

THE INSTITUTE OF CHARTERED ACCOUNTANTS
NOVEMBER 2015 PROFESSIONAL EXAMINATIONS
FINANCIAL ACCOUNTING (1.1)
EXAMINERS GENERAL COMMENTS

GENERAL PERFORMANCE

The performance of candidates was better compared to the previous sittings. A good number of candidates exhibited a high sense of preparedness while others were not well prepared. The strength of most candidates was demonstrated in the Income Statement and the Statement of Financial Position. Candidates generally scored better in question seven than in the other questions.

The level of comprehension of candidates in the preparation Income Statement and Statement of Financial Position was good.

STANDARD OF THE PAPER

The standard of the question paper was good and candidates were asked to answer five (5) questions out of seven (7) question. The questions were clear, well typed and the instructions were also clearly stated. There were no ambiguities in the paper.

The mark allocations followed the weight as stated in the syllabus and marks were allocated to each sub-questions.

The questions were evenly spread over the topics in the syllabus. The marking scheme was well typed out.

WEAKNESSES OF CANDIDATES

However a significant minority of students are still not taking the time to organise their answer booklets and ensure that questions were in the correct order. The main areas of weakness for these candidates were as follows;

- i) Poor handwriting, particularly in theory questions;
- ii) No workings presented (for such candidates significant marks were lost as a result);
- iii) Workings not referenced in answers and all workings completed together at the end of the answer book.

Many candidates did not attempt all questions. This made achieving a passing mark for the question and paper overall significantly more difficult. Some candidates attempted the same part of the same question several times and then ran out of time and did not complete the entire paper.

THE INSTITUTE OF CHARTERED ACCOUNTANTS
NOVEMBER 2015 PROFESSIONAL EXAMINATIONS QUESTIONS
FINANCIAL ACCOUNTING (1.1)

QUESTION ONE

(a) Explain the following Terms:

- i. Depreciation.
- ii. Useful Life of a Fixed Assets. **(4 marks)**

(b) There are four (4) factors /causes that contribute to depreciation of a Fixed Asset. List these factors or causes. **(2 marks)**

(c) Atta Moses is a trader who prepares account to 31st December each year. The following transactions with regard to Assets have taken place.

- i. 3rd January, 2010 purchased one Office Equipment (Laptop) for GH¢2,000.
- ii. 5th July, 2011 purchased Plant and Machinery costing GH¢50,000.
- iii. 1st December, 2011 purchased Plant and Machinery for GH¢20,000
- iv. 15th December, 2012 bought Office Equipment (Printer) for GH¢1,000.

Mr. Atta maintains its Fixed Assets at cost and depreciates its Asset at a constant rate of 20% using the straight line method of providing for depreciation for all Assets. Assets purchased attract full depreciation charge in the year of purchase, whilst any asset disposed off attracts no depreciation charge.

You are required to prepare the following:

- i. Plant and machinery Account.**
- ii. Office Equipment Account.**
- iii. Provision for Depreciation Account.** **(6 marks)**

(d) The following information was extracted from the records of Mama Constance, a Petty Trader as at 31st December, 2014.

Balance as per Bank Statement as at 31st December, 2014 was GH¢10,000 credit.

Cash Book balance was GH¢40,000 credit in the Bank Account column.

The following had been reflected in the Bank Statement but not in the Cash Book.

i. Bank loan interest	GH¢ 2,000
ii. Bank Charges	GH¢ 6,000
iii. Dividends from Investment	GH¢10,000
iv. Interest from Treasury Bill	GH¢ 4,000

In addition, a cheque of GH¢ 20,000 issued to Madam Peace was dishonoured because of insufficient fund. A cheque of GH¢25,000 from Stephen has not been credited. A cheque of GH¢49,000 issued to Samuel remained unrepresented.

You are required to prepare:

- i. **An adjusted Cash Book.** (2 marks)
- ii. **Bank Reconciliation Statement as at 31st December, 2014.** (6 marks)

(Total= 20 marks)

QUESTION TWO

- a) What is International Financial Reporting Standard (IFRS) foundation? Mention two (2) objectives of the foundation. (5 marks)
- b) The following information relate to “God will Provide” Youth Club for the accounting period of 2014.

	GH¢
Subscription owing for 2014	40,000
Payable for End of Year Party	1,500
Payables for Repairs – Equipment	1,000
Payables for Repairs - Vehicle	2,000

Payments:

Vehicle running Expenses	6,000
Electricity Expenses	3,000
End of Year Party Expenses	10,000
Salaries and Wages	25,000
Printing and Stationery	3,000
Cleaning Expenses	6,000

Receipts:

Car Park Renting	10,000
Sales of Party Tickets	6,000
Donation from friends of the club	15,000

Subscription Received:

2013	6,000
2014	30,000

Additional Information are:

- | | | |
|------|--|--------|
| i. | Cash in hand as at 01/01/14 | 18,000 |
| ii. | Subscription owing as at 01/01/14 | 8,000 |
| iii. | Any subscription outstanding is written off in the following year if it is not paid. | |

You are required to prepare:

- i. Receipts and Payments Account for the year ended 31st December, 2014** (5 marks)
- ii. Subscription Account** (3 marks)
- iii. Income and Expenditure for the year ended 31st December, 2014** (7 marks)

(Total= 20 marks)

QUESTION THREE

(a) Explain what is meant by the following terms as per IAS 7

- i. Statement of Cash flow (3 marks)
- ii. Cash (1 mark)
- iii. Cash equivalents (1½ marks)
- iv. Operating activities (1½ marks)
- v. Investing activities (1½ marks)
- vi. Financing activities (1½ marks)

(b). (i) Yaa Baby Company Ltd. has the following items in its Statement of Financial Position as at 31st December, 2014.

	GH¢
Inventories	130,000
Trade Receivables	60,500
Cash in hand	3,453
Trade Payables	96,750

The company belongs to a Trade Association that has recently published industry averages for key financial ratios based upon a survey of its members. The industry averages for current and quick ratios applicable to the business of Yaa Baby Co. Ltd are:

Current ratio = 1.55: 1

Quick ratio = 0.95: 1

Required:

Calculate Current and Quick ratios of Yaa Baby Co. Ltd. and briefly comment on the result with reference to the industry averages.

(5 marks)

- ii. Financial Ratios can be grouped under three (3) broad categories i.e. **Profitability, Liquidity/Working capital and Debt and Gearing/Leverage ratios**. List all the ratios under **Liquidity or Working capital ratios**.

(5 marks)

(Total= 20 marks)

QUESTION FOUR

(a)

- i. Define Book of Prime Entry. **(1 mark)**

- ii. Mention any four (4) Books of Prime Entry. **(4 marks)**

- (b) Felicia, Jackson and Elizabeth are in Partnership Sharing Profits and Losses in the ratio of 5:3:2 respectively. According to the Partnership Agreement, Partners Capital Accounts attract an interest of 20% per annum. While any Drawings by a Partner also attract 10% interest per annum.

The following understated Trial Balance has been extracted after the preparation of the Profit and Loss Account for the period ending 31st December, 2014.

	DR	CR
	GH¢	GH¢
Building	55,000	
Furniture & Fittings	20,000	
Motor Vehicles	45,000	
Payables		25,000
Receivables	20,000	
Cash at Bank	35,000	
Stock (31 st December, 2014)	20,000	
	DR	CR
	GH¢	GH¢

Capital Account:

Felicia		50,000
Jackson		30,000
Elizabeth		20,000

Current Account:

Felicia		2,000
Jackson	5,000	
Elizabeth	10,000	
Loan-Elizabeth		20,000
Profit and Loss Account	_____	63,000
	<u>210,000</u>	<u>210,000</u>

The following entries have not been recorded in the books.

- (i) Salary of GH¢5,000 was paid to Elizabeth during the period.
- (ii) Felicia personally paid General Expenses of GH¢2,500 on behalf of the Partnership.
- (iii) Cash Drawings made by partners: Felicia GH¢500, Jackson GH¢1,500 and Elizabeth GH¢1,200.
- (iv) Interest on loan – Elizabeth – GH¢2,000.
- (v) Jackson took goods worth of GH¢2,000 for personal use.
- (vi) Interest on Capital Account. All Capital Accounts were to remain fixed.

You are required to prepare:

- i. Profit or Loss and Appropriation Account. (7 marks)**
- ii. Partners' Current Account. (3 marks)**
- iii. Statement of Financial Position as at 31st December, 2014 (5 marks)**

(Total=20 marks)

QUESTION FIVE

- (a) Under the International Financial Reporting Standards, **IAS 2** deals with inventories. Define the following terms:
 - i. Inventories **(4 marks)**
 - ii. Net Realisable Value **(2 marks)**

- (b) Alpha Ltd. controls its Creditors' Accounts by preparing monthly Creditors' ledger Control Account in two parts, Northern and Southern Sectors.

The following figures were available as at January 31st 2014 when there was a difference of Gh¢3,000 on the Trial Balance.

	Northern Sector GH¢	Southern Sector GH¢
<u>2014</u>		
1 st Jan Balances on Creditors Ledger (Credit)	15,600	10,200
1 st Jan Balances on creditors Ledger (Debit)	2,500	284
1 st - 31 st Jan. Purchases	115,200	18,500
1 st - 31 st Jan. Returns	8,000	1,400
1 st - 31 st Jan. Charges by Suppliers	800	120
1 st - 31 st Jan. Cheques paid to Suppliers	30,500	15,200
1 st - 31 st Jan. Discount received from Suppliers	2,500	1,520
31 st Jan. Balances on Creditors Ledger (debit side)	1,500	1,300

On 31st January, 2014 the officer in charge of Northern Sector Ledger declared GH¢89,600 while that of Southern Sector declared GH¢15,016.

You are required to:

- i. Prepare Creditors Ledger Control Account for the Northern and Southern Sectors respectively. (12 marks)**
- ii. Draw any conclusion you can from the two Control Accounts. (2 marks)**

(Total= 20 marks)

QUESTION SIX

Agyakoo is a vehicle spare parts dealer in Aboisokai. He pays into his Bank Account the amount of his cash takings after keeping an amount of GH¢2,000 per week for personal use and after payment of wages and other expenses, which for the Accounting period ending 31st December 2014, were as follows:

	GH¢
Staff Wages	1,440
Goods	9,500
Cleaning	1,200
Carriage	600
Sundry	5,000

The following are his Bank transactions

	GH¢
Income Tax	3,000
Telephone	600
Bank Lodgments:	
Cash Sales	30,100
Bulk Sales (Cheques)	95,000
Treasury bill Interest	5,000
Payments to Suppliers	110,000
Rent	10,000
Electricity	500
Balance as at 1 st January 2014	6,000

The following additional information were also provided:

	<u>01/01/2014</u>	<u>31/12/2014</u>
	GH¢	GH¢
Furniture & Fittings	1,200	1,100
Stocks in Trade	10,500	7,650
Payables – Goods Purchased	1,670	2,750
- Rent	5,000	6,000
- Electricity	500	650
- Telephone	150	200
- Accountancy Fee	-	750
Treasury Bills	10,000	10,000
Receivables –Bulk Sales	8,000	15,000

You are required to:

- i. Prepare Income Statement for the year ending 31st December 2014. (10marks)**
- ii. Prepare Statement of Affairs as at 1st January 2014. (2 marks)**
- iii Prepare Statement of Financial Position as at 31st December 2014. (8 marks)**

(Total 20 marks)

QUESTION SEVEN

- (a) Distinguish between Capital Expenditure and Revenue Expenditure (5 marks)**

(b) The following Trial Balance was extracted from the books of Danfo Enterprise, a second hand bags dealer as at 31st December, 2014.

	DR	CR
	GH¢	GH¢
Stock in Trade	120,000	
Vehicle (Cost)	150,000	
Trade Receivables	80,000	
Accumulated Depreciation: Vehicle		30,000
Furniture & Fittings		10,120
Trade Payables		100,000
Drawings	120,000	
General Expenses	65,000	
Provision for doubtful debt		2,500
Rate & Rent	14,000	
Insurance	5,000	
Bad Debt	7,000	
Discount Received		25,150
Discount Allowed	15,160	
Bank Balance	165,240	
Wages & Salaries	250,000	
Sundry Expenses	6,150	
Vehicle Running Expenses	15,650	
Furniture & Fittings	50,600	
Repairs to the shop	6,500	
Purchases	650,120	
Sales		1,079,130
Capital	<u> </u>	<u>473,520</u>
	<u>1,720,420</u>	<u>1,720,420</u>

The following additional information are provided:

- i. Provision for doubtful debts is to be reduced by 10%.

- ii. Rate and Rent has been paid in advance by two (2) months. Note that Danfo Enterprise pays GH¢1,000 each month.
- iii. Stock in trade as at 31st December, 2014 GH¢80,150.
- iv. A bill of GH¢6,150 for vehicle running was outstanding as at 31st December, 2014.
- v. The Enterprise provide depreciation as following.
 - Vehicle 20% per annum on straight line bases.
 - Furniture and Fittings 20% per annum on straight line basis.

You are required to:

- i. Prepare Income statement for the year ending 31st December 2014. (8marks)**
- ii. Prepare Statement of Financial Position as at 31st December 2014. (7 marks)**

(Total =20 marks)

SUGGESTED SOLUTIONS

- a)
- i. Depreciation is the allocation of the Depreciable amount of an asset over its estimated useful life. This allocated amount is charged against the income statement/Profit and Loss Account.
 - ii. The useful Life of an Asset is either the period over which a depreciable asset is expected to be used. OR the number of production/similar unit expected to be obtained from the Asset by the enterprise/company.
- b)
- Physical deterioration/Expected physical wear and tear.
 - Obsolescence/Economic factors.
 - Depletion (Natural resources such as mines)
 - Legal limit/Time factor.

c) i

Office Equipment Account

		GHS			GHS
03/01/10	Bank	<u>2,000.00</u>	31/12/10	Balance c/d	<u>2,000.00</u>
01/01/11	Balance b/d	<u>2,000.00</u>	31/12/11	Balance c/d	<u>2,000.00</u>
1/01/12	Balance b/d	2,000.00			
15/08/12	Bank	<u>1,000.00</u>	31/12/12	Balance c/d	<u>3,000.00</u>
		<u>3,000.00</u>			<u>3,000.00</u>

c) ii

Plant and Machinery Account

		GHS			GHS
05/07/11	Bank	50,000.00	31/12/11	Balance c/d	<u>70,000.00</u>
01/12/11	Bank	<u>20,000.00</u>			<u>70,000.00</u>
		<u>70,000.00</u>			
01/01/12	Balance c/d	<u>70,000.00</u>	31/12/12	Balance c/d	<u>70,000.00</u>

c) iii

Depreciation Account

		GHS			GHS
31/12/10	Bank	<u>400.00</u>	31/12/10 P&L (Office Equipment)		<u>400.00</u>
31/12/11	Balance c/d	14,800.00	01/01/11 Balance b/d		400.00
			31/12/11 P&L (Office Equipment)		400.00
			31/12/11 P&L (Plant & Mach.)		<u>14,000.00</u>
		<u>14,800.00</u>			<u>14,800.00</u>
31/12/12	Balance c/d	29,400.00	01/01/12 Balance c/d		14,800.00
			31/12/12 P&L (Office Equip.)		600.00
			31/12/12 P&L (Plant & Mach.)		<u>14,000.00</u>
		<u>29,400.00</u>			<u>29,400.00</u>

d) (i)

Mama Constance Ent
Adjusted Cash Book as at 31st December, 2014

		GHS			GHS
Dividends		10,000.00	Balance b/d		40,000.00
T- Bills Interest		4,000.00	Loan Interest		2,000.00
Dishonoured Cheque (Peace)		20,000.00	Bank Charges		<u>6,000.00</u>
Balance C/F		<u>14,000.00</u>			
		<u>48,000.00</u>			<u>48,000.00</u>

d ii)

Mama Constance Ent

Bank Reconciliation Statement as at 31st December, 2014

	GHS
Balance as per Adjusted Cash Book	(14,000.00)
Add: Unpresented cheques	<u>49,000.00</u>
	35,000.00
Less: Uncredited cheques	<u>25,000.00</u>
Balance as per Bank Statement	<u>10,000.00</u>

EXAMINER'S COMMENTS

This was in four parts. Part A asked candidates to explain the following terms: (i) Depreciation and (ii) Useful life of fixed assets.

Part B asked candidates to list four factors/causes that contribute to depreciation of a fixed asset.

Part C required candidates to prepare (i) the plant and machinery account (ii) office equipment account and (iii) provision for depreciation account.

Part D required candidates to prepare (i) an adjusted cash book and (ii) a bank reconciliation statement from a set data.

Some candidates had a weak understanding of depreciation and its causes. Some the candidates could not prepare the plant and machinery account and office equipment correctly. The provision for depreciation account was not very well prepared by majority of candidates.

In the adjusted cash book though the question stated that the cash book balance of GHS40,000 was credit in the bank account column some candidates treated it as debit balance therefore losing some vital marks.

Many candidates did not know how to deal with the treatment of dishonoured cheque.

Bank Reconciliation was a problem for some candidates as they could not figure out which items should go to either the adjusted cash book or the bank reconciliation statement and ended up mixing all the transactions.

However the pass rate in this question was good.

QUESTION TWO

- a) IFRS foundation is a non- profit making Private Sector body that oversees the International Accounting Standards Board (IASB) activities.

The Objectives are:

- Develop a single set of high quality understandable, enforceable and globally accepted standards.
- Promote the use and rigorous application of those standards.
- Take account of the financial reporting need of emerging economies and small and medium-sized entities.
- Bring about convergence of national accounting standards and IFRS(s) to high quality solutions.

- b) i. **God will Provide Youth Club**

Receipts and Payments for the year ended 31st December, 2014

	<u>GH¢</u>		<u>GH¢</u>
Balance b/f	18,000	Vehicle running	6,000
Car Park Rent	10,000	Electricity Expenses	3,000
Party Tickets	6,000	End of Year Party Expenses	10,000
Donation	15,000	Salaries & Wages	25,000
Subscription: 2013	6,000	Printing & Stationery	3,000
2014	<u>30,000</u>	Cleaning Expenses	6,000
	<u>85,000</u>	Balance c/d	<u>32,000</u>
Balance c/d	32,000		<u>85,000</u>

ii

Subscription Account for the year ended 31st December 2014

	<u>GHC</u>		<u>GHC</u>
Balance b/f	8,000	Receipt & Payments 2013	6,000
Income and Expenditure	<u>70,000</u>	2014	30,000
		2013 subscription write off	2,000
		Balance c/d	<u>40,000</u>
	<u>78,000</u>	Bal. b/d	<u>78,000</u>
			40,000

iii

God will Provide Youth Club

Income and Expenditure Account for the year ended 31st December, 2014

	<u>GHS</u>		<u>GHS</u>
Vehicle running (6,000+2,000)	8,000	Subscriptions	70,000
Electricity	3,000	Car Park Rent	10,000
End of year party (10,000+1,500)	11,500	Party Tickets	6,000
Salaries & Wages	25,000	Donations	15,000
Printing & Stationery	3,000		
Equipment Repair	1,000		
Cleaning Expenses	6,000		
Subscription write off	2,000		
Surplus	41,500		
	<u>101,000</u>		<u>101,000</u>

EXAMINER'S COMMENTS

The question was in two (2) parts. Part A asked the candidates to explain International Financial Reporting Standard (IFRS) foundation and required candidates to mention two (2) objectives of the foundation.

Part B required candidates to prepare: (i) Receipts and Payments Account, (ii) Subscription Account and (iii) Income and Expenditure Account.

Candidates have very poor understanding of issues relating to IFRS and especially the IFRS foundation. Candidates attempting this question either avoided this part or merely portrayed their ignorance.

Some candidates could not distinguish between receipts and payments and income and expenditure thereby putting all the transactions together.

Majority of candidates did not treat subscriptions correctly, mixing up the adjustment for opening and closing subscriptions paid in advance and subscriptions due.

The subscription account was either avoided or poorly done. In fact majority of the candidates did not know what to debit and credit.

QUESTION THREE

- a)
- i) **Statement of Cash flow** is a statement which provides users of Financial Statement with, the ability of an entity to generate cash and cash equivalents, as well as indicating the cash needs of the entity. In simple term is the Statement of how cash and cash equivalents have been generated and used by an organization.
 - ii) **Cash** comprises cash on hand (physical cash) and demand deposits.
 - iii) **Cash Equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in values.
 - iv) **Operating Activities** are the principal revenue producing activities of the enterprise and other activities that are not investing or financing activities.

v) **Investing Activities** are the acquisition and disposal of non-current assets and other investments not included in cash equivalent.

vi) **Financing Activities** are activities that result in changes in the size and composition of the equity capital and borrowing of the entity.

$$\text{b) .i. Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{(130,000+60,500+3,453)}{96,750}$$

$$= \frac{193,953}{96,750}$$

$$= \underline{2 : 1}$$

$$\text{Quick Ratio} = \frac{\text{Trade Receivable} + \text{Cash in hand}}{\text{Current Liabilities}}$$

$$= \frac{(60,500 + 3,453)}{96,750}$$

$$= \underline{0.66 : 1}$$

Comments

The company's Current ratio of 2:1 is higher than the industry average of 1.55:1, while that of Quick ratio of 0.66:1 is below the industry average of 0.95:1.

ii. Liquidity/working capital ratios are:

- Current ratio.
- Quick ratio.
- Receivables collection period.
- Payable payment period.
- Inventory turnover period.

EXAMINER'S COMMENTS

Question three (3) was in two parts. Part A required candidates to explain the meaning of the following terms as per IAS 7: (i) Statement of cash flow (ii) Cash (iii) Cash equivalents (iv) Operating activities (v) Investing activities and (vi) Financing activities.

Part B required candidates to calculate current and quick ratios from a set data and list all the various ratios under liquidity or working capital ratios.

Most candidates attempting this question did very well. The area of difficulty for few of them was the explanation of statement of cash flow. A few candidates also had problems computing the ratios and providing a list of liquidity ratios.

QUESTION FOUR

a) i. Books of Prime Entry are Books in which we first record transactions.

ii.

- Petty Cash Book
- Cash Book
- Sales Day Book
- Sales Returns Day Book
- Purchase Returns Day Book
- Purchase Day Book
- Journal

b) i.

Felicia, Jackson and Elizabeth Partnership
Profit and Loss and Appropriation Account to the Year ending 31st December, 2014

	GHS	GHS
Profit as per Trial Balance		63,000.00
Add: Goods taken-Current A/C-Jackson		<u>2,000.00</u>
		65,000.00
Less: General Expenses-Current A/C (Felicia)	2,500.00	
Loan Interest- Current A/C (Elizabeth)	<u>2,000.00</u>	<u>4,500.00</u>
Net Profit		60,500.00
Add: Interest on Drawings:		
Felicia (10/100*500)	50.00	
Jackson (10/100*3,500)	350.00	
Elizabeth (10/100*1,200)	<u>120.00</u>	520.00
Less: Interest on Capital:		
Felicia – (20/100*50,000)	10,000.00	
Jackson – (20/100*30,000)	6,000.00	
Elizabeth – (20/100*20,000)	<u>4,000.00</u>	20,000.00
Salary – Current A/C Elizabeth		<u>5,000.00</u>
		<u>36,020.00</u>
<u>Sharing of Profit/Loss</u>		
Felicia: (5/10 * 36,020)	18,010.00	
Jackson:(3/10 * 36,020)	10,806.00	
Elizabeth:(2/10 * 36,020)	<u>7,204.00</u>	<u>36,020.00</u>

ii.

Felicia, Jackson and Elizabeth Partnership

Partners Current Account

	F	J	E		F	J	E
	GHS	GHS	GHS		GHS	GHS	GHS
Bal b/f		5,000	10,000	Bal b/f	2,000		
Drawings	500	1,500	1,200	Salary			5,000
Goods		2,000		Int. on loans			2,000
Interest on				Gen. Exp.	2,500		
Drawings	50	350	120	Int. on Cap.	10,000	6,000	4,000
				Share			
Balance c/d	<u>31,960</u>	<u>7,956</u>	<u>6,884</u>	of Profit	<u>18,010</u>	<u>10,806</u>	<u>7,204</u>
	<u>32,510</u>	<u>16,806</u>	<u>18,204</u>		<u>32,510</u>	<u>16,806</u>	<u>18,204</u>

iii.

Felicia, Jackson and Elizabeth Partnership
Statement of Financial Position as at 31st December, 2014

<u>Non-Current Asset</u>	GHS	GHS
Building	55,000	
Furniture and Fittings	20,000	
Motor Vehicle	<u>45,000</u>	120,000
<u>Current Assets</u>		
Stocks	20,000	
Receivables	20,000	
Cash & Bank (35,000-(500+1500+1200))	<u>31,800</u>	
	71,800	
<u>Less Current Liabilities</u>		
Payable	<u>25,000</u>	<u>46,800</u>
		<u>166,800</u>
Financed By: Capital Account		
Felicia	50,000	
Jackson	30,000	
Elizabeth	<u>20,000</u>	100,000
Current Account:		
Felicia	31,960	
Jackson	7,956	
Elizabeth	<u>6,884</u>	46,800
Loan		<u>20,000</u>
		<u>166,800</u>

EXAMINER'S COMMENTS

This question was in two parts. Part A required candidates to define book of prime entry and mention four (4) books of prime entry.

Part B was on partnership and required candidates to prepare: (i) Profit or Loss and Appropriation Account (ii) Partners' Current Account and (iii) Statement of Financial Position.

Except for few ones, candidates were well abreast with the books of prime entry and the types of books of prime entry, this part of question was handled very well.

Majority of candidates had difficulties in preparing the appropriation account and current accounts.

In statement of financial position, the adjustments were wrongly adjusted by most of them. The current account balances were wrong for most of them.

QUESTION FIVE

a)

i. Inventories are assets:

- Held for sale in the ordinary course of business.
- In the process of production for such sale.
- In the form of materials or supplies to be consumed in production process or in the rendering of services.
- Goods purchased and held for resale e.g. goods held for sale by a retailer, or land and buildings held for resale.
- Finished goods produced.
- Raw materials.
- Work-in-progress.

ii. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

b) i)

Northern Sector
Creditors Ledger Control Account - Northern

2014	<u>GHC</u>	2014	<u>GHC</u>
1 st Jan. Bal.b/d	2,500	1 st Jan Bal. b/d	15,600
1 st -31 st Jan. Return	8,000	1 st -31 st Jan. Purchases	115,200
1 st -31 st Jan. Bank	30,500	1 st -31 st Jan. Charges	800
1 st -31 st Jan. Discount	2,500	31 st Jan. Bal.c/d	1,500
31 st Jan. Bal. c/d	<u>89,600</u>		
	<u>133,100</u>		<u>133,100</u>
1 st Feb. Bal. b/d	1,500	1 st Feb. Bal. b/d	89,600

c) . i **Creditors Ledger Control Account - Southern**

2014	<u>GHC</u>	2014	<u>GHC</u>
1 st Jan. Bal.b/d	284	1 st Jan Bal. b/d	10,200
1 st -31 st Jan. Return	1,400	1 st -31 st Jan. Purchases	18,500
1 st -31 st Jan. Bank	15,200	1 st -31 st Jan. Charges	120
1 st -31 st Jan. Discount	1,520	31 st Jan. Bal.c/d	<u>1,300</u>
31 st Jan. Bal. c/d	<u>11,716</u>		
	<u>30,120</u>		<u>30,120</u>
1 st Feb. Bal. b/d	1,300	1 st Feb. Bal. b/d	11,716

- ii. The Control Accounts reveal that there is a difference of **GHC3,300.00** between the Control Account for the Southern sector (**GHC15,016-11,716**) which is the total discovered by the officer in charge of the Southern Sector.

The Northern Sector ledger seems to be correct. The entries in the Southern Ledger should be checked again.

EXAMINER'S COMMENTS

This was in two parts. Part A required candidates to define the following under IAS 2: (i) Inventories and (ii) Net Realisable Value.

Part B required candidates to prepare Creditors Ledger Control Accounts and draw any conclusion from the control accounts.

Most candidates could not provide a clear and satisfactory definition of what inventories were and hardly give any examples.

Net Realisable value was even worse as the term was confused with Net Book Value.

A small number of candidates were not at all familiar with control accounts and mixed up debit and credit entries. Some candidates did not deal with the closing balances correctly.

A few candidates combined the two control accounts into one which was good and some did it poorly resulting in the loss of marks.

QUESTION SIX

a) i.

Agyakoo Enterprise Income Statement for the year ended 31st December, 2014

	GH¢	GH¢	GH¢
Sales			253,840
Less <u>Cost of sales:</u>			
Opening Stock		10,500	
Add Purchases	120,580		
Carriage	<u>600</u>	<u>121,180</u>	
		131,680	
Less Closing Stock		<u>7,650</u>	
			<u>124,030</u>
Gross Profit			129,810
Add Treasury bill Interest			<u>5,000</u>
			134,810
<u>Less Expenses:</u>			
Staff wages		1,440	
Cleaning		1,200	
Sundry		5,000	
Telephone (600+200-150)		650	
Rent (10,000+6,000-5,000)		11,000	
Electricity (500+650-500)		650	
Accountancy fees		750	
Depreciation (Furniture & fittings)		<u>100</u>	<u>20,790</u>
Net Profit before tax			114,020
Income Tax			<u>3,000</u>
Net profit after tax			<u><u>111,020</u></u>

ii.

Agyakoo Enterprise
Statement of Affairs as at 1st January, 2014

	GH¢	GH¢
<u>Assets</u>		
Furniture & Fittings	1,200	
Bank Balance	6,000	
Treasury Bills	10,000	
Receivables-Bulk Sales	8,000	
Stock in Trade	<u>10,500</u>	35,700
 <u>Less Current Liabilities</u>		
Payables-Goods	1,670	
Rent	5,000	
Electricity	500	
Telephone	<u>150</u>	<u>7,320</u>
Capital		<u>28,380</u>

iii.

Agyakoo Enterprise

Statement of Financial Position as at 31st December, 2014

	GH¢	GH¢	GH¢
	Cost	Dep.	NBV
Non-Current Assets			
Furniture & Fittings	1,200	(100)	1,100
Current Assets			
Stock in Trade		7,650	
Receivables		15,000	
Treasury Bills		10,000	
Bank Balance		<u>12,000</u>	
		44,650	
Less Current Liabilities			
Payables-Goods	2,750		
Rent	6,000		
Electricity	650		
Telephone	200		
Accountancy fees	<u>750</u>	<u>10,350</u>	
			<u>34,300</u>
			<u>35,400</u>
Financed By:			
Capital		28,380	
Add Net Profit after Tax		111,020	
Less Drawings		<u>104,000</u>	
			<u>35,400</u>

EXAMINER'S COMMENTS

This question was on incomplete records and candidates were asked to prepare (i) Income Statement (ii) Statement of Affairs and (iii) Statement of Financial Position.

Most candidates were not able to compute correctly the sales and the purchases figures, therefore the gross profit was wrong. Most candidates could not treat carriage inwards correctly as it was treated in the profit or loss account instead of adding it to the purchases.

Adjustments were poorly handled while work of most candidates was poorly arranged and presented. Key terms that earned mark such as "Less cost of goods sold", "Add purchases" and less expenses" were grossed over by quite significant number of candidates.

Some could not prepare the statement of affairs well. Most candidates however did well in the preparation of the statement of financial position.

QUESTION SEVEN

a) **Capital Expenditure:**

It is expenditure which results in the acquisition of fixed assets or an improvement in their earning capacity.

- Capital expenditure is not charged as an expense in the income statement at one go but rather a depreciation or amortization charge will usually be made to write off the capital expenditure gradually over time.
- Capital expenditure on fixed assets is the recognition of a fixed asset (e.g. vehicles, Land and Building) in the statement of financial position of the business.

Revenue Expenditure:

Is expenditure which is incurred for either:

- For the purpose of the trade/service of the business. This includes Selling & Distribution expenses, administration expenses and finance charges.
- To maintain the existing earning capacity on fixed Assets (such as repair expenses)
- To ensure smooth running of the day to day activities of the company/Business.

b) i

Danfo Enterprise

Income Statement for the year ended 31st December, 2014

	GH¢	GH¢
Sales		1,079,130
Less <u>Cost of Sales:</u>		
Opening stock	120,000	
Add Purchases	<u>650,120</u>	
Goods available for sales	770,120	
Less Closing Stock	<u>80,150</u>	<u>689,970</u>
Gross Profit		389,160
Discount Received		25,150
Provision for doubtful debt (10%*2,500)		<u>250</u>
		414,560
<u>Less Expenses:</u>		
General Expenses	65,000	
Rate & Rent (14,000-2,000)	12,000	
Insurance	5,000	
Bad debt	7,000	
Discount Allowed	15,160	
Wages and Salaries	250,000	
Sundry Expenses	6,150	
Vehicle running exp.(15,650+6,150)	21,800	
Repairs-Shop	6,500	
Depreciation: Vehicle (20%*150,000)	30,000	
F & F (20%*50,600)	<u>10,120</u>	<u>428,730</u>
Net Loss		<u>(14,170)</u>

b) ii

Danfo Enterprise

Statement of Financial Position as at 31st December, 2014

	Cost GH¢	Acc. Depn. GH¢	Net Value GH¢
<u>Non-Current Asset</u>			
Vehicles	150,000	60,000	90,000
Furniture & Fittings	<u>50,600</u>	<u>20,240</u>	<u>30,360</u>
	<u>200,600</u>	<u>80,240</u>	120,360
<u>Current Assets</u>			
Receivables	80,000		
Less Prov. For doubtful debt	<u>2,250</u>	77,750	
Bank Balance		165,240	
Stock in trade		80,150	
Rate & Rent		<u>2,000</u>	
		325,140	
Less <u>Current Liabilities</u>			
Payable	100,000		
Veh. Repairs owing	<u>6,150</u>	<u>106,150</u>	<u>218,990</u>
Net Assets			<u>339,350</u>
Financed By:			
Capital		473,520	
Net Loss		(14,170)	_____
Drawings		<u>(120,000)</u>	<u>339,350</u>

EXAMINER'S COMMENTS

This question was in two parts. In Part A candidates were asked to distinguish between Capital and Revenue Expenditure.

In Part B candidates were required to prepare an Income Statement and Statement of Financial Position.

Nearly all candidates attempted this question. In general it was the best answered question. Parts A and B were generally well answered.

Calculation and treatment of depreciation remain an issue for many candidates. Very disappointingly a significant number of candidates could not deal with allowances for receivables.