



EXAMINATIONS COUNCIL OF LESOTHO
Lesotho General Certificate of Secondary Education

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ACCOUNTING

0187/02

Paper 2

October/November 2018

2 hours

Candidates answer on the Question Paper.

Marks: 100

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your name, Centre number and candidate number on all the work you hand in.

Write in dark blue or black pen.

You may use a soft pencil for any diagrams or graphs.

You may use a calculator.

Do not use staples, paper clips, glue or correction fluid.

Answer **ALL** the questions.

Where layouts are to be completed, you may not need all the lines for your answer.

If working is needed for any question it must be shown in the space below the question.

The number of marks is given in brackets [] at the end of each question or part question.

The businesses mentioned in this Question Paper are fictitious.

At the end of the examination, fasten all your work securely together.

DO **NOT** WRITE IN ANY BARCODES.

For Examiner's Use	
1	
2	
3	
4	
5	
TOTAL	

This document consists of 18 printed pages and 2 blank pages.



1 Lenea is a sole trader. He maintains a full set of accounting records and prepares monthly control accounts.

(a) State **two** advantages of preparing monthly control accounts.

1

.....

2

..... [2]

(b) Name the book of prime entry which Lenea would use to obtain the following information when preparing his control accounts.

	book of prime entry
goods returned to credit suppliers	
bad debts written off	
discounts allowed	
contra entry	

[4]

(c) State why Lenea uses information from books of prime entry rather than from the sales and purchases ledgers.

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..... [2]

(d) Suggest **two** reasons why it is possible to have a credit balance on a sales ledger control account.

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.....

..... [2]



(f) State why it was necessary to make a contra entry.

.....
..... [1]

[Total: 22]



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- 2 Libuseng started a cleaning service business on 1 October 2017. The bookkeeper was ill at the end of Libuseng's first year of trading and was unable to prepare a trial balance to check the double entry records. Libuseng was very anxious to know the profit for her first year of trading. Despite having very little knowledge of bookkeeping and accounting she made the following list of the balances on the books on 30 September 2018.

	M
Capital at 1 October 2017	60 000
Drawings	16 000
Cleaning equipment at cost	21 300
Motor vehicle at cost	14 000
Balance at bank	20 000
Fees from clients	87 000
Cleaning materials	26 000
Trade receivables	8 160
Trade payables	5 000
Wages	24 300
Discount allowed	2 500
Electricity	1 040
Motor expenses	2 950
Rent, rates and insurance	19 000
Discount received	1 200

Libuseng was also able to provide the following information at 30 September 2018.

- 1 Inventory of cleaning materials was valued at M3700.
- 2 Part of the premises was let to a tenant on 1 July 2018 at an annual rent of M5000. No rent had been received from the tenant by 30 September 2018.
- 3 The rent, rates and insurance includes 12 months' insurance, M3000, paid on 1 December 2017.
- 4 A debt of M260 should be written off as irrecoverable.
- 5 A provision for doubtful debts of 2% of the remaining trade receivables should be created.
- 6 Bank charges, M50, had not been recorded.
- 7 The motor vehicle is to be depreciated at 20% per annum on cost.
- 8 The cleaning equipment has a useful life of 9 years and an estimated residual value of M3300.

After the preparation of the draft income statement the bookkeeper returned to work. He prepared a trial balance from the list of balances Libuseng had made. The totals of the trial balance did not agree. The bookkeeper opened a suspense account and made an entry of M2050 on the credit side.

The following errors were later discovered.

- 1 An irrecoverable debt of M300 had been correctly recorded in the account of the credit customer but no bad debts account had been opened.
- 2 Cash drawings in September, M150, had been correctly recorded in the cash book but had been debited to the wages account.
- 3 The total of the discount received column in the cash book for September 2018 of M200, had been incorrectly debited to the discount allowed account.
- 4 Rates, M2000, had been correctly recorded in the cash book, but had been debited to the rent, rates and insurance account as M4000.
- 5 The balance of the petty cash book, M50, had been omitted from the list of balances and so had not been included in the trial balance.



3 Bokang is a trader who is registered for VAT. She provided the following information.

2018	Purchases		Sales	
	Net M	VAT M	Net M	VAT M
July	16 000	2 240	15 000	2 100
August	7 000	980	10 000	1 400
September	9 000	1 260	12 000	1 680

On 1 July 2018 Bokang's VAT account had a credit balance of M610. This was paid by cheque on 5 July 2018.

(a) State **one** difference between input tax and output tax.

.....
 [1]

(b) Prepare the VAT account for the three months ended 30 September 2018. Balance the account and bring down the balance on 1 October 2018.

Bokang
VAT account

.....

 [6]

Bokang's financial year ends on 30 September.

Bokang provided the following list of balances on 30 September 2018.

	M
Capital at 1 October 2017	48 000
Revenue	156 000
Purchases	130 000
Trade receivables	15 230
Trade payables	10 420
Bad debts	860
Provision for doubtful debts	190
Wages	29 800
Rent and insurance	3 950
Carriage outwards	1 120
Fixtures and equipment at cost	22 500
Provision for depreciation of fixtures and equipment	4 500
Inventory at 1 October 2017	11 300
Discount received	1 000
General expenses	6 730
Bank overdraft	680
VAT (from the account prepared in Part (b))	?



Bokang employed Kabelo as a temporary shop worker for the month of September 2018. Kabelo worked for a total of 194 hours. The normal monthly working hours are 180 and the normal hourly rate is M15. Any overtime is paid at time and a half.

Kabelo is a member of a trade union and pays a monthly subscription of M20.

Any monthly pay in excess of M1500 is subject to income tax of 20%.

(e) Calculate Kabelo's net pay for September 2018.

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..... [3]

[Total: 18]

The directors of ML Limited wish to expand the business and have estimated that M40 000 will be required. They are considering issuing either 4% debentures or 5% preference shares.

(c) State **two** features of debentures.

- 1
-
- 2
- [2]

(d) State **two** features of preference shares.

- 1
-
- 2
- [2]

(e) State **one** advantage to the ordinary shareholders if the additional funds are raised by an issue of debentures.

-
- [1]

(f) State **one** disadvantage to the ordinary shareholders if the additional funds are raised by an issue of debentures.

-
- [1]

[Total: 14]

(b) (i) Calculate the percentage of gross profit to revenue (to **two** decimal places).

.....
.....
.....
..... [2]

(ii) Suggest **two** reasons why the percentage of gross profit to revenue for the year ended 31 March 2018 is lower than it was in the previous financial year.

1
.....
2
..... [2]

(c) (i) Calculate the return on capital employed (ROCE) (to **two** decimal places).
Use the capital at the start of the financial year.

.....
.....
.....
..... [2]

(ii) Suggest **two** reasons why the return on capital employed (ROCE) is higher than it was the previous financial year.

1
.....
2
..... [2]

(d) (i) Calculate the current ratio at 31 March 2018 (to **two** decimal places).

.....

 [1]

(ii) Complete the table to indicate how **each** of the following actions would affect the current ratio.

The first one has been completed as an example.

	increase	decrease	no effect
obtain a long term-loan	✓		
ask the bank for overdraft facilities			
sell goods for cash instead of on credit			
create a provision for doubtful debts			

[3]

(e) (i) Calculate the quick ratio at 31 March 2018 (to **two** decimal places).

.....

 [2]

(ii) Suggest **two** ways in which the quick ratio could be improved.

1

2

..... [2]

(iii) Explain why the quick ratio is a more reliable measure of liquidity than the current ratio.

.....

 [2]

[Total: 23]



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