NOVEMBER 2019 PROFESSIONAL EXAMINATIONS
FINANCIAL ACCOUNTING (PAPER 1.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

STANDARD OF THE PAPER

The standard of the question paper was good and candidates were asked to answer all the five (5) questions. The mark allocations followed the weight as stated in the syllabus and marks were allocated to all sub-questions. There were no ambiguities in the paper. The questions were clear, well typed and the instructions were also clearly stated. The questions were evenly spread over the topics in the syllabus. The questions were not too loaded. The questions were standard and the marking scheme was well typed.

PERFORMANCE OF CANDIDATES

The performance of candidates was below average and lower as compared to the previous sitting. Candidates overall passed rate of 36% was achieved. High performers were evenly spread across all centres and so also were low performers. There were no signs of copying in any centre. Some candidates exhibited a high sense of preparedness while others were not well prepared and therefore performed poorly.

NOTABLE STRENGTHS & WEAKNESS OF CANDIDATES

The strength of most candidates was demonstrated in the question 1 and 5. The most prevalent reasons for some candidates obtaining low marks remains as in the previous sittings, i.e. studying only a few selected topics, not reading the question carefully enough, or a lack of structure in the approach to answering questions.. The overall standard of some answers was disappointing. In particular some candidates showed a poor understanding of bookkeeping across questions. Few candidates did not attempt the required number of questions, making the achievement of an overall passing mark a challenge. The other areas of weakness around presentation are as follows:

- Poor and untidy handwriting
- No workings presented for some questions;
- Some candidates were making calculation errors within workings and thus presenting an incorrect figure in the solution;
- Some candidates did not number their answers on the cover page.

Candidates should be reminded of the need to revise the entire syllabus in preparation for their examination and to follow the instructions given by the examiner on the paper.

QUESTION ONE

a) The IASB Conceptual Framework describes the fundamental qualitative characteristics of useful financial information.

Required:
State and explain the **TWO (2)** fundamental qualitative characteristics. **(10 marks)**

b) Kofi Mensah started a furniture business on January 1, 2018 and undertook the following transactions during the year:

- On 1/1/18, he paid GH¢150,000 into the business.
- On 4/1/18, he borrowed GH¢150,000 from Ama.
- He paid GH¢200,000 on 6/1/18 for one room to be used as a small shop for his furniture business.
- Kofi Mensah bought furniture costing GH¢80,000 on 8/1/18, which he plans to sell.
- On 10/1/18, he bought furniture for resale from Kwame for GH¢150,000 agreeing to pay for them within 15 days.
- Kofi Mensah sold furniture which had cost GH¢60,000 for GH¢90,000 on 12/1/18.
- Furniture worth GH¢110,000 was sold for GH¢180,000 to AA Ltd on credit on 20/1/18.
- On 24/1/18 Kwame was paid GH¢90,000.
- On 28/1/18 AA Ltd paid GH¢ 80,000 of the amount he owed.

Note: All monies paid and received were through the bank account.

Required:
Post the above transaction to the following ledgers in the books of Kofi Mensah:

i) Bank account **(3 marks)**
ii) Inventory account **(2 marks)**
iii) Capital account **(1 mark)**
iv) Kwame account **(2 marks)**
v) AA Ltd account **(2 marks)**

(Total: 20 marks)

QUESTION TWO

a) Nene Koba, is a sole trader with a small business. The trial balance extracted as at 30 June 2018 did not agree. The credits exceeded the debits by GH¢3,275 and the difference was entered in a suspense account.

A detailed examination of the books was undertaken and the following matters were uncovered:

- Purchases returns of GH¢19,350 has been credited to sales returns as GH¢11,175, and the corresponding entry was correctly entered.
- An addition error was discovered in the sales returns day book and as a result, the posting to the ledger was understated by GH¢1,600.
- An amount of GH¢245 cash received from a customer was debited to the customer's account and credited to the cash account.
- The cash at hand balance of GH¢5,350 as at 30 June 2018 was omitted from the trial balance in error.
- Building repairs of GH¢4,300 were undertaken during the month ended 30 June 2018, the amount was paid by cheque. The entry was correctly treated in the bank account but GH¢1,800 was credited to building.
- On 1 January 2017, rent for the year ended 31 December 2017 of GH¢ 22,500 was paid and accounted for correctly. Nene Koba's landlord has indicated that rent for 2018 will increase to GH¢ 30,000 but no invoice has been received. Nene Koba however, has not paid any rent for 2018 and has made no accounting entry for it because he has not received an invoice from the landlord.
- A credit sale of GH¢12,500 (excluding tax) was recorded by debiting sales with GH¢12,500 and crediting receivable with GH¢12,500. The rate of tax is 15%.

Required:

i) Prepare journal entries with appropriate narrations necessary to correct the above errors. **(8 marks)**

ii) Prepare the Suspense account. **(2 marks)**

b) Ama, Baah and Cain are in partnership, providing management services, sharing profits in the ratio 5:3:2 after charging annual salaries of GH¢6,000 each. Current accounts are not maintained. On 30 June 2019, Ama retired and Doh was admitted into the partnership. Doh is entitled to 30% of the profits of the new partnership with the balance being shared equally between Baah and Cain. The old partnership trial balance as at 30 June 2019 was as follows:

		GH¢	GH¢
Capital accounts	– Ama		4,173
	– Baah	21,948	
	– Cain	11,206	
Trade receivables		46,205	
Inventories at 1 July 2018		2,000	
Operating expenses		139,722	
Investment		100	
Bank overdraft			11,170
Trade payables			17,406
Revenue			188,432
		221,181	**221,181**

The following information is relevant:

i) For the purposes of the accounts, inventory is to remain at GH¢2,000.

ii) Full provision is required at 30 June 2019 against a bad debt of GH¢1,150.

iii) It was agreed between the partners that the following adjustments are to be made:

- The investment is to be included in the books of the new partnership at a valuation of GH¢1,500.
- Goodwill, which is to be kept in the books of the new partnership, is to be valued at GH¢24,000.

iv) On 1 July 2019, GH¢10,000 of the amount due to Ama from the old partnership was transferred to Doh. The balance due to Ama is to be repaid over three years, commencing on 1 July 2019.

v) On 1 July 2019 Doh introduced cash of GH¢7,500 to the partnership.

Required:

Prepare the Statement of Profit or Loss account and appropriation account of the OLD partnership for the year ended 30 June 2019. **(10 marks)**

(Total: 20 marks)

QUESTION THREE

Yevugah has provided you with the following bank statement and bank account details in respect of the month ended 31 January 2018.

Statement date - 31 January, 2018.

Account No 13456892			
Date Particulars	**Debit**	**Credit**	**Balance**
	GH¢	**GH¢**	**GH¢**
01-Jan-18 Balance forward			55,940 Cr
03-Jan-18 Cheque 596	2,500		53,440 Cr
03-Jan-18 Lodgement		14,140	67,580 Cr
06-Jan-18 Cheque 597	120		67,460 Cr
06-Jan-18 Direct debit	2,020		65,440 Cr
12-Jan-18 Credit transfer		4,660	70,100 Cr
13-Jan-18 Cheque 600	1,420		68,680 Cr
14-Jan-18 Cheque 601	12,028		56,652 Cr
16-Jan-18 Lodgement		9,000	65,652 Cr
19-Jan-18 Cheque 599	18,004		47,648 Cr
23-Jan-18 Bank charges for December 2017	422		47,226 Cr
25-Jan-18 Quarterly interest received		62	47,288 Cr
27-Jan-18 Dishonoured cheque	1,600		45,688 Cr
27-Jan-18 Cheque 598	26,090		19,598 Cr
30-Jan-18 Cheque 603	5,048		14,550 Cr
31-Jan-18 Lodgement		14,500	29,050 Cr
31-Jan-18 Standing order: rent first quarter 2018	27,000		2,050 Cr

The books and records of Yevugah show the followings transactions through the bank account for the month of January 2018:

Date	**Receipts**	**GH¢**	**Date**	**Payments**	**GH¢**
1/01/18	Balance b/f	67,580	4/01/18	Cheque 597	120
			6/01/18	Cheque 598	26,000
12/01/18	Lodgement	4,660	10/01/18	Cheque 599	18,004
16/01/18	Lodgement	9,000	11/01/18	Cheque 600	1,420
28/01/18	Lodgement	14,700	12/01/18	Cheque 601	12,028
31/01/18	Lodgement	8,220	18/01/18	Cheque 602	11,898
			20/01/18	Cheque 603	5,048
			30/01/18	Cheque 604	84
			31/01/18	Balance c/f	29,558
		104,160			**104,160**
1/2/2018	Balance b/d	29,558			

Required:

a) Reconcile the opening balance as per the cash book to the balance as per the bank statement. **(2 marks)**

b) Prepare the adjusted cash book for the month of January 2018. **(10 marks)**

c) Prepare a statement on 31 January 2018, reconciling the adjusted cash book with the bank statement balance. **(4 marks)**

d) Explain, with the aid of relevant examples, in report format, **TWO (2)** reasons for preparing bank reconciliation on a regular basis. **(4 marks)**

(Total: 20 marks)

QUESTION FOUR

The following balances were extracted from the books of Tudu Ltd on 31 December 2018.

	Dr	**Cr**
	GH¢	**GH¢**
Purchases	283,000	
Sales		495,000
Inventories at 1 January 2018	18,000	
Distribution costs	22,000	
Electricity	9,500	
Telephone	1,600	
Irrecoverable debt expense	1,200	
Allowance for receivables at 1 January 2018		840
Wages	84,500	
Directors' remuneration	32,000	
Administration expenses	40,880	
Dividends paid	5,200	
Equity Share capital (GH¢1 shares)		50,000
5% Loan stock		25,000
Retained earnings at 1 January 2018		23,700
Fixtures and Fittings at cost	98,200	
Fixtures and Fittings, accumulated depreciation at 01-Jan-18		43,700
Motor vehicles at cost	64,000	
Motor Vehicles, accumulated depreciation at 01-Jan-18		18,500
Trade receivables	55,400	
Trade payables		57,300
Bank		1,600
Cash	160	
	715,640	**715,640**

Additional information:

i) Inventories at 31 December 2018 was valued at GH¢18,226.

ii) Directors' bonuses for the year ended 31 December 2018 calculated at GH¢1,160 have not been accounted for.

iii) Distribution costs include a payment of GH¢3,750 for rent for the three months to 28 February 2019.

iv) The company's depreciation policies are as follows:

- Fixtures and Fittings – Straight line over 5 years.
- Motor vehicles – Reducing balance method at 20% per annum.
- All non-current asset residual values are estimated at zero.

v) The company reviewed the trade receivables at 31 December 2018, and the following adjustments are required:

- Irrecoverable debts of GH¢450 in addition to those already written off.
- Specific allowance for receivables of GH¢650.
- General allowance of 3% against the remaining receivables.

vi) The interest on the loan stock is outstanding at the year end.

Required:

a) Prepare a Statement of Profit or Loss account for Tudu Ltd for the year ended 31 December 2018. **(10 marks)**

b) Prepare a Statement of Financial Position for Tudu Ltd as at 31 December 2018. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

The following Profit or Loss Account and Statement of Financial Position relates to Dombo Ltd for the year ended 31 December, 2018 (with comparative figures for the year ended 31 December 2017 where relevant).

Summarised Profit or Loss account for the year ended 31 December 2018.

	2018	**2017**
	GH¢	GH¢
Revenue (Credit Sales)	148,750	121,675
Cost of Sales *	110,250	98,100
Gross Profit	38,500	23,575
Less Expenses	26,500	15,850
Net Profit	**12,000**	**7,725**
Purchases *	**109,266**	**82,125**

Statement of Financial Position as at 31 December 2018

	2018	**2018**	**2017**	**2017**
	GH¢	**GH¢**	**GH¢**	**GH¢**
Non-Current Assets		34,675		20,850
Current Assets				
Inventory	17,450		10,325	
Receivables	15,550		18,900	
Cash	4,875	37,875	19,950	49,175
Total Assets		**72,550**		**70,025**
Equity & Liabilities				
Ordinary Share Capital		20,300		20,300
Retained Earnings		17,300		10,575
		37,600		30,875
Non-Current Liabilities				
10% Debentures		2,500		20,500
Current Liabilities				
Payables	24,900		14,625	
Other accruals	7,550	32,450	4,025	18,650
Total Equity and Liabilities		**72,550**		**70,025**

Required:

a) Calculate **TWO (2)** ratios each for the year ended 31 December 2018 and 2017 respectively of the categories of ratio:

i) Profitability

ii) Liquidity

iii) Efficiency

(9 marks)

b) State **FOUR (4)** advantages and **TWO (2)** disadvantages of ratio analysis. **(6 marks)**

c) Explain the ***responsibilities*** of the ***directors*** and the ***external auditors*** towards the Financial Statements of a company. **(5 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a) The **TWO** fundamental qualitative characteristics are:

- relevance; and
- faithful representation **(2 marks)**

Relevance

Information must be relevant to the decision-making needs of users. Information is relevant if it can be used for predictive and/or confirmatory purposes.

- It has ***predictive value*** if it helps users to predict what might happen in the future.
- It has ***confirmatory value*** if it helps users to confirm the assessments and predictions they have made in the past. Only information that is material can be relevant.

(2 points @ 2 marks each = 4 marks)

Faithful representation

To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent in both words and numbers.

A perfectly faithful representation would have three characteristics. It would be:

- complete;
- neutral; and
- free from error.

(4 marks)

b)

i)

BANK ACCOUNT

	GH¢		**GH¢**
Capital	150,000.00	Shop	200,000.00
Loan	150,000.00	Inventory	80,000.00
Sales	90,000.00	Kwame	90,000.00
AA Ltd	80,000.00	Balance c/d	100,000.00
	470,000.00		**470,000.00**

(3 marks)

ii)

INVENTORY

	GH¢		**GH¢**
Bank	80,000.00	12/1 Sales	60,000.00
Kwame	150,000.00	20/1 Sales	110,000.00
	-	Balance c/d	60,000.00
	230,000.00		**230,000.00**

(2 marks)

iii)

	CAPITAL		
	GH¢		**GH¢**
Balance c/d	150,000.00	Bank	150,000.00
			(1 mark)
iv)			
	KWAME'S ACCOUNT		
	GH¢		**GH¢**
Bank	90,000.00	Purchases	150,000.00
Balance c/d	60,000.00		-
	150,000.00		150,000.00
			(2 marks)
v)			
	AA'S ACCOUNT		
	GH¢		**GH¢**
Sales	180,000.00	Bank	80,000.00
	-	Balance c/d	100,000.00
	180,000.00		180,000.00
			(2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

- The part (a) of the question asked candidates to state and explain the two fundamental qualitative characteristics as describe by the IASB Conceptual Framework. This part was well handled by many candidates.
- The part (b) asked the candidates to post some transactions to the ledgers. This was also tackle very well except few candidates who did not know what to do.

QUESTION TWO

a) Journal Entries

Nene Koba

	DR GH¢	CR GH¢
Sales Returns	11,175	
Suspense	8,175	
Purchases		19,350
Being purchase returns posted to sales returns in error		
Sales returns	1,600	
Receivable		1,600
Being the book of original entry undercast		
Cash	490	
Receivable		490
Being cash received from a customer treated as cash payment		
Cash	5,350	
Suspense		5,350
Being cash balance omitted from the trial balance		
Buildings	1,800	
Repairs	4,300	
Suspense		6,100
Being correction of error of principle		
Rent	15,000	
Rent accrual		15,000
Being correction of error of omission		
Receivable	12,500	
Sales		12,500
Receivable	14,375	
Sales		12,500
VAT		1,875
Being the correction of error VAT omitted from credit sales incorrectly treated.		

(8 marks evenly spread using ticks)

b)

Suspense Account

	GH¢		GH¢
Sales Returns	8,175	Cash	5,350
Balance c/d	3,275	Repairs	6,100
	11,450		11,450
		Bal. b/d	3,275

(2 marks)

b) **Statement of profit or loss for the year ended 30 June 2019**

		GH¢	GH¢
Revenue			188,432
Less Opening inventory		2,000	
Operating expenses (139,722 + 1,150)		140,872	
		142,872	
Closing inventory		2,000	
			140,872
Profit for the year			47,560
Appropriation			
Salaries	– A	6,000	
	– B	6,000	
	– C	6,000	
			18,000
Profit share	– A (50%)	14,780	
	– B (30%)	8,868	
	– C (20%)	5,912	
			29,560
			47,560

(10 marks evenly spread using ticks)

(Total: 20 marks)

EXAMINER'S COMMENTS

- This question was poorly answered by most candidates. Candidates appeared to have a poor knowledge of double entry bookkeeping and struggled to achieve a pass mark on this question as a result.
- Some candidates prepared T accounts as opposed to journal entries, while a large number of candidates did not include journal narratives. Many candidates failed to attempt part (ii) which is on suspense account. Only a few candidates got the correct answer. Many candidates did not achieve a pass mark for this question.
- The part (b) asked the candidates to prepare the statement of Profit or Loss account and appropriation account of a partnership. Some candidates were able to deal with the question very well but majority did not know how to approach the question hence got very low marks.

QUESTION THREE

a) Reconciliation of Cash Book and Bank Statement

	GH¢
Opening balance as per bank balance	55,940
Add outstanding lodgement	14,140
Less outstanding cheques	(2,500)
Balance as per bank T account	**67,580**

(2 marks)

b) **Bank Account/ Cash Book**

	GH¢		GH¢
Balance	29,558	Direct debits	2,020
Interest	62	Bank charges	422
		Dishonoured cheque	1,600
		Error cheque	90
		Error in lodgement	200
Balance C/d	1,712	Standing Order	27,000
	31,332		**31,332**
		Balance	1,712

(10 marks evenly spread using ticks)

c)

Bank Reconciliation as at 31 January 2018

	GH¢	GH¢
Balance per Bank Statement		2,050
Add outstanding lodgement		8,220
Less outstanding cheques: #604	84	
#602	11,898	(11,982)
Balance		**(1,712)**

(4 marks evenly spread using ticks)

d) Reasons for preparing bank reconciliation

- Preparation of regular bank reconciliation will help to identify errors, such errors may have been made either by the bank, the sole trader or both. For example a business may have omitted to post receipts from customers.

- Preparation of bank reconciliation will also highlight items such as bank interest, charges, standing orders, direct debits and dishonoured cheques. This will be known by the bank but not identified by a business until it receives the bank statement and prepares the bank reconciliation.

(2 points @ 2 marks each = 4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question was poorly answered by many candidates.
Some significant areas of concern were as follows:
Many candidates could not make a meaningful effort for this question

- Part A was very challenging and many candidates appeared not to know how to attempt this part.
- Part B - Many candidates prepared the cash book from scratch as opposed to the corrected cash book as requested in the examination. Mark were not deducted for this – however this was an example of poor examination strategy as preparing the cash book from scratch was time consuming.
- Part C-Bank reconciliation statement was well answered by some candidates.
- Part D- This part of the question was well attempted by some candidates

QUESTION FOUR

a)

Tudu Ltd

Statement of Profit or Loss for the year ended 31 December 2018

	GH¢	GH¢
Sales		495,000
Less: Cost of sales (W1)		(282,774)
Gross profit		212,226
Less: Wages	(84,500)	
Distribution costs (22,000) – (2/3 x 3,750)	(19,500)	
Electricity	(9,500)	
Telephone	(1,600)	
Admin Expenses	(40,880)	
Directors' Remuneration	(32,000)	
Directors' Bonus	(1,160)	
Irrecoverable Debt Expense (1,200 + 450)	(1,650)	
Increase in provision (W2)	(1,439)	
Depreciation – Fixtures and Fittings	(19,640)	
- Motor Vehicles	(9,100)	(220,969)
Loss before interest and tax		(8,743)
Less: Finance costs (5% x 25,000)		(1,250)
Loss for the year		(9,993)

b)

Tudu Ltd

Statement of Financial Position as at 31 December 2018

	GH¢
Non-current assets [W3]	71,260
Current assets	
Inventories	18,226
Trade receivables [W4]	52,671
Prepayments (2/3 x 3,750)	2,500
Cash	160
	73,557
Total assets	**144,817**
Current Liabilities	
Trade payables [W5]	59,710
Overdraft	1,600
	61,310
Non-current Liabilities	
5% Loan stock	25,000
Equity	
Share capital	50,000
Retained earnings (23,700 – 9,993 – 5,200)	8,507
	58,507
Total Equity and Liabilities	**144,817**

Workings

W1 Cost of sales

	GH¢
Opening Inventory	18,000
Purchases	283,000
Closing Inventory	(18,226)
	282,774

W2 Allowance for receivables

Specific	650
General (3% x (55,400 – 450 – 650))	1,629
Closing allowance	2,279
Opening allowance	840
Increase	1,439

W3

	Cost	Acc Depn	Net
Fixtures and Fittings	98,200	63,340	34,860
Motor Vehicles	64,000	27,600	36,400
	162,200	90,940	71,260
Acc Depn B/f		43,700	
Year (98,200 x 20%)		19,640	
Acc Depn B/f		18,500	
Year (64,000 – 18,500) x 20%		9,100	

W4 Receivables

	GH¢
TB	55,400
Written off	(450)
Allowance	(2,279)
	52,671

W5 Payables

TB	57,300
Bonus	1,160
Loan Interest	1,250
	59,710

EXAMINER'S COMMENTS

This question asked candidates to prepare a statement of Profit or Loss account and a Statement of Financial Position. Some candidates did not follow the appropriate way in preparing the statement of profit or loss account. Some of them were not able to control the adjustments very well and for that matter got wrong figures in the profit or loss account. A number of candidates were not able to ascertain the correct figure of the cost sales. Some candidates omitted some adjustments. Depreciation calculations were generally well handled. Poor format for the financial statements.

QUESTION FIVE

Dombo Ltd

a) **Profitability**

Gross Profit :	**2019**	**2018**
Gross Profit x100 / Sales	38,500 x100 / 148,750	23,575 x100 / 121,675
	25.8%	9.4%
Net Profit :		
Net Profit x100 / Sales	12,000 x100 / 148,750	7,725 x100 / 121,675
	8.1%	6.3%
Expenses:		
Expenses x100 / Sales	26,500 x100 / 148,750	15,850 x100 / 121,675
	17.8%	13.0%
Liquidity		
Current Assets / Current Liabilities	37,875 / 32,450	49,175 / 18,650
	1.17:1	2.64:1
Current Assets – Inventory / Current Liabilities	37,875-17,450 / 32,450	49,175-10,325 / 18,650
	0.63:1	2.08
Efficiency		
Receivable days x365 / Sales	15,550 x365 / 148,750	18,900 x365 / 121,675
	38.2days	56.7days
Payable days x365 / Purchases	24,900 x365 / 109,266	14,625 x365 / 82,125
	83.2 days	65 days

(9 marks evenly spread using ticks)

b) **Advantages of ratio analysis**

- Ratio analysis will help validate or disprove the financing, investment and operating decisions of a firm.
- They summarize the financial statement into comparative figures, thus helping the management to compare and evaluate the financial position of the firm and the results of their decisions.

- It simplified complex accounting statements and financial data into simple ratios of operating efficiency, financial efficiency, solvency, long term positions etc.
- Ratio analysis help identify problem areas and bring the attention of the management to such areas. Some of the information is lost in the complex accounting statements and ratios will pinpoint such problems.
- Allows the company to conduct comparisons with other firms, industry standards, intra-firm comparisons etc. This will help the organization better understand its fiscal position in the economy.

(Any 4 points for 4 marks)

Disadvantages

- The firm can make some yearend changes in their financial statements, to improve their ratios. Then the ratios end up being nothing but window dressing.
- Ratios ignore the price level changes due to inflation. Many ratios are calculated using historical costs, and they overlook the changes in price level between the periods. This does not reflect the correct financial situation.
- Accounting ratios completely ignore the qualitative aspects of the firm. They only take into consideration the monetary aspects (quantitative).
- There are no standard definitions of ratios. So firms may be using different formulas for the ratios. One of such example is Current Ratio, where some firms take into consideration all liabilities but others ignore bank overdraft from current liabilities while calculating current ratio.
- Accounting ratio do not resolve any financial problems of the company. They are a means to the end not the actual solution.

(Any 2 points for 2 marks)

c) Responsibilities of directors

- The directors are appointed by the members to manage the entity and have responsibility for ensuring that the entity keeps proper accounting records and for presenting financial statements to the members. The directors normally delegate the everyday running of the company and the keeping of accounting records and the preparation of accounts to employees who are qualified to perform such functions (for example, persons with knowledge in accounting in respect of the keeping of accounting records and the preparation and presentation of the financial statements).
- It is the duty of the directors to safeguard the assets of the entity and to prevent fraud and errors. The members look to the directors to discharge this duty and not the auditor.
- The directors should institute controls and checks to ensure that the above responsibilities are carried out.
- The directors are responsible for making available to the auditor, as when required, all the entity's accounting records, all other relevant records and related information, including minutes of all management and shareholders' and all other information the auditor considers relevant for his audit

(Any 2 points @ 1.5 marks each = 3 marks)

Responsibilities of external auditors

While it is the responsibility of the directors to prepare and present the financial statements, it is the responsibility of the auditor to form and express an opinion on the financial statements.

(2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

- This question was well answered by many of the candidates. This question delivered the best result with candidates gaining good mark. The main focus of this question was ratio analysis. 9 marks of the 20 marks available were awarded for the calculation of ratios and where candidates knew the ratio formulas they obtained these marks quite easily. This is the main reason why candidates scored so well in this question. Marks were awarded where relevant ratios, other than those presented in the suggested solution, were correctly calculated.
- The (b) part which was on the advantages and disadvantages of ratio analysis was also well handled.
- The part (c) asked the candidates about the responsibilities of Directors and the External Auditors towards the financial statements of a company was also well dealt with.

CONCLUSION

- Candidates should use past question papers as a guide to future question papers, but candidates also need to be aware that future papers, although still following the current specification, may differ in approach and format from the current series.
- Candidates are also advised to ensure that they go through the syllabus very well before sitting for the examination.