THE INSTITUTE OF CHARTERED

ACCOUNTANTS (GHANA)

MAY 2012 EXAMINATIONS
(PROFESSIONAL)

PART 1

FINANCIAL ACCOUNTING FUNDAMENTALS

(Paper 1.1)

Attempt ALL Questions

TIME ALLOWED:

Reading & Planning - 15 Minutes

Workings - 3 Hours

QUESTION 1

Sasu Aboagye is a retailer who sells stationery. He does not keep a full set of records. The following records have been extracted from his books.

	31/12/2010	31/12/2011
	GHC	GHC
Property, plant and equipment	50,000	
Accumulated depreciation	12,180	
Inventories	18,000	33,900
Receivables	10,000	12,000
Prepayments – Rates	400	450
Bank	2,000	(15,500)
Cash	600	600
Creditors	4,000	4,600
Accrued – Electricity	250	300

He also has the following cash and bank transactions for the period ended 31st December 2011

	CASH	BANK
Receipt		
Balance b/f	600	2,000
Cash sales	15,000	-
Accounts Receivables	-	140,000
5% Loan received	-	30,000
Sale proceeds from sale of motor van	-	8,200
Cash banked	-	15,000
	15,600	195,200
Payments		
Accounts Payables		110,000
Rates		9,000
Electricity		2,000
Telephone		1,500
Loan interest		1,500
Insurance		1,000
Wages & salaries		20,000
Drawings		25,000
Property, plant & equipment		40,000
Sundry Expenses		700
Cash paid into Bank	15,000	-
	15,000	210,700
Balance c/d	600	(15,550)

Additional Information:

1. The loan was received on January 1, 2011

2. The motor van which was disposed off, had a cost of GHC10,000 with an accumulated depreciation of GHC1,900

3. Discount received during the year amounted to GHC2,000

4. Goods valued at GHC2,000 was taken by Sasu Aboagye for his own use

5. Property, plant and equipments are to be depreciated at the rate of 20%

Required:

(a) Income Statement for the year ended 31 December, 2011

(b) A Statement of Financial Position as at 31 December 2011 (without notes)

(20 marks)

QUESTION 2

The summarized financial statements of Dede Ltd for 2010 and its comparative figures for 2009 are given below:

Income Statement for the year ended 31 December

	2010	2009
	GHC	GHC
Gross profit	2,650	2,000
Interest expenses	(300)	(200)
	2,350	1,800
Corporate tax	(700)	(600)
Net profit after tax	1,650	1,200

Balance Sheet as at 31 December,

		2010		2009
		GHC		GHC
Property, Plant & Equipment		11,000		8,000
Acc. Depreciation		(5,600)		(4,800)
		5,400		3,200
Current Assets:				
Inventory	3,400		3,800	
Receivables	3,800		2,900	
Cash	400	7,600	100	6,800
		13,000		10,000

		2010		2009
		GHC		GHC
Financed by:				
Stated Capital		1,000		1,000
Revaluation Surplus		1,500		1,000
Income Surplus		3,100		2,200
Loan		3,000		2,000
		8,600		6,200
Current Liabilities:				
Trade Payables	3,700		3,200	
Tax Due	700	4,400	600	3,800
		13,000		10,000

Additional Information:

(a) Dividends paid during the year amounted to GHC750.

(b) Property, Plant & Equipment which cost GHC800 with net book value of GHC350 was sold for GHC500.

Required:
Prepare a Comprehensive Statement of Cash Flow for the year ended 31 December, 2010 in accordance with IAS 7 – Statement of Cash Flows. (**20 marks)**

QUESTION 3

a. Ruby started business on the September 1, 2006 supplying food to offices. The food is delivered to clients in vans. She purchased two vans at a cost of GHC9,570 each to start operations. The vans were modified by fixing freezers and other equipment at a cost of GHC1,830 each. She expects to use the vans for five years with no scrap value.

   On June 1, 2011, Ruby sold the two vans for GHC2,250. Ruby prepares accounts to 31 December each year.

   Required:
   Using the straight line method of depreciation, on a month by month basis, prepare the following:

   i. Motor Van Accounts
   ii. Provision for Depreciation - Motor Van Accounts
   iii. Disposal of Motor Van Accounts

(10 marks)

b. The following figures were taken from the books of Abena Sekyiwaa, a sole trader;

	GHC
Credit Sales	265,000
Cash Sales	148,000
Cost of Sales	90,000
Trade Receivables	22,500
Trade Payables	11,420
Operating Expenses	84,000

Required:
Assuming 360 days in a year, calculate the following ratios

i. Gross Profit to sales
ii. Net Profit to Sales
iii. Receivables (Debtors) Collection Days
iv. Payables (Creditors) Payment Days

(1**0 marks)**
(Total 20 marks)

QUESTION 4

Kofi and Ama are in partnership sharing profits and losses equally after Kofi has been allowed a salary of GHS20,000 per annum. No interest is charged on drawings but 10% interest is allowed on opening capital account balance each year.

	GHC
Capital Accounts Kofi	18,000
Ama	20,000
10% loan account	
Tutu	10,000
Asiedu	12,000
Current account balances	
Kofi	2,000
Ama	4,000
Drawings	
Kofi	13,000
Ama	11,000
Sales Revenue	226,200
Sales returns	6,000
Closing Inventory	34,000
Cost of goods sold	140,000
Sales ledger Control Accounts	60,000
Purchases ledger Control	50,000

Operating expenses	52,200
Equipment	74,000
Provision for depreciation	36,000
Bank overdraft	3,000
Suspense accounts	?

You ascertain the following information:

The sales ledger control account does not agree with the total of balances from the Sales ledger. The following errors were subsequently detected.

i. The sales returns were under-cast by GHC200

ii. A contra entry with the creditors' ledger for GHC400 has been omitted from the books.

iii. An invoice for GHC4,000 was incorrectly entered in the sales day book as GHC400.

iv. A fully depreciated Equipment, original costing GHC10,000 was sold during the year. The proceeds of GHC2,000 were entered in the bank only, and no other entries in connection with the disposal was made.

v. It is agreed that hotel bills for GHC1,000 paid by Ama from her personal bank accounts be treated as business expenses. Kofi has taken goods out of the business for his own use costing GHC2,000. No entry has been made for either of these items.

vi. No interest of any kind has yet been paid or recorded.

vii. Any remaining balance on the Suspense accounts should be adjusted through the Partners' capital Accounts.

Required:

(a) Prepare a trial balance to establish the balance on the Suspense Accounts.

(b) Prepare Journal entries to correct the above errors.

20 marks

QUESTION 5

(a) Explain briefly “Company Limited by Shares”.

(***2 marks***)

(b) State **three (3)** advantages and **two (2)** disadvantages of operating each of the following forms of business.

i. Sole Proprietorships

ii. Partnerships

iii. Limited Liability Companies

(***15 marks***)

c). Explain the following concepts and conventions

i. Prudence

ii. Going Concern

(***3 marks***)
(**Total: 20 marks**)