

**MAY 2018 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 five (5) questions out of seven. 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 marking scheme was well typed.

PERFORMANCE OF CANDIDATES

The performance of candidates was average and lower as compared to the previous sitting. The pass rate was 54.63%. 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 6. The most prevalent reasons for some candidates obtaining low marks remains as in 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. There were improper labelling of answers and not reading the question carefully enough, or a lack of structure in the approach to answering questions. There were improper labelling of answers and improper presentation of answers. The overall standard of some answers was disappointing. In particular some candidates showed a poor understanding of bookkeeping across several questions. Few candidates did not attempt the required number of questions, making the achievement of an overall pass 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 are making calculation errors within workings and thus presenting an incorrect figure in the solution.
- Many candidates either did not number their answers or miss-numbered them. This was the case on the cover page too.

QUESTION ONE

- a) Accountancy is the language of business and the only profession that teaches students about business. A business primarily exist to make profit and one of the jobs of an Accountant is to prepare financial statements and to determine the profitability of a business.

Required:

What is a business?

(4 marks)

- b) Identify **FOUR** users of financial statements and explain their *information needs*. **(6 marks)**
- c) Mr. Patrick Mensah, a sole trader, has asked you to prepare the receivable and payable control accounts and ensure that the closing balances match with the list of balances. Currently, the closing balances as at 30 October 2017 are as follows:

	GH¢
Receivables Control Account	126,845
Payables Control Account	103,240
Receivables list of balances	123,589
Payables list of balances	104,476

On investigation, the following have been discovered:

- A contra entry of GH¢3,250 has not been included in either control account.
- Bad debt of GH¢1,680 has been written off in the list of balances but has not been included in the receivables control account.
- The sales day book has been overstated by GH¢890 and this has not been reflected in the control account.
- Purchase returns to Taifa, a supplier of GH¢256 have not been reflected in the control account.
- An invoice amounting to GH¢981 for Obojo, a customer has been entered in the sales day book as GH¢891.
- A balance due to Amasaman, a supplier amounting to GH¢1,248 was not included in the list of balances.
- Payment received from Amrahia, a customer for GH¢2,864 was posted to a supplier account Manhia mistakenly. The payment was correctly accounted for in the control account.
- Goods purchased from a supplier Ksoa amounting to GH¢3,126 have been omitted from the relevant control account.
- Bad debt recovered of GH¢300 relating to Tantra has not been updated in the list of balances but has been included in the control account.

Required:

- i) Based on the information provided above prepare the Receivables and Payables Control Accounts for the year-ended 30 October 2017. **(8 marks)**
- ii) Prepare a statement reconciling the list of balances with the revised control accounts for Receivables and Payables for the year-ended 30 October 2017. **(2 marks)**

(Total: 20 marks)

QUESTION TWO

Asasepa Ltd prepares its financial statements to 31 December each year until 31 December 2016, when the business changed its accounting date. The company prepared its next financial statements for 15 months to 31 March 2018.

At 1 January 2017 the following balances existed in the business's accounting records:
Plant and machinery: cost GH¢819,000 accumulated depreciation GH¢360,000.
Motor vehicles: cost GH¢148,000 accumulated depreciation GH¢60,000.

Depreciation policy

The business' policy on depreciation is to charge proportionate depreciation in the periods of purchase and sale of its non-current assets, charging depreciation as from the first day of the month in which assets are acquired, and up to the last day of the month before any disposal.

Annual rates of depreciation taken are:

Plant and machinery 15% straight line

Motor vehicles 25% straight line

Transactions during the year

During the 15 months ended 31 March 2018, the following transactions took place.

10 January 2017 - An item of plant was purchased. The cost was made up as follows:

	GH¢
Cost ex-factory	41,200
Delivery	300
Installation costs	800
Construction of foundations	3,600
Spare parts for repairs	4,000
Cost of one year maintenance agreement	<u>2,000</u>
	<u>51,900</u>

18 April 2017 - A new motor vehicle was purchased for GH¢18,000. An existing vehicle which had cost GH¢12,000, and which had a book value at 1 January 2017 of GH¢6,000, was given in part exchange at an agreed value of GH¢5,000. The balance of GH¢13,000 was paid in cash.

Required:

- a) Prepare the ledger accounts to show the balances at 1 January 2017.
- b) Record the non-current asset transactions for the 15 months period ending 31 March 2018.

(20 marks)

QUESTION THREE

- a) When there is a difference in a trial balance, a suspense account is opened with the amount of the difference so that the trial balance agrees (pending the discovery and correction of the errors causing the difference). This is the only time an entry is made in the records without a corresponding entry elsewhere. Not all types of errors affect the balancing of the records and the suspense account.

Required:

Identify and explain **THREE** errors which does not affect the suspense account. (6 marks)

- a) The Bank Account in the books of Akwatia Ltd for the month of October 2017 was as follows:

DR		Cash Book of Akwatia Ltd				CR	
Date	Receipts	GH¢	Date	Payments	Cheque No	GH¢	
01/10/2017	Balance b/d	15,245	02/10/2017	Akosua	5784	245	
02/10/2017	Cash Lodgment	2,450	05/10/2017	Yaa Mansa	5785	348	
05/10/2017	Apraku	6,000	08/10/2017	Kofi Appiah	5786	745	
12/10/2017	Annan Ltd	3,553	10/10/2017	Nestle	5787	852	
18/10/2017	AY Printers	2,000	13/10/2017	Rent	Direct Dr.	650	
30/10/2017	Lodgment	3,540	14/10/2017	cheque cancelled	5788	-	
			19/10/2017	Bank Charges	Direct Dr.	25	
			20/10/2017	Affram Woods	Standing order	500	
			22/10/2017	Apeeka	5789	2,990	
			29/10/2017	Angela	5790	1,640	
		-	31/10/2017	Balance c/d		<u>24,793</u>	
		<u>32,788</u>				<u>32,788</u>	
01/11/2017	Balance b/d	24,793					

The following is the bank statement for Akwatia Ltd for the month of October 2017.

Bank Statement of Akwatia Ltd for October 2017

Date	Description		Payments	Lodgment	Balance
			GH¢	GH¢	GH¢
01/10/2017	Balance				15,345
04/10/2017	Lodgment			2,450	17,795
05/10/2017	Cheque	5784	245		17,550
06/10/2017	73490			950	18,500
07/10/2017	Lodgment			6,000	24,500
12/10/2017	Cheque	5786	745		23,755
13/10/2017	Rent (Direct Dr.)		650		23,105
14/10/2017	Credit Transfer			3,535	26,640
15/10/2017	Bank Interest		266		26,374
16/10/2017	Cheque	5787	825		25,549
17/10/2017	Bank Charges		25		25,524
18/10/2017	Electricity Supplier		435		25,089
19/10/2017	Affram Woods (standing order)		500		24,589
20/10/2017	Lodgment			2,000	26,589
21/10/2017	74521		600		25,989
23/10/2017	Telephone Company		212		25,777
27/10/2017	Cheque	5623	100		25,677
28/10/2017	Credit Transfer			7,450	33,127
31/10/2017	Bank Fees (Dishonoured cheque)		2		33,125

The bank has confirmed to Akwatia Ltd that it made errors in Akwatia's bank account on 6 October 2017 and 21 October 2017 amounting to GH¢950 and GH¢600 respectively.

Required:

Prepare the bank reconciliation statement for Akwatia Ltd as at 31 October 2017.

(14 marks)

(Total: 20 marks)

QUESTION FOUR

New World Company Limited is a large manufacturer of electrical goods. You are a trainee accountant working for the company. The following statement of profit or loss and other comprehensive income and statement of financial position extracts relates to New World Company Limited.

Statement of Comprehensive Income (Extracts) for the year ended 31 December 2017

	GH¢'million
Operating profit	752
Finance costs (interest)	<u>(100)</u>
Profit before tax	652
Taxation	<u>(142)</u>
Profit after tax	510
Dividends	<u>(200)</u>
Retained profit	310
Other information	
Depreciation charge for the year	316
Profit on disposal of non-current asset	36
Carrying amount of asset sold	58

Statements of Financial Position as at 31 December 2017

	GH¢'million	GH¢'million
Assets		
Non-current assets	2,600	3,314
Current assets		
Inventory	1,346	1,390
Receivables	218	506
Cash	128	-
	<u>1,692</u>	<u>1,896</u>
Total assets	<u>4,292</u>	<u>5,210</u>
Equity and Liabilities		
Equity		
Stated capital	200	400
Income surplus	2,492	2,802
	<u>2,692</u>	<u>3,202</u>
Non-current liabilities		
Interest bearing debt	200	300
Current liabilities		
Payables	1,256	1,414
Short-term borrowings	-	112

Taxation	144	182
	<hr/>	<hr/>
	1,400	1,708
	<hr/>	<hr/>
Total Equity & Liabilities	4,292	5,210
	<hr/>	<hr/>

Required:

Prepare the statement of cash flows for New World Company Limited for the year ended 31 December 2017. **(20 marks)**

QUESTION FIVE

Sawaba Limited is a company involved in the construction and fitting of kitchens and wardrobes. The following trial balance was extracted from its books as at 31 October 2017:

	DR GH¢	CR GH¢
6% Loan		160,000
Accumulated Depreciation-Buildings-1 November 2016		300,000
Plant & Equipment-1 November 2016		450,000
Buildings at Cost	1,500,000	
Plant & Equipment at cost	900,000	
Land	300,000	
Retained Earnings		526,300
Bank		42,500
Loan interest paid	5,000	
Distribution expenses	46,500	
Marketing costs	86,000	
Inventory at 1 November 2016	422,300	
Issued Share Capital (GH¢2 shares)		720,000
Allowance for Doubtful Debts		16,000
Purchases	2,400,000	
Property rates	12,000	
Rent	12,000	
Revaluation Surplus		60,000
Revenue		3,802,000
Salaries	196,000	
Telephone expenses	17,000	
Trade payables		200,000
Trade receivables	<u>380,000</u>	<u>-</u>
	<u>6,276,800</u>	<u>6,276,800</u>

The following information, based on your investigations, has also come to your attention:

- i) Inventory as at 31 October 2017 was GH¢387,100.
- ii) Depreciation is to be charged as follows:
 - Buildings 4% Straight Line on Cost
 - Plant & Equipment 15% of Reducing Balance
 - Land is not being depreciated.
- iii) The land and buildings was revalued in total at GH¢1,300,000, of which land amounted to GH¢200,000, as at 31 October 2017. This has not been recorded in the books.
- iv) Rent relates to a display unit rented and its rental period is yearly starting on 1 April each year. The yearly amount of GH¢12,000 is paid in full on this date.
- v) There are outstanding balances for Marketing Costs, Salaries and Telephone Expenses amounting to GH¢2,420, GH¢3,610 and GH¢280 respectively which have not yet been included in the above trial balance.

- vi) A customer owing GH¢6,000 went into liquidation. The liquidator has assured Sawaba Limited that it will receive 10% of the amount. Sawaba Limited has decided that the Allowance for Doubtful Debts should be set at 5%.
- vii) Provide for any Loan interest due.
- viii) All Expenses are to be allocated evenly between Distribution Costs and Administrative Expenses.

Required:

Prepare a Statement of Profit or Loss Account and Statement of Financial Position for Sawaba Limited for the financial year-ending 31 October 2017.

(20 marks)

QUESTION SIX

The owners of three electrical shops which sell very similar goods, but which operate in different towns, have agreed to discuss their business practices. They hope to identify ways in which each might improve performance. As a first step, the three businesses have sent their latest annual reports to an accountant. The accountant has made sure that their financial statements are comparable in terms of accounting policies and assumptions and has summarised the main figures. The accountant has prepared the following summary:

Statement of Profit or Loss for the year ended 30 June 2017

	Shop A GH¢000	Shop B GH¢000	Shop C GH¢000
Revenue	4,600	5,800	10,800
Cost of goods sold	<u>(1,840)</u>	<u>(2,436)</u>	<u>(5,184)</u>
Gross profit	2,760	3,364	5,616
Sales staff wages	(460)	(232)	(540)
Sales commission	(92)	(348)	(864)
Advertising	(230)	(406)	(972)
Administration costs	(230)	(406)	(864)
Other expenses	<u>(184)</u>	<u>(232)</u>	<u>(432)</u>
	<u>(1,196)</u>	<u>(1,624)</u>	<u>(3,672)</u>
Net profit	<u>1,564</u>	<u>1,740</u>	<u>1,944</u>

Statements of Financial Position as at 30 June 2017

	Shop A GH¢	Shop B GH¢	Shop C GH¢
Office Building	<u>2,920</u>	<u>2,900</u>	<u>2,940</u>
Inventories	154	162	604
Bank	<u>52</u>	<u>70</u>	<u>36</u>
	206	232	640
Payables	<u>(200)</u>	<u>(224)</u>	<u>(432)</u>
Net current assets	<u>6</u>	<u>8</u>	<u>208</u>
Net assets	<u>2,926</u>	<u>2,908</u>	<u>3,148</u>
Owner's capital	<u>2,926</u>	<u>2,908</u>	<u>3,148</u>

Required:

- Compute **TWO** ratios each of *profitability* and *efficiency* of the shops, highlighting areas in which one or more appear(s) to be most successful. (10 marks)
- You should make comments on what each ratio tells the user. (10 marks)

(Total: 20 marks)

QUESTION SEVEN

- a) When two or more individuals come together to form a Partnership, it is advisable to have a correctly drafted Partnership Agreement carefully detailing the terms of the business relationship. A partnership agreement is a contract between partners in a partnership which sets out the terms and conditions of the relationship between the partners.

Required:

Identify and explain **FIVE** key issues that should be covered in a partnership agreement when setting up a partnership. **(10 marks)**

- b) Ashiyie Ltd is a telecommunication company that prepares accounts in accordance with International Financial Reporting Standards (IFRS). A meeting of the Directors of Ashiyie Ltd is scheduled for 5 December 2017 to discuss the following matters with a view to finalising the accounts for the year ending 30 October 2017:
- i) A fire occurred in one of the warehouses of Ashiyie Ltd on 3 November 2017, destroying inventory which had a cost price of GH¢100,000 and a net realisable value of GH¢150,000.
- ii) On 9 November 2017, Ashiyie Ltd received information that one of their largest customers had gone bankrupt. At 30 October 2017, this customer owed Ashiyie Ltd GH¢235,000. It is anticipated that Ashiyie Ltd can only receive 10 pesewas for every GH¢1 they were owed.
- iii) In November 2017, Ashiyie Ltd sold inventory which had been in one of their warehouses for the past two years, for GH¢75,000. This had been included in the financial statements, for the year ended 30 October 2017, at its cost price of GH¢105,000.
- iv) On 30 October 2017, an employee of Ashiyie Ltd fell and injured her arm at work. This employee has commenced legal action. The Solicitors for Ashiyie Ltd informed the company on 10 August 2017, that it is probable they will be found liable and have to pay this employee GH¢33,000. The employee has worked for Ashiyie Ltd for the past 4 years.

Required:

Advise the board on the accounting treatment of these issues. Your answer should give a detailed reason for the accounting treatment that you have chosen. **(10 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a)

- A business is a commercial or industrial concern which exists to deal in manufacturing, re-sale or supply of goods and services.
- A business is an organisation which uses economic resources to create goods and services which customers will buy.
- A business is an organisation providing jobs for people.
- A business invests money in resources (e.g. buildings, machinery, employees) in order to make even more money for its owners.

(4 marks)

b) The people who might be interested in financial information about the company may be classified as follows.

- **Shareholders in the company.** They will be interested in the company's profitability and its ability to pay dividends. They will also be interested in the company's long term prospects.
- **Managers of the company.** These are people appointed by the company's owners to supervise the day-to-day activities of the company. They need information about the company's financial situation as it is currently and as it is expected to be in the future. This is to enable them to manage the business efficiently and to take effective control and planning decisions.
- **Trade contacts,** including suppliers who provide goods to the company on credit and customers who purchase the goods or services provided by the company. Suppliers will want to know about the company's ability to pay its debts; customers need to know that the company is a secure source of supply and is in no danger of having to close down.
- **Providers of finance to the company.** These might include a bank which permits the company to operate an overdraft, or provides longer-term finance by granting a loan. The bank will want to ensure that the company is able to keep up with interest payments, and eventually to repay the amounts advanced.
- **The tax authorities,** who will want to know about business profits in order to assess the tax payable by the company on its profits and any sales taxes.

- **Employees of the company.** These should have a right to information about the company's financial situation, because their future careers and the size of their wages and salaries depend on it.

(Any 4 points @ 1.5 = 6 marks)

c)

i)

**Mr. Mensah
Receivables Control Account**

	GH¢		GH¢
Balance	126,845		
Sales Day Book Error (981-891)	90	Contras	3,250
		Bad Debt Written Off	1,680
		Sales Day Book	890
	-	Bal c/d	<u>121,115</u>
	<u>126,935</u>		<u>126,935</u>
Bal b/d	121,115		

(4 marks)

**Mr. Mensah
Payables Control Account**

	GH¢		GH¢
		Balance	103,240
Contras	3,250	Kasoa (Purchases)	3,126
Purchases Return-Taifa	256		
Balance C/d	<u>102,860</u>		-
	<u>106,366</u>		<u>106,366</u>
		Bal B/d	<u>102,860</u>

(4 marks)

ii)

List of Individual Receivable Balances

Original Balance	GH¢ 123,589
Sales Day Book Error (981-891)	90
Receipt- Amrahia	(2,864)
Bad debt Recovered	<u>300</u>
Closing Adjusted Balance	<u>121,115</u>

(1 mark)

List of Individual Payable Balances

Original Balance	GH¢ 104,476
Amasam Omitted Balance	1,248
Receipt- Amrahia	<u>(2,864)</u>
Closing Adjusted Balance	<u>102,860</u>

(1 mark)

(Total: 20 marks)

EXAMINER'S COMMENTS

The part (a) of the question asked candidates what is business? Part (b) asked candidates to identify four user of financial statements and explain their information needs. Part (c) asked the candidates to prepare a receivable and payable control accounts and ensure that the closing balances match with the list of balances.

A number of candidates were able to explain what a business is and were able to identify the four users of financial statements and explain their information needs. Some candidates however failed to identify examples of accounts information that would be required by each user.

The part (c) was poorly answered by most of the candidates. Double entry understanding was simply lacking. A lot of candidates interchanged the debits for credits and vice versa while a good number of candidates just left out this part of the question unanswered.

QUESTION TWO

Plant & Machinery- Cost

	GH¢		GH¢
1 Jan. 2017 Balance b/f	819,000	Balance	
10 Jan 2017 Addition (41,200 + 300 + 800 + 3,600)	45,900	31 March Balance c/f	864,900
	<u>864,900</u>		<u>864,900</u>

Plant & Machinery- Depreciation

	GH¢		GH¢
		1 Jan 2017 Balance b/f (360,000)	360,000
31/03/18 Balance c/f	522,169	31 Mar 2018 Statement of Profit of loss (864,900@15%x15/12)	162,169
	<u>522,169</u>		<u>522,169</u>

Motor Vehicles- Cost

	GH¢		GH¢
1 Jan 2017 Balance b/f	148,000		
18 Apr 2017 Trade in value	5,000	10 Apr 2017 Disposal	12,000
18 Apr 2017 Cash	13,000	31 March 2018 Balance c/f	154,000
	<u>166,000</u>		<u>166,000</u>
1 April 2018 Balance b/f	154,000		

Motor Vehicles- Depreciation

	GH¢		GH¢
18 Apr 2017 Disposal	6,750	1 Jan 217 Balance b/f	60,000
31/03/18 Balance c/f	101,000	31 Mar 2018 Statement of Profit of loss (W1)	47,750
	<u>107,750</u>		<u>107,750</u>

Motor Vehicles- Disposal

	GH¢		GH¢
18 Apr 2017 Cost	12,000	18 Apr 2017 Trade In	5,000
		18 Apr 2017 Depreciation	6,750
		18 Apr 2017 Loss on Sale	250
	<u>12,000</u>		<u>12,000</u>

Note. Remember that you need to calculate the depreciation for the three months prior to the disposal.

Working: Depreciation $(154,000 - 18,000) \times 25\% \times 15/12 = 42,500$

$18,000 \times 25\% \times 12/12 = 4,500$

$12,000 \times 25\% \times 3/12 = 750$

Total = 47,750

(20 marks evenly spread using ticks)

EXAMINER'S COMMENTS

This question was on depreciation and candidates were asked to prepare the ledger accounts to show the balances on 1 January 2017 and record the non-current ending asset transactions for the 15 months period ending 13 March 2018.

This question was the least attempted by candidates. Those who attempted had problem with the computation of the accumulated depreciation on the asset disposed off and the current depreciation charge. Candidates did not get the cost of the plant purchased because they added the spare parts for repairs as well as the cost of one year maintenance agreement.

QUESTION THREE

a) **Errors which does not affect the suspense account**

- **Omission** – a transaction is not recorded at all.
- **Error of commission** – an item is entered to the correct side of the wrong account (there is a debit and a credit here, so the records balance)
- **Error of principle** – an item is posted to the correct side of the wrong type of account, as when cash paid for plant repairs (expense) is debited to plant account (asset). Errors of principle are really a special case of errors of commission, and once again there is a debit and a credit.
- **Error of original entry** – an incorrect figure is entered in the records and then posted to the correct account. Example: Cash GH¢1,000 for plant repairs is entered as GH¢100; plant repairs account is debited with GH¢100
- **Reversal of entries** – the amount is correct, the accounts used are correct, but the account that should have been debited is credited and vice versa

Example: Factory employees are used for plant maintenance:

Correct entry: Debit: Plant maintenance; Credit: Factory wages

(Any 3 points for 6 marks)

b) Reconcile the opening balance in the bank account with the opening balance on the bank statements

	GH¢
Balance per Bank Account 01/10/2017	15,245
Add items not yet Debited	<u> -</u>
	<u>15,245</u>
Balance per Bank Account 01/11/2017	15,345
Less Unpresented Cheques	
Cheque	5623
	<u> 100</u>
	<u>15,245</u>

(2 marks)

Adjusted Bank Account

October	GH¢	October	GH¢
31	Balance	31	Lodgment(12/10/2017)
	Cheque 5787 Difference (852-825)		Difference (3,553-3,535)
	Lodgment		Bank interest
			Electricity Supplier
			Telecom Company

				Bank fees (Dishonoured Chq)	2
			<u>-</u>	Balance C/d	<u>31,337</u>
		<u>32,270</u>			<u>32,270</u>
	Balance B/d	31,337			

(5 marks)

Bank Reconciliation Statement

		GHC	GHC
Closing Balance per Bank Statement 31/10/2017			33,125
Less Unpresented Cheques			
Cheque 5785		348	
Cheque 5789		2,990	
Cheque 5790		<u>1,640</u>	(4,978)
Bank Errors			
74390-06/10/2017		(950)	
74521-21/10/2017		<u>600</u>	(350)
Add Lodgment not yet cleared			
Lodgment 30/10/2017			<u>3,540</u>
Balance as per Adjusted Bank Account			<u>31,337</u>

(7 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The part (a) of the question required candidates to identify and explain three errors which does not affect the suspense account. The part (b) asked candidates to prepare a bank reconciliation statement as at 31 October 2017.

The part (a) was well answered by most of the candidates however; some tended to get mixed up in their explanations. Most of the candidates could not answer the part (b) very well. Some of the candidates did not even know they had to prepare an adjusted cash book before preparing the bank reconciliation.

Some of the candidates were confused in the treatment of unpresented and uncredited cheques.

QUESTION FOUR

Statement of Cash Flows for the year ended 31 December 2017

Cash flows from operating activities	
Cash generated from operations	858
Interest paid	(100)
Tax paid (144 + 142 - 182)	(104)
Net cash from operating activities	<u>654</u>
Cash flows from investing activities	
Proceeds from sale of non-current asset (36 + 58)	94
Purchase of non-current asset (W1)	(1,088)
Net cash used in investing activities	<u>(994)</u>
Cash flows from financing activities	
Issue of shares (400 - 200)	200
New debt	100
Dividends paid	(200)
Net cash from financing activities	<u>100</u>
Net change in cash and cash equivalents	(240)
Cash and cash equivalents brought forward	<u>128</u>
Cash and cash equivalents carried forward	<u>(112)</u>

RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

Profit before tax	652
Finance cost	100
Depreciation charge	316
Profit on disposal of non-current asset	(36)
Change in inventories (1,346 - 1,390)	(44)
Change in trade and other receivables (218 - 506)	(288)
Change in trade and other payables (1,256 - 1,414)	158
Cash generated from operations	<u>858</u>

W1 Non-current assets (Carrying Amount)

	GH¢		GH¢
1 Jan 2017 (Bal b/f)	2,600	Depreciation	316
Additions (Balancing fig)	1,088	Disposals	58
		Balance c/f	3,314
	<u>3,688</u>		<u>3,688</u>

(20 marks evenly spread using Ticks)

EXAMINER'S COMMENTS

This question required the candidates to prepare the statement of cash flows from a set of data provided.

It was disappointing that many candidates failed to adjust the net profit before finance cost and depreciation. Payments to acquire non-current assets also presented candidates with difficulties. Candidates should also take greater care in relation to changes in working capital as valuable marks are lost by incorrectly adding or subtracting correct amounts. It appeared that quite a number of candidates were not familiar with the layout of the statement. It appears this is an area that candidates are not comfortable with.

QUESTION FIVE

Workings 1 Cost of Sales

Opening Inventory	Per Trial Balance	422,300
Purchases	Per TB	2,400,000
Closing Inventory	Per Note	<u>(387,100)</u>
		<u>2,435,200</u>

Workings 2 Rent Prepayment

Dr.	Prepayment	+ Current Assets	SOFP	5,000
Cr.	Rent Expense	- Expenses SOPL		5,000

Rent - Yearly Amount		12,000
01/11/17 - 31/03/18 Prepaid - 5 Months	5/12	5,000

Workings 3 Expense Accruals

Dr.	Marketing Costs	+ Expenses	SOPL	2,420
Dr.	Salaries	+ Expenses	SOPL	3,610
Dr.	Telephone Expenses	+ Expenses	SOPL	280
Cr.	Accruals + Current Liabilities		SOFP	6,310

Workings 5 Bad debt and Provisions

Dr.	Bad Debt Written Off - (GH¢6,000 * 90%)	+ Expenses	SOPL	5,400
Cr.	Trade Receivables	- Current Assets	SOFP	5,400

Dr.	Allowance for Doubtful Debts	+ Expenses	SOPL	2,730
Cr.	Allowance for Doubtful Debts	- Current Assets	SOFP	2,730

Trade Receivables	Balance per TB	380,000
- Bad Debt Write Off -		<u>(5,400)</u>
		374,600
- Allowance for Doubtful Debts - 5% -		<u>(18,730)</u>
Revised Trade Receivable		<u>355,870</u>

Current Bad Debt Provision	TB	16,000
New Bad Debt Provision	See Above	<u>18,730</u>
Increase in Bad Debt Provision		<u>2,730</u>

Workings 6 Loan

Dr.	Loan Interest	+ Expenses	SOPL	4,600
Cr.	Loan Interest Due	+ Current Liabilities	SOFP	4,600

Loan	160,000	
Interest for the year at 6%		9,600

Loan Interest already paid and included in Trial Balance	(5,000)
Balance Due (Accrued Debenture Interest)	<u>4,600</u>

Workings 6 Property, Plant & Equipment

	Land	Buildings	Plant & Equipment	Total
	GH¢	GH¢	GH¢	GH¢
Cost per Trial Balance	300,000	1,500,000	900,000	2,700,000
Accumulated Depreciation b/d	<u>-</u>	<u>(300,000)</u>	<u>(450,000)</u>	<u>(750,000)</u>
Carrying value b/d 1 Nov. 2016	300,000	1,200,000	450,000	1,950,000
Depreciation: Buildings 4% Straight Line		(60,000)		(60,000)
Plant & Equipment 15% Reducing Balance	<u>-</u>	<u>-</u>	<u>(67,500)</u>	<u>(67,500)</u>
Carrying value	300,000	1,140,000	382,500	1,822,500
Revaluation loss	<u>(100,000)</u>	<u>(40,000)</u>	<u>-</u>	<u>(140,000)</u>
Carrying value c/d 31 October 2017	200,000	1,100,000	382,500	1,682,500

Note (iii) - Revaluation Loss

The treatment of the revaluation loss is as follows:

- Revaluation Loss is netted against the revaluation surplus brought forward of GH¢60,000.
- Any balance i.e. GH¢140,000 - GH¢60,000 = GH¢80,000 is taken to expenses in the SOPL

Workings 7 Expenses

		Distribution costs	Administration Expenses	
Distribution costs	Per TB	46,500	-	46,500
Administration Expenses	Per TB	-	23,250	23,250
Marketing costs	Per TB+W3	44,210	44,210	88,420
Allowance for Doubtful debts	W5	1,365	1,365	2,730
Rent & Rates	Per TB +W3	9,500	9,500	19,000
Salaries	Per TB +W3	99,805	99,805	199,610
Telephone Expenses	Per TB + W3	8,640	8,640	17,280
Depreciation: Buildings	W6	30,000	30,000	60,000
Plant & Equipment	W6	<u>33,750</u>	<u>33,750</u>	67,500
Total		276,470	229,970	

Sawaba Ltd
Statement of Profit or Loss for the year ended 31 October, 2017

	GH¢	GH¢
Revenue		3,802,000
Cost of Sales W1		<u>(2,435,200)</u>
Gross Profit		1,366,800
Distribution costs W7	276,470	
Administrative Expenses W7	<u>229,970</u>	<u>506,440</u>
Profit before Interest and Tax		860,360
Interest on Loan		<u>(9,600)</u>
Profit for the year		850,760
Other Comprehensive Income		
Revaluation Loss W6		<u>(80,000)</u>
Total Comprehensive Income for the year		770,760

Sawaba Ltd
Statement of Financial Position as at 31 October, 2017

	GH¢	GH¢
Non-current assets		
Property, Plant & Equipment W6		1,682,500
Current Assets		
Inventories	387,100	
Trade receivables W5	355,870	
Prepayments W2	<u>5,000</u>	<u>747,970</u>
Total Assets		<u>2,430,470</u>
Equity & Liabilities		
Equity Share capital		720,000
Retained Earnings	526,300	
Add: Total Comprehensive Income for the year	<u>770,760</u>	<u>1,297,060</u>
Total Equity		2,017,060
Non-current liabilities		
6% Loan		160,000
Current liabilities		
Trade payables	200,000	
Accruals	6,310	
Debenture interest	4,600	
Overdraft	<u>42,500</u>	<u>253,410</u>
Total Equity & Liabilities		<u>2,430,470</u>

(20 marks evenly spread using ticks)

EXAMINER'S COMMENTS

This question asked candidates to prepare profit or loss account and statement of financial position from a trial balance and additional information provided.

The question was more traditional in nature and examined the candidate's ability to make necessary adjustments and prepare the required accounts.

This question was answered by almost all the candidates and the scores were very poor.

The main weaknesses of candidates were:

- Most candidates could not correctly compute the cost of goods sold.
- The question required candidates to break down the expenditure into distribution and administration and this was a problem for most candidates.
- The Property, Plant and Equipment schedule was poorly done.
- The calculation and treatment of revaluation loss was one major weakness as only a few candidates got this right.
- Most candidates presented the cost of goods sold on the face of the profit or loss account instead of showing it as a note.
- Basic calculation on depreciation, accruals and prepayments were missed.

QUESTION SIX

a)

	Shop A	Shop B	Shop C
Profitability			
ROCE	$1564/2,926 * 100 = 53\%$	$17,40/2,908 * 100 = 60\%$	$1,944/3,148 * 100 = 62\%$
Gross profit margin	$2,760/4,600 * 100 = 60\%$	$3,364/5,800 * 100 = 58\%$	$5,616/10,800 * 100 = 52\%$
Net profit margin	$1564/4,600 * 100 = 34\%$	$1,740/5,800 * 100 = 30\%$	$1,944/10,800 * 100 = 18\%$
Efficiency			
Non-current assets/Sales	$2920/4600 * 100 = 63\%$	$2,900/5,800 * 100 = 50\%$	$2,940/10,800 * 100 = 27\%$
Inventory Turnover	$154/1,840 * 365 = 31$ days	$162/2,436 * 365 = 24$ days	$604/5,184 * 365 = 43$ days
Payables settlement period	$200/1,840 * 365 = 40$ days	$224/2,436 * 365 = 34$ days	$432/5184 = 30$ days
Admin costs/Sales	$230/4,600 * 100 = 5\%$	$406/5,800 * 100 = 7\%$	$864/10,800 * 100 = 8\%$
Sales staff wages/sales	$460/4,600 * 100 = 10\%$	$232/5,800 * 100 = 4\%$	$540/10,800 * 100 = 5\%$
Sales commission/sales	$92/4,600 * 100 = 2\%$	$348/5,800 * 100 = 6\%$	$864/10,800 * 100 = 8\%$
Advertising costs/sales	$230/4,600 * 100 = 5\%$	$406/5,800 * 100 = 7\%$	$972/10,800 * 100 = 9\%$

(10 marks evenly spread using Ticks)

b)

- All three shops have achieved a high return on their owners' capital (ROCE), although Shop A performed marginally less well than the other two, despite having the highest gross margin and net profit margin. It spends less than the other shops on administration, which is good, but it also spends very little on sales staff wages and commission. Sales staff in Shop A are paid a high proportion of their income as fixed wages, with little being paid as commission. This means sales staff will have little incentive to make sales.
- Shop A also spends less than the others on advertising, which may be contributing to its relatively poor ROCE. Shop A makes the poorest use of its premises, generating much lower sales than the other two shops, but having premises valued at almost the

same amount. To improve its overall profitability, Shop A should consider changing the structure of remuneration to sales staff by increasing the proportion paid as commission, and should also spend more on advertising.

- Shop B obviously adopted business policies which follow a middle path between those of Shop A and Shop C. In almost every ratio, Shop B falls between the other two. Shop B does outperform the other two in terms of inventory turnover, as it manages to sell its inventory within only 24 days on average. Apart from this indicator, the shop is adopting 'safe' policies, but if it wants to improve its ROCE, it should adopt an approach closer to that of Shop C.
- Shop C is the best overall performer of the three shops, as it has the highest ROCE. It appears to have achieved this by adopting several business strategies, each of which is designed to stimulate sales. It has the lowest gross profit margin, suggesting it has dropped its selling prices in order to encourage sales. It pays its sales staff the highest proportion of their remuneration by way of commission, encouraging them to make sales. It also pays its sales staff the highest overall package of remuneration. It spends more than the other two on advertising, which is likely to generate increased customer sales. It is making the best use of its premises, achieving sales of more than double those of Shop A, despite the premises being of the same value.
- There are three areas where Shop C could improve. It could try to reduce its administration costs, which are higher than those of the other two shops. It could try to turn over inventory faster, although not at the expense of losing sales through lack of choice. Finally, it could hold off paying payables for longer, although only if that did not involve losing any discounts available for prompt payment.

(5 points @ 2 marks = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

In this question candidates were required to compute two ratios each of profitability and efficiency and make comments on what each ratio tells the user.

The ratios were calculated by most candidates very well however comment on the ratios were met with a very mixed response and is clearly an area where candidates are less comfortable. Nevertheless the overall performance was good.

QUESTION SEVEN

a) **Items that should be included in a partnership agreement include the following:**

- **Capital.**

The partnership agreement should state how much each partner is putting into and leaving in the partnership.

- **Profit-sharing Ratio**

The partnership agreement should include how any profits are to be split between the various partners.

- **Interest on Capital and Drawings**

The agreement should disclose the interest rate that partners are entitled to, based on the amount of capital invested in the partnership, or the interest to be paid to the partnership based on drawings from the partnership. If no interest on capital or drawings is being paid/received, this should be included in the partnership agreement.

- **Partners Salaries**

The agreement should state what, if any, and when salaries are to be paid to partners.

- **Drawings**

The partnership agreement should include details of the amount of drawings allowed by the partnership to partners.

- **Goodwill**

The partnership agreement should state whether the business will be valued and goodwill allowed to be brought into the partnership accounts or not.

- **Admittance/Amalgamation/Dissolution of Partnership**

The partnership agreement should include details on these three aspects of the partnership.

(Any 5 points for 10 marks)

b)

i) This is a **non-adjusting event** as it occurred after the statement of financial position date. If it is material it should be disclosed in the financial statements, but it should not be recognised in the financial statements.

ii) This is an **adjusting event** as it provides evidence of conditions that existed at the statement of financial position date. The company should recognise this in the accounts by debiting bad debts GH¢211,500 ($90/100 \times 235,000$) and crediting trade receivables GH¢211,500.

iii) This is also an **adjusting event** as it confirms the net realisable value of the goods that were in stock at 30 October 2017. The company will have to recognise this by reducing the value of closing inventory in the financial statements.

- iv) This is **an adjusting event**. As the injury took place prior to the year end it has now been confirmed that the company will probably have to pay out GH¢33,000 in compensation. The company will have to recognise a provision of GH¢33,000 in the financial statements by debiting provision expense GH¢33,000 and crediting provision statement of financial position GH¢33,000.

(2.5 marks each for 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The part (a) of this question required candidates to identify and explain five key issues that should be covered in a partnership agreement when setting up a partnership. The part (b) required the candidates to advise the board on the accounting treatment of some issues.

The part (a) of this question was satisfactory done by the majority of candidates even though a few of them failed to properly explain their points. A number of candidates also deviated completely.

The part (b) of the question was poorly answered by most candidates. Candidates had a rather very weak understanding of the issues indicating their poor preparation for this kind of test.

CONCLUSION

Candidates and lecturers 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.