Learners struggled to calculate the amount for bad debts as well as the amount transferred to the income and expenditure account.

Learners omitted the balances brought down to the next financial year.

Answer

Subscriptions Account

		N\$			N\$		
2020 Jan 1	Balance	b/d	300	2020 Jan 1	Balance	b/d	600 (1)
Dec 31	Income & Expenditure		39 900 (1)	Dec 31	Bank/Cash		39 200 (1)
	Balance	c/d	1 000		Bad debts		100 (1)
					Balance	c/d	1 300
			41 200				41 200
2021 Jan 1	Balance	b/d	1 300 (1)	2021 Jan 1	Balance	b/d	1 000 (1)

[6]

(b) Very well answered.

Answer

The Fitness Club		
Income Statement for the year ended 31 December 2020		
	N\$	N\$
Sales		10 200 (1)
Less Cost of sales		8 600 (1)
Opening inventory	1 050	
Purchases (6 750 + 1 050)	8 800 (1)	
	<u>9 850</u>	
Less Closing inventory	1 250	
Income and expenditure/Profit on refreshments		<u>1 600 (1)O/F</u>

[4]

(c) Very poorly answered. Learners did not read the question carefully. They did not discuss the impact of excluding the adjustment but suggested how the exclusion of the adjustments can be corrected. The corrected surplus was calculated, which was not what the question required. Learners also omitted the amount of the effect on the surplus.

Answer

3. Water and electricity

Water and electricity was understated with N\$280, **OR** the expenses are understated with N\$280.(1)
The surplus, therefore, was overstated with N\$280. (N\$15 020) (1)

5. Wages

Wages were overstated with N\$530, **OR** the expenses were overstated by N\$530.(1)
The surplus, therefore, was understated with N\$530. (N\$15 550) (1)

6. Depreciation

Depreciation was understated by N\$2 700.(1)
The surplus, therefore, was overstated with N\$2 700. (N\$12 850) (1)

[6]

(d) Poorly answered. Learners did not compare a trading business with a non-profit making organisation. Learners failed to explain accurately and define the differences.

Answers

(i) The owner contributes money instead of the owner provides resources. (money and assets)
The accumulated fund is a contribution made by the members instead of a fund created from surpluses.

Answer

Capital is provided by the owner of the business. (1)

OR

Capital is the total resources provided by the owner of the business. (1)

Accumulated fund arises from surpluses of a non-profit making organisation. (1)

[2]

(ii) Profit is income less expenses instead of gross profit plus income less expenses from a trading business.

Answer

Profit for the year arises from revenue add other income less expenses from a trading or service business. (1)

OR

It is gross profit add other income and the expenses (1)

Surplus arises from subscriptions add other income, less expenses from a non-profit making organisation. (1)

[2]

- (iii) The income statement shows the profit and the Income and Expenditure shows a surplus instead of referring to the kind of business and mentioning the loss and deficit.

Answer

Income statement is a statement that shows the profit or loss for a specific financial year in a business. (1)

Income and expenditure account is used to calculate the surplus or deficit of a non-profit making organisation for a specific financial year. (1) [2]

- 4 (a) (i) Fairly well answered. Some learners could not calculate the correct profit in order to find the gross profit margin.

Learners did not **compare** the results of 2020 and 2021 and only gave one comment.

Answer

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Revenue}} \times \frac{100}{1}$$

2021

$$= \frac{187\,500}{750\,000} \times \frac{100}{1} \quad (1)$$

$$= 25\% \quad (1) \quad [2]$$

Comments

Has improved by 5%.

Shows good control over inventory.

Selling price has increased.

Cheaper suppliers.

Higher trade discount received.

Answers must relate to the candidate's answer in (i).

Any **two**

[2]

- (ii) Poorly answered. Most learners did not know the formula to calculate the earnings per share. Learners struggled to find the correct number of ordinary shares.

Many of the learners do not understand what the earning per share ratio means.

Learners did not **compare** the results of 2020 and 2021 and only gave one comment.

Answer

$$\text{Earnings per share} = \frac{\text{Profit for the year after tax}}{\text{Number of shares}}$$

2021

$$= \frac{140\,170}{130\,000} \quad (1)$$

$$= \text{N\$}1,08 \quad (1) \quad \text{O/F} \quad [2]$$

Comments

Business was more profitable **OR** profitability has improved.

The earnings per share have more than doubled.

Increase in profit/profitability resulted in each earning per share increasing

This will improve the confidence of the investors in the company.

Answers must relate to the candidate's answer in (ii).

Any **two**

[2]

- (iii) Fairly well answered. Most learners knew what the ratio means and what the acceptable norm is.

Some learners referred to assets and liabilities instead of current assets and current liabilities.

Learners did not compare the results of 2020 and 2021 but just stated the facts given in the question.

Answer

Comments

The current ratio has improved from 2020 to 2021.

The business is more able to pay its short-term debts from its current assets.

The ratio of 2021 is closer to the accepted minimum for this ratio of 2 : 1.

Any **two**

[2]

- (b) Poorly answered. Learners did not know how to calculate the ordinary dividends paid and did not show any workings.

Answer

Dividends per share

$$\frac{\text{Ordinary dividend paid (W1)}}{\text{Number of issued share capital (W2)}}$$

$$= \frac{60\,000}{130\,000}$$

= 46c OR N\$0,46 per share (1)

Workings

1. Ordinary dividend paid

Net Profit before Tax	250 430
Less: Tax	<u>110 260</u>
Net Profit after Tax	140 170 (1)
Add: Retained earnings (2020)	<u>35 682 (1)</u>
	175 852
Less: Retained earnings (2021)	<u>115 852 (1)</u>
	N\$ <u>60 000</u>

OR: (250 430 + 35 682 (1)) – (110 260 (1) + 115 852 (1))

= N\$60 000

2. Number of issued share capital

$$\frac{260\,000}{2} = 130\,000 \text{ shares (1)}$$

[5]

- (c) Well answered

Answer

- Non-financial aspects cannot be considered
- Difficult to compare transactions that took place at different times
- Some businesses use different accounting policies
- Certain general terms used in accounting statements may sometimes provide different meanings
- Accounting statements show a picture of a business as it was some time before the statements were prepared
- Different types of ownerships/businesses
- Different types of products
- Different capital structures
- Number of years in business
- Age of non-current assets
- Ratios are calculated on past data while decision-making focuses on business future

Any other suitable alternatives

Any **three**

[3]

- (d) Fairly well answered. Learners did not link their answers to the question asking for funds to buy new equipment of N\$200 000 and just chose general solutions.

Some learners suggested the issuing of preference shares which was not applicable in this question as Steel Ltd was only registered with ordinary shares.

Very few learners made use of a share premium as an extra source of finance.

Learners who chose to sell old equipment failed to see that, that will not bring in enough funds to raise the N\$200 000. Some learners also incorrectly referred to selling current assets.

Answer

Option 1

Issuing of shares.(1)

$$\frac{260\,000}{2} = 130\,000 \text{ shares already issued. The rest of the } 70\,000 \text{ shares can be issued at a premium}$$

of N\$1, (1) N\$3, which would lead to N\$210 000 being obtained. (1)

There will be no extra costs involved for the business. (1)

Option 2

Issuing of debentures.(1)

N\$200 000 debentures can be issued at a fixed rate of interest that must be paid e.g., 5%. (1)

Debentures have to be paid back together with the interest regardless of whether the business makes a profit or not. (1)

Option 3

Selling of old equipment.(1)

This will, however, not bring in enough funds. (1)

Option 4

Obtain a loan. (1)

Taking out a loan will supply the cash but the loan plus a fixed rate of interest must be paid back. (1)

The loan has already increased during 2021, therefore, taking out a loan is not a good option.

Best option: Option 1 (1)

Answer to be based on options listed by candidate.

[7]

3. POSITIVE SUGGESTIONS TO TEACHERS

Teachers must plan enough time for revision and examination preparation.

Learners should be encouraged to show all workings and calculations as well as explain terminology in full sentences.

Pay attention to dates, the correct account names and the correct layouts.

Learners should be coached to read the questions with care and understanding.