2020
ACCOUNTING

0187/02

QUESTION 1.

Letho is a trader who sells goods on credit to Lieta. He provided the following information for September 2020.

September 1 Lieta owed Letho M4500

8 Lieta paid M4410 by cheque in full settlement of the balance due on 1 September.

12 Lieta purchased goods on credit M6500

18 Lieta returned goods, M400.

(a) Prepare Lieta's account as it would appear in the ledger of Letho for the month ended 30 September 2020. Balance the account and bring down the balance on 1 October 2020.

(b) Name the document used by Letho to record the transactions on each of the following dates.

(i) September 12

(ii) September 18

(b) (i) State **two** features of trade discount.

(ii) State **two** reasons why Letho allows cash discount.

(c) At the end of this financial year on 30 September 2020 Letho prepared a trial balance from his ledger. The total on the debit side of the trial balance was M660 less than the total on the credit side. Letho entered this difference in a suspense account.

The following errors were later discovered:

1. Discount received, M580, had been debited to discount allowed account.
2. Rent paid, M920, had been correctly.
3. Sale of goods on credit to Lebohang, M1200, was correctly entered in Lebohang's account but was recorded in the sales account as M2100.

(d)(i) Prepare journal entries to correct the above errors. Narratives are **not** required.

(ii) Prepare a suspense account starting with the difference on the trial balance. Balance or total the account as necessary.

QUESTION 2

The following account appeared in the ledger of Litsebe, a Value Added Tax registered trader on 31 August 2020.

Capital account

	Dr	Cr	Balance

2019	M	M	M
Sept 1 Balance b/d			20 000
2020			
Aug 31 Drawings	100019 000		
Profit for the year		5000	?

(a) (i) Calculate the closing balance on the above account.

(ii) Name the format used in preparing the above account.

EXPECTED RESPONSE

Running balance method **(1)** **[1]**

(iii) State **two** advantages of preparing ledger accounts in this format.

(a) State **two** reasons why accounting information is used by each of the following parties.

(i) Litsebe (business owner)

(ii) Litsebe's employees

(iii) Tax authorities

(b) Advice Litsebe on the impact of drawings on his business.

Litsebe got registered for value added tax (VAT) on 1 July 2020. The following information was extracted from his books on 30 September 2020. VAT is charged at 14%.

	Purchases		Sales	
2020	Net M	VAT M	Net M	VAT M
July 31	76 000	10 640	95 000	13 300
August 31	54 300	7 602	77 000	10 780
September 30	67 400	9 436	72 000	10 80

(c) (i) Define the term value added tax (VAT).

(ii) Prepare the VAT account in Litsebe's Ledger for three months ended 30 September 2020. Balance the account every month and bring down the balance on 1 October 2020.

QUESTION 3

Jabu is a trader who sells on cash and credit. He does not keep a full set of accounting records. On 1 October 2019 Jabu had the following assets and liabilities.

	M
Premises at cost	60 000
Equipment at cost	18 000
Motor cycle at cost	16 000
Inventory	4 700
Trade receivables	5 500
Trade payables	4 000
Bank	2 400 Dr
Other receivables	240

(a) Prepare the statement of affairs of Jabu on 1 October 2019.

Jabu provided the following information for the year ended 30 September 2020.

	1 October 2019	30 September 2020
	M	M
Trade receivables	5500	5900
Trade payables	4000	4200
Inventory	4700	3000

On 30 September 2020 the following totals were available.

	M
Cash sales	9000
Receipts from trade receivables	5000
Payment to trade payables	8000
Discount allowed	700
Discount received	500
Sales returns	200

(b) (i) Calculate the total sales for the year ended 30 September 2020.

(iii) Calculate the total purchases for the year ended 30 September 2020.

(a) (i) Calculate the gross profit for the year ended 30 September 2020.

(ii) State **one** reason for the return of goods sold.

Question 4

GENERAL COMMENTS

The question was badly performed. Candidates could not compare results in the question and give causes.

Molefe has been in business for some years till 2020. He provided the following information for the years 2019 and 2020.

Ratio	2019	2020
(i) Gross profit/revenue	20%	24%
(ii) Profit for the year/revenue	12.50%	10.50%
(iii) Current ratio	2.50:1	1.43:1
(iv) Rate of inventory turnover	12 times	14 times
(v) Return on capital employed	12%	10%

Suggest **two** reasons for the difference in the following ratios:

(a) (i) Gross profit/revenue

(b) (ii) Profit for the year/revenue

(iii) Current ratio

(b) (i) Rate of inventory turnover

(ii) Rate on capital employed

(c) Comment on changes in the following ratios.

(i) Rate of inventory turnover

(ii) Return on capital employed

(iii) Advice Molefe on **three** ways in which he could increase his capital employed.

(iv) State **two** reasons why it is important for Molefe to have adequate working capital.

QUESTION 5

(a) State **two** features of a limited company.

(b) States what is meant by authorised share capital.

(c) State what is meant by issued share capital **(1)**

(d) (i) Stated **two** similarities and **two** differences between preference shares and debentures.

AB Ltd had the following issued share capital.

200 000 ordinary shares of M1.00 each

400 000 5% preference shares of M0.25 each.The profit of AB Ltd for the year ended 30 September 2020 was M35 000. The directors proposed preference share dividend for the year of 5%.

(e) Calculate the annual dividend payable to preference shareholders. (show your workings)

(f) Suggest any **three** reasons why debentures may be the most preferred means of investment over contribution of share capital.