NOVEMBER 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 above average and higher as compared to the previous sitting. Candidates scored 62% (refer to Appendix A, B and C for details). 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 7. 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. The overall standard of some answers was disappointing. In particular some candidates showed 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 were as follows:

- Poor and untidy handwriting
- No workings presented for some questions
- Some candidates made 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) State and explain **TWO (2)** errors that will not affect the balancing of the trial balance. **(4 marks)**

b) The trial balance of Pak Ltd has an excess of credit over debit of GH¢12,500. A suspense account has been opened to balance the accounts. The following transactions were later discovered:

i) Interest paid of GH¢5,000 and Interest received of GH¢8,000 have both been entered on the wrong side of the trial balance.
ii) The receivable control account balance of GH¢224,387 had been included in the trial balance as GH¢242,387
iii) Sales of GH¢2,000 had been omitted from the sales records (i.e from the sales day book).
iv) Purchase of raw material of GH¢4,005 was entered in the purchase account as GH¢4,500.
v) The balance on the current account with the Proprietor's wife had been omitted from the trial balance. This item when corrected will clear the suspense account.

Required:
Open a suspense account and correct the above transaction in it. **(6 marks)**

c) ABC Ltd has prepared its October 2018 bank reconciliation for auditors to review. As at 31 October 2018 the ledger balance was GH¢ 2,450 (Credit) but the bank statement showed that the company has funds amounting to GH¢3,743.

The following are useful information:

- The company arranged for the bank to transfer the dollar equivalent of GH¢ 500,000 to a supplier in the United States. Charges on the transfer of 0.5% have not been recorded in the books of ABC Ltd.
- The CEO of ABC Ltd arranged for an amount of GH¢3,000 to be transferred from his personal bank account into the company's account. The bank made the transfer on 31 October 2018, but ABC Ltd has not made any entry in its books.
- A Cheque for Electricity Company amounting to GH¢5,600 issued and recorded correctly in the bank statements appeared in ABC ledger as GH¢6,500.
- The following cheques issued by ABC Ltd in October 2018 did not appear on the bank statement:
  Cheque # 00450 - GH¢2,000
  Cheque # 00456 - GH¢ 4,800
  Cheque # 00500 - GH¢ 5,250
  Three cheques received and booked by ABC Ltd amounting to GH¢ 4,800 were not credited by the bank
- Income earned on investment with an advice by the bank of GH¢2,457 was not recorded by the bank until 3 November 2018.

Required:

i) Prepare the bank account in ABC Ltd nominal ledger including any adjusting entries based on the information above. **(5 marks)**
ii) Prepare a reconciliation of the bank statement balance to the corrected balance on the bank account in ABC Ltd nominal ledger. **(5 marks)**

(Total: 20 marks)

QUESTION TWO

Mensah & Co. Ltd
Statement of Financial Position as at 31 December 2017

	Notes	2017 GH¢	2016 GH¢
Non-Current Assets	(i)	16,000	18,000
Current Assets			
Inventory		15,400	12,000
Trade Receivables		18,500	22,400
Cash and Bank Balance		9,500	5,000
Total Current Assets		43,400	39,400
Current Liabilities			
Trade Payables		800	12,300
Other payables and accruals		2,000	2,500
Taxation	(ii)	500	2,000
Short term loan	(iii)	10,000	15,000
Total Current Liabilities		13,300	31,800
Net Current Assets		30,100	7,600
Total Assets		**46,100**	**25,600**
Financed by:			
Share Capital		25,000	20,000
Retained Earnings		21,100	5,600
		46,100	**25,600**

Statement of Comprehensive Income for the year ended 31 December 2017

	GH¢
Sales	185,000
Cost of Sales	(111,000)
Gross Profit	74,000
General Administrative Expense	52,000
Operating profit	22,000
Other Income	2,000
Profit before tax	24,000
Taxation	(8,500)
Profit after Tax	**15,500**

Notes to the accounts:

i) Non-Current Assets Schedule:

Cost:	GH¢
Opening balance	45,000
Additions during the year	10,000
Disposal	(5,000)
Closing balance	50,000

Depreciation:	
Opening balance	27,000
Charge for the year	10,000
Disposal	(3,000)
Closing balance	34,000
Net Book Value	**16,000**

ii)	Taxation:	**GH¢**
	Opening balance	2,000
	Charge for the year	8,500
	Payments during the year	(10,000)
	Closing balance	**500**

iii)	Short Term Loan:	
	Opening balance	15,000
	Interest charged	1,500
	Repayment	(6,500)
	Closing balance	**10,000**

Required:

a) Prepare a statement of cash flow as at 31 December 2017 for Mensah & Co. Ltd using the indirect method. **(17 marks)**

b) Differentiate between ***Direct and Indirect Method*** of reporting cash flow from operating activities. **(3 marks)**

(Total: 20 marks)

QUESTION THREE

Bob and Sons prepares its financial statements to 31 December every year. At 31 December 2017, the company's trial balance was as follows:

	DR	CR
	GH¢'000	**GH¢'000**
Sales		50,000
Purchases	42,156	
Inventory 1/1/2017	1,245	
Printing and Stationery	1,692	
Rent and Rates	480	
Travelling and Transport	780	
Repairs and Maintenance	1,523	
Other administrative expense	500	
Land at cost	13,500	
Building at cost	45,000	
Acc. Depreciation- Building		6,750
Motor Vehicle at cost	24,500	
Acc. Depreciation- Motor Vehicle		19,600

Equipment and Furniture	12,450	
Acc. Depreciation -Equipment & Furniture		4,980
Trade Receivables	9,450	
Cash and Bank balance	9,524	
Trade Payables		18,450
Short term loan		12,500
Share Capital		15,000
Retained Earnings	-	35,520
	162,800	**162,800**

The following additional information is relevant:

i) Depreciation is to be provided as follows:

- Building - 3% per year on cost
- Motor Vehicle - 20% per year on cost
- Equipment & Furniture - 10% per year on cost

ii) It is the policy of the company not to charge depreciation in the year of disposal.

iii) Land was revalued later in the year for GH¢15,000,000. No change was required to the value of the building.

iv) Inventory value at 31 December 2017 amounted to GH¢1,840,000

v) Rent recorded in the trial balance represents 15months rent paid to 31 March 2018

vi) A provision of 10% of trade receivable is to be made

vii) During the year Motor Vehicle costing GH¢1,200,000 was disposed off. The vehicle had been in existence for 3 years. Proceeds from the sale of the vehicle was GH¢500,000. This has not been accounted for in the books of Bob and Sons.

Required:
Prepare the Statement of comprehensive income for Bob and Sons for the year ended 31 December 2017 and the Statement of financial position as at 31 December 2017 in compliance with the provisions of International Financial Reporting Standards (IFRS).
(20 marks)

QUESTION FOUR

a) The Conceptual Framework for Financial Reporting is a set of principles which underpin the foundation of financial accounting. The Conceptual Framework sets out the going concern concept as one of the important underlying assumption for the preparation of financial statements.

Required:
Explain the ***going concern concept***, illustrating your answer with suitable examples.
(5 marks)

b) A trader who trades in computers commences business on 1 Jan 2018 and buys 100 computers, each costing GH¢3,500.00. During the year, he sells 80 machines at GH¢5,000 each.

Required:
How should the remaining machines be valued at the end of the year if:

i) He is forced to close down his business at the end of the year and the remaining machines will realised only GH¢2,000 each in a forced sale. **(2 marks)**

ii) He intends to continue the business into the next year. **(2 marks)**

c) One of the fundamental qualitative characteristics of useful financial information in the Conceptual Framework for Financial Reporting is ***'faithful representation'***

Required:
Explain what is meant by '***faithful representation'.*** **(5 marks)**

d) Those charged with governance of a company are responsible for the preparation of the financial statements. The board of directors of a company are usually the top management in a Small and Medium Enterprise and are those who are charged with governance of the company. The responsibilities and duties of directors are usually laid down in law and are wide ranging.

Required:
State **THREE (3)** responsibility of directors towards the preparation of financial statement.

(6 marks)

(Total: 20 marks)

QUESTION FIVE

a) The financial controller of Kantanka Ltd,(Kantanka) a technology company has asked you, a trainee financial accountant within the company for an explanation of some accounting terminologies and, for advice on how to account for various transactions that occurred after the financial year end date of 31 December 2016.

Required:
Explain **TWO (2)** reasons why a company would not prepare its financial statements on a ***going concern basis***. **(4 marks)**

b) In accordance with ***IAS 10: Events after the Reporting Period***, explain what is meant by 'event after the reporting period'. **(4 marks)**

c) How the information in (b) above should be dealt with in the financial statements?

(3 marks)

d)

i) Kantanka purchased a motor vehicle on 30 December 2016 and paid a non-refundable deposit of GH¢5,000 on that date. He also wrote a cheque on that date for the balance of GH¢20,000. The seller cashed the cheque on 3 January 2017. **(3 marks)**

ii) Kantanka Ltd was sued by a customer who was unhappy with the quality of a product delivered to him in June 2016. The court case was heard in late October 2016 but it was not until 8 January 2017 that the judge ruled in favour of Kantanka Ltd and awarded it damages of GH¢20,000 to cover its solicitor's fees. The legal costs were paid by the customer to Kantanka Ltd on 12 January 2017. Kantanka Ltd was unsure of winning the case and it had previously included a provision in its financial statements for the year ended 31 December 2016 for compensation and legal costs as follows:

		GH¢	GH¢
Dr	Legal Fees – Administrative Expenses	25,000	
Dr	Cost of Sales	35,000	
Cr	Provisions – Current Liabilities		60,000

(4 marks)

iii) One of Kantanka's Ltd customers was declared bankrupt on 5 January 2017, owing GH¢4,000 to Kantanka Ltd. **(2 marks)**

Required:
How should the following issues raised in (i) to (iii) be treated in the financial statements of Kantanka Ltd?

(Total: 20 marks)

QUESTION SIX

Oware Ltd is considering possible investment in only one of the following companies: Achiaa Ltd or Apire Ltd. Extracts from the financial statements of both companies are below

Statement of Profit or Loss for the year ended 31 December 2017

	Achiaa Ltd GH¢000	Apire Ltd GH¢000
Sales	20,000	18,000
Cost of Sales	(12,000)	(12,000)
Gross Profit	8,000	6,000
Administrative Expenses	(1,600)	(1,200)
Finance Costs	(2,000)	(800)
Profit before Tax	4,400	4,000
Income Tax Expense	(600)	(500)
Profit for the year	**3,800**	**3,500**

Statement of Financial Position as at 31 December 2017

	Achiaa Ltd	Apire Ltd
Non-current Assets	**GH¢000**	**GH¢000**
Property, Plant & Equipment	30,000	15,000
Current Assets		
Inventory	2,000	300
Trade receivables	1,400	300
Cash & Cash Equivalents	600	900
	4,000	1,500
Total assets	**34,000**	**16,500**
Equity & Liabilities		
Equity		
Share capital	4,000	3,000
Retained Earnings	7,600	4,300
	11,600	7,300
Non-current Liabilities		
Loan	20,000	7,200
Current Liabilities		
Trade Payables	1,600	1,300
Taxation	600	500
Accrued Expenses	200	200
	2,400	2,000
Total Equity & Liabilities	**34,000**	**16,500**

Required:

a) Calculate the following ratios for both Achiaa Ltd and Apire Ltd
i) The Net Profit %
ii) The Debt to Equity Ratio
iii) Trade Receivable Days
iv) Interest Cover

(12 marks)

b) Prepare a memorandum on the overall assessment making recommendations on which company Oware Ltd should invest in. **(8 marks)**

(Total: 20 marks)

QUESTION SEVEN

a) State **FOUR (4)** advantages a Limited Liability Company has over a Sole Proprietorship **(6 marks)**

b) Explain the following;
i) Issued Shares
ii) Preference Shares
iii) Ordinary Shares
iv) Debentures **(14 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a)

- **Error of Omission**- Failing to record a transaction- Once a transaction is omitted it will not affect balancing of the trial balance
- **Compensating errors:** Errors which are equal and opposite to one another which in effect will not affect balancing of the trial balance
- **Error of Commission:** Entry recorded in the wrong accounts. Eg Electricity expenses recorded as Telephone expenses. This will not affect the trial balance.
- **Error of Principle:** Entry in the wrong class of accounts. Eg Revenue expenditure treated as capital expenditure. **(2 errors well explained for 4 marks)**

b)

Suspense Account

	DR GH¢	CR GH¢
Unidentified balance	12,500	
Interest paid	10,000	
Interest received		16,000
Receivables overstated		18,000
Purchase over casted		495
Current Account (Balancing figure)	11,995	-
	34,495	**34,495**

(6 marks)

c)

i)

Bank Account in ABC Ltd nominal ledger	GH¢
Balance b/f	(2,450)
Transfer charges (0.5%*500000)	(2,500)
Transfer from CEO	3,000
Electricity Overstated	900
Balance c/f	**(1,050)**

(5 marks)

ii)

Bank Reconciliation Statements		GH¢
Balance per ledger		(1,050)
Add unpresented cheques		
#450	2,000	
#456	4,800	
#500	5,250	12,050
		11,000
Less:		
Uncredited cheques	4,800	
Interest not booked	2,457	(7,257)
Balance per bank statement		**3,743**

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The part (a) of the question asked candidates to state and explain two (2) errors that will not affect the balancing of the trial balance. Part (b) asked candidates to open a suspense account and correct some errors. Part (c) asked the candidates to prepare bank account including any adjusting entries and prepare a reconciliation of the bank statement balance to correct balance on the bank account.

Part (a) was well answered by candidates. In Part (b) almost all candidates wasted their time preparing a general journal as a prelude to the suspense account which was not required.

In Part (c) the bank reconciliation statement was generally well done except that some candidates failed to properly determine to add or subtract unpresented and uncredited cheques. The adjusted cash book also saw candidates interchanging debits for credit and mixing up any figures they lay hands on.

QUESTION TWO

a)

Mensah and Co Limited

Statement of cash flow for the year ended 31 December 2017

	GH¢
Profit before tax	24,000
Add back Depreciation	10,000
Less profit on disposal	(2,000)
	32,000
Changes in assets and liabilities	
Increase in inventory	(3,400)
Decrease in receivables	3,900
Decrease in payables	(11,500)
Decrease in other payables	(500)
Cash generated from operating activities	20,500
Interest paid	1,500
Tax paid	(10,000)
Net cash flow from operating activities	12,000
Cash flow from Investing Activities	
Acquisition of Assets	(10,000)
Proceeds from sale of assets	4,000
Net cash flow from investing activities	(6,000)
Cash flow from Financing Activities	
Proceeds from shares	5,000
Loan repayment	(6,500)
Net cash flow from financing activities	(1,500)
Increase in cash and cash equivalents	4,500

Cash and cash equivalent 1.1	5,000
Cash and cash equivalent 31.12	9,500

(17 marks evenly spread using ticks)

b)

- Direct method discloses major classes of gross cash receipts and gross cash payments. It also discloses information not available elsewhere on the financial statements.
- Indirect method on the other hand presents net profit or loss adjusted for the effect of transaction of non-cash nature, deferrals and items of income or expense associated with investing or financing activities. It is also simple to use and widely used.

(2 points for 3 marks)

(Total: 20 Marks)

EXAMINER'S COMMENTS

The part (a) required candidates to prepare a statement of cash flow using the indirect method and part (b) asked candidate to differentiate between direct and indirect method of reporting cash flow from operating activities.

Most candidates were able to pick the correct net profit before tax. The tax paid and depreciation figures were well treated by most of the candidates. Candidates need to be a lot more comfortable with the preparation and presentation of cash flow statements. Candidates are encouraged to revise the principles and format of cash flows as this was an area of weakness for those who did not perform well. In general, candidates scored either very highly or very poorly in this question.
The part (b) was not well differentiated by most of the candidates.

QUESTION THREE

Bob and Sons

Statements of Comprehensive Income for the year ended 31 December 2017

	GH¢	**GH¢**
Sales		50,000
Cost Of Sales(1245+42156-1840)		(41,561)
Gross Profit		8,439
Gen Administrative Expense		
Rent And Rates (W2)	384	
Printing And Stationery	1,692	
Travelling And Transport	780	
Repairs And Maintenance	1,523	
Other Admin Expenses	500	

Depreciation: Motor Vehicle	4,420	
Furniture And Equipment	1,245	
Building	1,350	
Provision For Bad Debt	945	
Total Admin Expenses		12,839
Net Loss Before Other Income		(4,400)
Other Income		20
Net Loss Before Taxation		(4,380)

Bob And Sons

Statement Of Financial Position As At 31 December 2017

	GH¢	**GH¢**
Non -Current Assets		
Property Plant And Equipment (W4)		58,125
Current Assets		
Trade Receivables (W3)	8,505	
Other Receiveables	96	
Inventory	1,840	
Cash And Bank Balance	10,024	
Total Current Assets		20,465
Total Assets		**78,590**
Current Liabilities		
Trade Payables	18,450	
Short Term Loan	12,500	
Total Current Liabilities		30,950
Shareholder's Equity		
Share Capital	15,000	
Retained Earnings	31,140	
Revaluation Reserve	1,500	
Total Shareholder's Equity		47,640
Total Liabilities And Shareholders' Equity		**78,590**

WORKINGS

W1 Cost Of Sales

Openig Inventory	1,245
Purchases	42,156
	43,401
Less Closing Inven	1,840
Cost Of Sales	**41,561**

Depreciation

	COST(GH¢)	RATE	CHARGE
Building	45,000	3%	1,350
Equipment And	12,450	10%	1,245

Furniture			
Motor Vehicle	23,300	20%	4,660

Motor Vehicle
Cost

At 1/1/2017	24,500
Disposal	(1,200)
At 31/12/17	23,300

Depreciation	
At 1/1/2017	19,600
Charge For The Year	4,420
Disposal	(720)
At 31/12/17	23,300

Profit Or Loss On Disposal

Cost Of Vehicle	1,200		PROCEEDS
Acc Depreciation	720		
Net Book Value	480	DR BANK	500
Proceeds From Sale Of Vehicle	500	CR DISPOSAL	500
Profit On Sale Of Vehicle	**20**		

W2 Rent & Rates

Rent Paid For 15 Month	480
Rent For 12 Months	384
Prepaid Rent	**96**

W3 Trade Receivables

Trade Receivable	9,450
10% Prov For Bad Debt	945
	8,505

W4 PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Motor Vehicle	Equipment & Furniture	Total
Cost					
At 1/1/2017	13,500	45,000	24,500	12,450	95,450
Disposal			(1,200)		(1,200)
Revaluation	1,500				1,500
At 31/12/2017	15,000	45,000	23,300	12,450	95,750
Depreciation					
At 1/1/2017		6,750	19,600	4,980	31,330
Charge For The Year		1,350	4,420	1,245	7,015
Disposal			(720)		(720)

At 31/12/17		8,100	23,300	6,225	37,625
Net Book Value					
At 31/12/2018	**15,000**	**36,900**	**-**	**6,225**	**58,125**

Its Assumed That 240 Was Overcharged In Previous Years

Depreciation	4,660
Less Overcharge	240
	4,420

(20 marks evenly spread using ticks)

EXAMINER'S COMMENTS

This question required candidates to prepare the statement of comprehensive income and statement of financial position in compliance with provisions of International Financial Reporting Standards (IFRS).
The approach to question by candidates was good. Most of the candidates score very high marks. However few issues were noted as follows:
The profit on sale of motor vehicle of GH¢20 was not treated in statement of comprehensive income account by most candidates.
The balance on the property, plant and equipment of GH¢58,125 was wrong for quite a number of candidates.
The revaluation of land for GH¢15,000 giving a revaluation reserve of GH¢1,500 was not treated in the statement of financial position.

QUESTION FOUR

a) The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

   The main significance of the going concern concept is that the assets should not be valued at their 'break-up' value (the amount they would sell for if they were sold off piecemeal and the business were broken up).

(5 marks)

b) Computers

	Quantity	Price	Value
Purchase	100	3,500	350,000
Sales	80	5,000	400,000

Closing Inventory	20

i)

	Quantity	Price	Value	
Value will be :	20	2,000	40,000	**(2 marks)**

ii)

	Quantity	Price	Value	
Value will be:	20	3,500	70,000	**(2 marks)**

c) **Faithful representation**

- The information gives full details of its effect on the financial statements and is only recognised if its financial effects are certain.
- Financial reports represents economic phenomena in words and numbers. To be useful, financial information must not only represent only relevant phenomena but must faithfully represent the phenomena that it purports to represent.
- To be faithful financial information must be complete, neutral and free from error. A complete reports must include all information necessary for the user to understand, neutral is without bias and finally free from error means there should be no errors or omissions in the report.

(5 marks)

d) Directors are responsible for the preparation of the financial statements of the company. They are specifically responsible for :

- The preparation of the financial statements of the company in accordance with applicable financial reporting framework (eg. IFRSs)
- The internal controls necessary to enable the preparation of financial statements that are free from material misstatement, whether due to error or fraud
- The prevention and detection of fraud

(6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The Part (a) asked the candidates to explain the going concern concept illustrating their answers with suitable examples. Part (b) required candidates to value stock on forced down basis and continuity basis. Part (c) question required the candidates to explain what is meant by faithful representation. Part (d) requested the candidates to state three (3) responsibilities of directors towards the preparation of financial statements.

Part (a) was answered very well by most candidates. However some of the candidates instead of stating the business 'will continue in operation for the foreseeable future' stated that will continue in operation for the unforeseeable future.

Part (b) most candidates were not able to compute the value of the remaining machines on a forced to close down and continuous basis.
Part (c) on faithful representation was well done by most candidates.
Part (d) on the responsibility of directors towards the preparation of financial statement was mixed. Some candidates wrote on the general duties of directors while those who understood the question wrote on the duties of directors with regards to the preparation of financial statement.

QUESTION FIVE

a) Per paragraph 14 of IAS 10, a company would not prepare its financial statements on a going concern basis if management determines after the reporting period either that

- it intends to liquidate the company or
- to cease trading or that it has no realistic alternative but to do so.

(4 marks)

b) Paragraph 3 of IAS 10 states that events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified i.e.

- Adjusting events are those events that provide evidence of conditions that existed at the end of the reporting period
- Non-adjusting events are those events that are indicative of conditions that arose after the reporting period. **(4 marks)**

c) Per paragraph 19 of IAS 10, if a company receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to these conditions, in the light of the new information. **(3 marks)**

d)

i) Per paragraph 9 (c) of IAS 10, this is an adjusting event. The determination after the statement of financial position dates of the cost of assets purchased before the end of the reporting period is an adjusting event after the reporting period and the adjusting event needs to be recognised in its financial statements for the relevant year ended. Therefore, the full cost of the motor vehicle needs to be reflected in its financial statements for the year ended 31 December 2016.

(3 marks)

ii) Per paragraph 9 (a) of IAS 10, this is an adjusting event. The event took place during the reporting period and the settlement after the reporting period of the court case confirms that there was a present obligation at the end of the reporting period. Therefore, the previous provision should be reversed and the money received for legal fees should be netted against any legal costs that Kantanka Ltd bore in defending the case in the financial statements for the year ended 31 December 2016. **(4 marks)**

iii) Per paragraph 9 (b i) of IAS 10, this is an adjusting event. The receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period for example the bankruptcy of a customer that occurs after the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable. Therefore, Kantanka Ltd should write off the amount as a bad debt in its financial statements for the year ended 31 December 2016.

(2 marks)
(Total: 20 marks)

EXAMINER'S COMMENTS

The part (a) asked candidates to explain two (2) reasons why a company would not prepare its financial statement on going concern basis. Part (b) asked candidates to explain what is meant by 'event after the reporting period' in accordance with IAS10. Part (c) asked candidates how the information in part (b) should be dealt with in the financial statement. Part (d) some issues were raised and candidates were to state how they will be treated in the financial statements.

Only few candidates dared this question and performed poorly. The specified issues were:

a) weak understanding of the going concern concept particularly the circumstances under which a company should not prepare accounts under the assumption

b) events after the reporting period was also poorly understood by candidates. Most candidates simply displayed their ignorance just stating anything that came to their mind.

c) candidates did not know how to deal with events after the reporting period in the financial statements.

d) candidates could also not explain the how the scenarios should be treated. Some candidates produced full financial reports from the figures provided in the scenarios which scored nothing.

QUESTION SIX

a) Computation of ratios

	Achiaa Ltd. 2017 - GH¢'000	Apire Ltd. 2017 - GH¢'000
i) Net Profit Ratio	3,800/20,000 = 19%	3,500/18,000 = 19.44%
ii) Debt to Equity Ratio	20,000/11,600*100 = 172.41%	7,200/7,300*100 = 98.63%
iii) Trade Receivable Days	1,400/20,000*365 = 26 Days	300/18,000*365 = 6 Days
iv) Interest Cover	6,400/2,000 = 3.2 Times	4,800/800 = 6 Times

(3 marks each for every ratio well computed)

To: Managing Director of Oware Ltd
From: Financial Accountant
Re: Evaluation of potential purchase of either Achiaa Ltd or Apire Ltd
Date: September 2013

Please find attached the results of a review of certain key ratios of the above companies for the year ended 31st December 2017.

Net Profit Ratio
The net profit ratio for both companies is broadly similar 19% for Achiaa versus 19.44% for Apire. Apire sales are 10% less than Achiaa Ltd and a review of results for prior years would be beneficial before making a definitive decision. Achiaa's gross profit for 2017 is 40% versus Apire's 33.33%. Therefore, Achiaa has a more profitable business on their sales but leaks margin with higher administrative costs – 8% versus 6.67% and extra finance costs - 10% versus 4.44% due to their significant borrowings.

Debt to Equity Ratio
Both companies have a high debt to equity ratio with Achiaa's in particular being at a dangerously high level. Are the high levels due to significant increases in non-current assets which may drive growth in the future – this needs to be investigated as well as review of the loan agreements to ensure that both companies can adequately cover repayments. Management at Achiaa should be asked whether an injection of capital/funds is needed to ensure its survival. Given the amount of debt in each company, it would appear that Achiaa is making repayments at a lower interest rate than Apire.

Trade Receivable Days
Apire's result is significantly better than Achiaa but both results are within 30 days which is quite good provided both companies are not in an industry with lower normal receivable days than 30 days. Inquiries should be made to Apire's management as regards how they manage to keep their trade receivables as low because there may be an opportunity with other companies managed by Oware Ltd to capitalise on their approach.

Interest Cover
Apire's interest cover is nearly twice Achiaa's level – 6 times versus 3.2 times and is at a comfortable level to satisfy banks. Achiaa's level is at an acceptable level but it would need to be monitored closely for any signs of deterioration given the level of debt the company currently holds.

Recommendation
The most worrying aspect for both companies is the debt levels they currently hold and before purchase significantly questions need to be asked of management of companies re the sustainability of the debt levels and impact on future growth and profitability. Both companies have strong net profit margins. Achiaa has slightly better sales and excluding debt repayments has better profit margins and liquidity in its acid test ratio. Apire appears to have strong working capital management and interest cover. Therefore, provided Apire liquidity from a short and long term view is adequately managed, I would recommend it over Achiaa whose debts levels are very significant for Oware to accept as an investment proposition. I would urge that further due diligence be undertaken on both companies before investment proceeds.

I hope that the above responses clarify and answer your queries. If you have any further queries, please do not hesitate to ask.

Yours sincerely,
Financial Accountant
Presentation & Format

(2 marks each for every ratio well analysed= 8 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

a) In this question candidates were required to compute the following ratios for two companies:
   - Net Profit %
   - Debt to equity
   - Trade Receivable days
   - Interest Cover

b) Preparation of memorandum on the overall assessment.

Those candidates who answer this question did not perform very well. This question was not well answered by candidates who showed lack of understanding of the ratios. The category of ratios which caused most difficulty was debt to equity, trade receivable days and interest cover. Many candidates were not able to prepare memorandum on the overall assessment and making recommendation on which Oware Ltd could take decision as to invest and is clearly an area where candidates are less comfortable.

QUESTION SEVEN

a) **Advantages of a Limited Liability Company over Sole Proprietorship**

- **Distinct Entity**
  A limited company is a completely separate entity from its owners. Everything from the company bank account, to ownership of assets and involvement in tenders and contracts is purely company business and separate from the interests of the company's shareholders.
  A sole trader and his/her business is treated as a single entity for tax and administrative purposes.
- **Limited Liability**
  Running your business as a limited company means you have the reassurance of 'limited liability'.
  Assuming no fraud has taken place, your 'limited liability' means you will not be personally liable for any financial losses made by your business. A limited company can therefore give you added protection should things go wrong.
  Those running a business as self-employed do not enjoy such protection from financial claims if things go wrong with their business.
- **Funding**
  Finding funding can be difficult for all types of businesses in the current climate. But because a limited company is a distinct entity from its owners it may be a little easier for a company to secure business finance than it is for their sole trader counterparts.
- **Naming**
  Once you register your company with the registrar generals department your company name is protected by law. No-one else can use the same name as you, or anything deemed to be too similar.
  As a sole trader, it's possible someone else could trade under the same name as you, and you couldn't do anything about it. This could damage your business, and in some cases, result in you having to go through the costly and time-consuming effort of changing the name of your business.
- **Shareholders**
  A limited company can issue various classes of shares. This means you can easily sell stakes in the company, or transfer ownership of shares.
- **Pensions**
  A limited company can fund its employees' executive pensions as a legitimate business expense. This can offer a tax advantage over those who are running their business as self-employed.
- **Succession**
  If a shareholder wishes to retire, sell his shareholding, or dies, it is far easier to transfer ownership of a limited company than a non-registered business structure.

(4 points @ 1.5 marks each =6 marks)

b)

i) **Issued Shares:** represents the actual number of shares that have been issued to shareholders. The number of issued shares cannot exceed the number of authorized shares. **(3 marks)**

ii) **Preference shares** are shares which confer certain preferential rights on their holder. It can be classified into Redeemable and Irredeemable preference shares. Redeemable preference shares means the company will redeem (repay) the nominal value of those shares at a later date whiles Irredeemable preference shares are treated just like other shares. They form part of the equity and their dividend are treated as appropriation of profit. **(4 marks)**

iii) **Ordinary shares** are shares which carry no right to a fixed dividend but are entitled to all profits left after payments of any preference dividends. Thus a holder only receives a dividend after fixed dividends have been paid to preference shareholders. The amount of ordinary dividends normally fluctuates although it is often expected that it will increase from year to year. **(3 marks)**

iv) **Debenture:** is a long-term security yielding a fixed rate of interest, issued by a company. A debenture is a type of debt instrument that is not secured by physical assets or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond to secure capital.

Debentures have no collateral. Bond buyers generally purchase debentures based on the belief that the bond issuer is unlikely to default on the repayment. An example of a government debenture would be any government-issued Treasury bond (T-bond) or Treasury bill (T-bill). T-bonds and T-bills are generally considered risk-free because governments, at worst, can print more money or raise taxes to pay these types of debts. **(4 marks)**

(Total: 20 marks)

EXAMINER'S COMMENTS

The part (a) of this question required candidates to state four (4) advantages of Limited Liability Company over sole proprietorship.
The part (b) required the candidates to explain the following:
Issued Shares
Preference Shares
Ordinary Shares
Debentures

This question was answered very well and some of the candidates had full mark and the part (b) was also done very well though few candidates were not able to deal with the issues very well.

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.