

INSTITUTE OF CHARTERED ACCOUNTANTS GHANA
 ACCOUNTING FUNDAMENTALS
 SOLUTIONS- MAY 2012

QUESTION 1

SASU ABOAGYE
 INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER, 2009

| | GHC | GHC |
|--------------------------|-----------------|-----------------|
| Sales | | |
| Cash | 15,000 | |
| Credit | <u>142,000</u> | 157,000 |
| Cost of Sales | | |
| Opening Inventory | 18,000 | |
| Purchases | 112,600 | |
| Goods Withdrawn | <u>(2,000)</u> | |
| | 128,600 | |
| Closing Inventory | <u>(33,900)</u> | <u>(94,700)</u> |
| Gross Profit | | 62,300 |
| Discount Received | 2,000 | |
| Profit on sales of asset | <u>100</u> | <u>2,100</u> |
| | | 64,400 |
| Expenses | | |
| Rates | 8,950 | |
| Light & Heat | 2,050 | |
| Telephone | 1,500 | |
| Interest on Loan | 1,500 | |
| Insurance | 1,000 | |
| Wages & Salaries | 20,000 | |
| Sundry Expenses | 700 | |
| Depreciation | <u>16,000</u> | <u>(51,700)</u> |
| Net Profit | | <u>12,700</u> |

SASU ABOAGYE
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER, 2009

| | GHC | GHC | GHC |
|-----------------------------|----------------|-----------------|---------------|
| Property, Plant & Equipment | <u>80,000</u> | <u>26,280</u> | 53,720 |
| Current Assets | | | |
| Inventories | | 33,900 | |
| Receivables | | 12,000 | |
| Prepayments | | 450 | |
| Cash | | <u>600</u> | |
| | | 46,950 | |
| Current Liabilities | | | |
| Payables | 4,600 | | |
| Accruals | 300 | | |
| Bank Overdraft | <u>15,500</u> | <u>(20,400)</u> | <u>26,550</u> |
| Net Assets | | | <u>80,270</u> |
| Financed By | | | |
| Capital | | 64,570 | |
| Net Profits | | 12,700 | |
| Drawings | 25,000 + 2,000 | <u>(27,000)</u> | 50,270 |
| 5% Loan | | | <u>30,000</u> |
| | | | <u>80,270</u> |

STATEMENT OF FINANCIAL POSITION / STATEMENT OF AFFAIRS
AS AT 31 DECEMBER, 2008

| | GHC | GHC | GHC |
|-----------------------------|------------|-----------------|---------------|
| Property, Plant & Equipment | | 50,000 | |
| Less Depreciation | | <u>(12,180)</u> | 37,820 |
| Current Assets | | | |
| Inventories | | 18,000 | |
| Receivables | | 10,000 | |
| Prepayments | | 400 | |
| Bank | | 2,000 | |
| Cash | | <u>600</u> | |
| | | 31,000 | |
| Current Liabilities | | | |
| Payables | 4,000 | | |
| Accruals | <u>250</u> | <u>(4,280)</u> | <u>26,780</u> |
| Capital | | | <u>64,570</u> |

| PAYABLES CONTROL | | | |
|------------------|----------------|-----------|----------------|
| Bank | 110,000 | Bal b/d | 4,000 |
| Discount | <u>2,000</u> | Purchases | 112,600 |
| Bal c/d | <u>4,600</u> | | |
| | <u>116,600</u> | | <u>116,600</u> |

| RECEIVABLES CONTROL | | | |
|---------------------|----------------|---------|----------------|
| Bal b/d | 10,000 | Bank | 140,000 |
| Sales | <u>142,000</u> | | |
| | - | Bal c/d | <u>12,000</u> |
| | <u>152,000</u> | | <u>116,600</u> |

| PROPERTY, PLANT & EQUIPMENT | | | |
|-----------------------------|---------------|-----------|---------------|
| Bal b/d | 50,000 | Disposals | 10,000 |
| Bank | <u>40,000</u> | Bal c/d | <u>80,000</u> |
| | <u>90,000</u> | | <u>90,000</u> |

| DISPOSAL ACCOUNTS | | | |
|-------------------|---------------|------|---------------|
| PPE | 10,000 | Bank | 8,200 |
| P/L | <u>100</u> | Depn | <u>1,900</u> |
| | <u>10,100</u> | | <u>10,100</u> |

| ACCRUALS -LIGHT | | | |
|-----------------|--------------|---------|--------------|
| Bank | 2,000 | Bal b/d | 250 |
| Bal c/d | <u>300</u> | P/L | <u>2,050</u> |
| | <u>2,300</u> | | <u>2,300</u> |

| PREPAYMENT - RATES | | | |
|--------------------|--------------|---------|--------------|
| Bal b/d | 400 | P/L | 8,950 |
| Bank | <u>9,000</u> | Bal c/d | <u>450</u> |
| | <u>9,400</u> | | <u>9,400</u> |

QUESTION 2

DEDE LIMITED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER, 2009

| | GHC | GHC |
|----------------------------------|----------------|----------------|
| Operating Profit from operations | | 3,750 |
| Interest Paid | 300 | |
| Income tax Paid | <u>600</u> | <u>(900)</u> |
| | | 2,850 |
| Investing Activities | | |
| Proceeds from sale of assets | 500 | |
| Acquisition of Asset | <u>(3,300)</u> | <u>(2,800)</u> |
| Financing Activities | | |
| Issue of Loan | 1,000 | |
| Payment of Dividend | <u>(750)</u> | <u>250</u> |
| Net Increase in cash | | 300 |
| Cash at 01/01/2008 | | <u>100</u> |
| Cash at 31/12/2008 | | <u>400</u> |

QUESTION 3

(a).

MOTOR VAN ACCOUNTS

| | | GH¢ | | | GH¢ |
|------|---------------------|---------------|----------|--|---------------|
| Bank | (cost of vans) | 19,140 | Disposal | | |
| Bank | (Modification cost) | 3,660 | A/c | | 22,800 |
| | | <u>22,800</u> | | | <u>22,800</u> |

PROVISION FOR DEPRECIATION ACCOUNTS

| | | | GH¢ | | | | GH¢ |
|----------|--------------|---------------|------------|-------------|-----------------|--------------|---------------|
| 31/12/06 | Balance c/d | <u>1,520</u> | 31/12/06 | P&L A/c | [22,800/60 X 4] | <u>1,520</u> | |
| | | | 1/1/2007 | Balance b/f | | | 1,520 |
| 31/12/07 | Balance c/d | <u>6,080</u> | 31/12/07 | P&L A/c | [22,800/60X12] | <u>4,560</u> | |
| | | <u>6,080</u> | | | | | <u>6,080</u> |
| | | | 1/1/2008 | Balance b/f | | | 6,080 |
| 31/12/08 | Balance c/d | <u>10,640</u> | 31/12/08 | P&L A/c | [22,800/60X12] | <u>4,560</u> | |
| | | <u>10,640</u> | | | | | <u>10,640</u> |
| | | | 1/1/2009 | Balance b/f | | | 10,640 |
| 31/12/09 | Balance c/d | <u>15,200</u> | 31/12/09 | P&L A/c | [22,800/60X12] | <u>4,560</u> | |
| | | <u>15,200</u> | | | | | <u>15,200</u> |
| | | | 1/1/2010 | Balance b/f | | | 15,200 |
| 31/12/10 | Balance c/d | <u>19,760</u> | 31/12/07 | P&L A/c | [22,800/60X12] | <u>4,560</u> | |
| | | <u>19,760</u> | | | | | <u>19,760</u> |
| | | | 1/1/2011 | Balance b/f | | | 19,760 |
| 31/05/11 | Disposal A/c | <u>21,660</u> | 31/05/2011 | P&L A/c | [22,800/60X 5] | <u>1,900</u> | |
| | | <u>21,660</u> | | | | | <u>21,660</u> |

MOTOR VAN - DISPOSAL ACCOUNTS

| | GH¢ | | GH¢ |
|--------------------------|---------------|----------|---------------|
| Motor Van (cost of vans) | 22,800 | Depn A/c | 21,660 |
| P&L A/c | <u>1,410</u> | Bank | <u>2,550</u> |
| | <u>24,210</u> | | <u>24,210</u> |

(b).

Gross Profit Margin $\text{Gross Profit} / \text{Sales} \times 100\% = \frac{323,000 \times 100}{413,000} = \mathbf{78.21\%}$

Net Profit Margin $\text{Net Profit} / \text{Sales} \times 100\% = \frac{239,000 \times 100}{413,000} = \mathbf{57.87\%}$

Receivable Collection Days $\frac{\text{Trade Receivables} \times 360 \text{ days}}{\text{Credit Sales}} = \frac{22,500 \times 360}{265,000} = \mathbf{31 \text{ Days}}$

Payables Payment Days $\frac{\text{Trade Payables} \times 360 \text{ days}}{\text{Credit Purchases}} = \frac{11,420 \times 360}{90,000} = \mathbf{46 \text{ days}}$

QUESTION 4

**KOFI AND AMA
TRIAL BALANCE AS AT 31 DECEMBER,**

| | DEBIT | CREDIT |
|---------------------------------------|----------------|---------------------|
| Capital Accounts- Kofi | | 18,000 |
| Capital Accounts – Ama | | 20,000 |
| 10% Loan Accounts –Tutu | | 10,000 |
| 10% Loan Accounts – Asiedu | | 12,000 |
| Current Accounts - Kofi | | 2,000 |
| Current Accounts - Ama | | 4,000 |
| Drawings – Kofi | 13,000 | |
| Drawings – Ama | 11,000 | |
| Sales Revenue | | 226,200 |
| Sales Returns | 6,000 | |
| Closing Inventory | 34,000 | |
| Cost of goods sold | 140,000 | |
| Sales Ledger Control | 60,000 | 50,000 |
| Purchases Ledger Control | 52,200 | |
| General Expenses | 74,000 | |
| Non-current Assets | | 36,000 |
| Provision for Depreciation | | 6,000 |
| Bank Overdraft | | 3,000 |
| Suspense Account - (Balancing figure) | | <u>3,000</u> |
| | <u>390,200</u> | <u>390,200</u> |

ADJUSTMENTS TO THE TRIAL BALANCE – JOURNAL ENTRIES

| | DEBIT | CREDIT |
|--------------------------|--------|--------|
| Sales Returns | 200 | |
| Sales Ledger Control | | 200 |
| Purchases Ledger Control | 400 | |
| Sales Ledger Control | | 400 |
| Sales Ledger Control | 3,600 | |
| Sales Accounts | | 3,600 |
| Disposal Account | 10,000 | |
| Non-Current Assets | | 10,000 |
| Suspense Accounts | 2,000 | |
| Disposal Accounts | | 2,000 |
| Drawings | 1,000 | |
| Cost of Goods Sold | | 1,000 |
| Expenses | 2,000 | |
| Drawings – Ama | | 2,000 |
| Interest | 2,200 | |
| Interest Accruals | | 2,200 |

Question 5

- a. Shareholders are liable only for the amount that they have paid into the company in exchange for shares. This is the maximum amount which they can lose if the company goes bankrupt or is sued for the payment of loans or debts.
- b. (i) **Sole – Proprietor**
Advantages
 - It is very easy to set up
 - There are no legal formalities on set up
 - It is self-reliant. The owner does not risk getting involved in personality crashes
 - The owner takes all the profits

Disadvantages

- The sole proprietor bears all the risk of losses or business difficulties
- The owner bears all the consequences of legal action against the business – personal properties may be sold to defray business debts.
- It normally remains on small scale
- It lacks a variety of business expertise.

(ii) **Partnerships**

Advantages

- The business can benefit from complimentary skills since the partners share the management of the business.
- Business decisions are not taken by one person.
- Business risks are shared, as well as any losses that the business makes.

Disadvantages

- Partners are responsible for the consequences of each other's actions.
- Partners face unlimited liability; they must bear all the consequences of any legal action against the partnership.
- The profits of the business are shared among the partners.

(iii) **Limited Companies**

Advantages

- Limitation of personal liability
- Shareholders are allowed to appoint professional managers as directors
- Shares are used to spread the ownership of the company among many people
- Transfer of ownership is possible through the sale of shares

Disadvantages

- Setting up of the company requires professional advice since it adheres to strict legal requirements.
- Financial statements must be filed regularly with the Registrar of Companies, the Revenue Authority, etc.