SOLUTION FINANCIAL ACCOUNTING FUNDAMENTALS MAY 2010

QUESTION 1

(a) Four merits of accounting standards include:

(i) Reduction or elimination of confusing variation in the methods used in the preparation of accounts.

(ii) Provision of a social point for debate and discussions about accounting practice.

(iii) It obliges entities to disclose the accounting policies used in the preparation of accounts.

(iv) There are less rigid alternatives to enforce conformity.

(v) It contributes to transparent, understandable and high quality financial report to users of financial statements over the world.

(vi) It increases comparability and transparency in financial statements.

(vii) It removes barriers to cross-border trading in capital market and leads to a more effective allocation of capital.

The disadvantages include the following:

(i) It represents a set of rules which gives backing to one method which might not be suitable for all businesses.

(ii) User groups are often not actually involved in the development of standards.

(iii) The danger of standard over load is real.

(b) Components of a complete set of financial statement are:

- A statement of financial position
- An income Statement/Statement of Comprehensive Income
- A statement of changes in equity
- A statement of cash flow
- Note comprising a summary of significant accounting policies and other explanatory notes.

(c) Five sources of finance for companies include:

- Issue of shares
- Issue of debentures
- Bank loans and overdraft
- Trade Credits/Suppliers Credits
- Sales and lease back
- Debt factoring
- Retained profit

(d) Three main factors that govern the formulation of accounting policies are:

- Prudence
- Substance over form
- Materiality

QUESTION 2

ADZEWODZIE

Statement Showing Adjustments to Profit for Year Ended 30th September 2008

	ADD GH¢	LESS GH¢	GH¢
Net profit b/f			8,000
Depreciation: Freehold land & buildings		1,000	
: Plant & machinery		420	
Bad debts		480	
Increase in provision for bad debts		160	
Undercast of closing stocks	2,840		
Cash sales (Drawings)	400		
Interest on loan		200	
Bank charges		112	
Dividends	150		
Provision for electricity charges		110	
Insurance prepaid	52		
	3,442	2,482	960
Corrected/Adjusted Profits			8,960

ADZEWODZIE
Corrected Statement of Financial Position at 30th September 2008

	GH¢	GH¢	GH¢
NON-CURRENT ASSETS			
Freehold land & building less depreciation			6,000
Plant and Machinery less depreciation			5,500
			11,500
Investment at cost			2,800
CURRENT ASSETS			
Inventory (7,280 + 2,840)		10,040	
Trade receivables (9,680 – 480 – 1,280)		7,920	
Prepayments		52	
Bank (2,880 + 150 – 112 – 200)		2,718	
Cash		160	
		20,890	

Less CURRENT LIABILITIES			
Trade payables	7,520		
Interest on loan	200		
Provision for Electricity charges	110	7,830	
Net current assets			13,060
			27,360
Financed by:			
Capital			15,000
Net profit			8,960
			23,960
Less drawings (400 + 200)			600
			23,360
10% Medium Term Loan			4,000
			27,360

QUESTION 3

Nii, Nene and Nana

REALISATION ACCOUNT

BANK ACCOUNT

	GH¢			GH¢
Balance b/f	14,000	Trade payables		9,900
Petty cash	4,300	Capital Account:		
Trade receivable	12,600		Nii	27,110
Inventory	12,200		Nene	26,193
Plant and machinery	20,000		Nana	12,797
Furniture	12,900			
	76,000			76,000

REALISATION ACCOUNT

	GH¢		GH¢
Plant & machinery	10,000	Bank: Trade receivable	12,600
Motor vehicle	3,600	Inventory	12,200
Furniture	7,400	Plant & machinery	20,000
Inventory	10,200	Furniture	12,900
Trade receivables	13,500	Capital: Nii – Motor vehicle	3,780
Share of profit		Discount	600
Nii (1/2)	8,690		
Nene (1/3)	5,793		
Nana (1/6)	2,897		
	62,080		62,080

SOLUTION FINANCIAL ACCOUNTING FUNDAMENTALS MAY 2010
PARTNER'S CAPITAL ACCOUNTS

	Nii	Nene	Nana		Nii	Nene	Nana
	GH¢	GH¢	GH¢		GH¢	GH¢	GH¢
Motor vehicle	3,780			Balance b/f	15,000	9,000	6,000
				Current account	7,200	5,400	3,900
				Loan		6,000	
Bank	27,100	26,193	12,797	Share profit	8,690	5,797	2,897
	30,890	26,193	12,797		30,890	26,197	12,797

Joint Venture is a temporary business association limited to particular speculation in which two or more persons agree to contribute specified amounts of capital and share profits and loss in the same manner in any other fair proportion.

Advantages
Combination of skills and capacities may prove very profitable

Pool financial resources to achieve set goal.

QUESTION 4

DEE & CEE BOOKS
MEMORANDUM JOINT VENTURE ACCOUNT

	GH¢		GH¢
Purchases: Dee	1,650	Sales: Dee	3,500
Cee	1,150	Cee	2,600
Traveling: Dee	360		
Cee	450		
Advertising: Dee	90		
Cee	91		
Market Tools: Dee	70		
Cee	95		
Wages: Dee	50		
Cee	10		
Sundry Expenses: Dee	70		
Cee	30		
Share of Profit: Dee (3/5*1984)	1,190		
Cee (2/5*1984)	794		
	6,100		6,100

SOLUTION FINANCIAL ACCOUNTING FUNDAMENTALS MAY 2010

Cee's Books (Ledger)

JOINT VENTURE WITH DEE'S ACCOUNT

	GH¢		GH¢
Purchases	1,150	Sales	2,600
Traveling	450	Cheque from Dee	10,000
Advertising	91		
Market tools	95		
Wages	10		
Sundry expenses	30		
Profit	794		
Cash to Dee	9,980		
	12,600		12,600

Dee's Books (Ledger)

JOINT VENTURE WITH DEE'S ACCOUNT

	GH¢		GH¢
Cheque to Cee	10,000	Sales	3,500
Purchases	1,650	Cash from Dee	9,980
Traveling	360		
Advertising	90		
Market tools	70		
Wages	50		
Sundry expenses	70		
Profit	1,190		
Cash to Dee	13,480		13,480

Sales Ledger Control Account

	GH¢		GH¢
Balance b/f	12,000	Cash	50,000
Sales ledger control account	84,500	Discount	500
		Returns	1,000
		Balance c/f	45,000
	96,500		96,500

Purchases Ledger Control Account

	GH¢		GH¢
Cash	15,000	Balance b/f	10,000
Discount received	200	purchases	40,200
Balance c/f	35,000		
	50,200		50,200

SOLUTION FINANCIAL ACCOUNTING FUNDAMENTALS MAY 2010

QUESTION 5

TOM TOM ENTERPRISE

STATEMENT OF AFFAIRS AS AT 31ST DECEMBER 2008

	GH¢	GH¢
Equipment		40,000
Office furniture		12,000
Inventory		10,000
Trade receivables		12,000
Prepayments		400
Cash and bank		20,000
		94,400
Less:		
10% Loan	18,000	
Trade payables	10,000	
Electricity accrued	800	28,800
Capital		65,600

TOM TOM ENTERPRISE

INCOME STATEMENT FOR THE PERIOD ENDING 31ST DECEMBER 2009

	GH¢	GH¢
Sales		84,500
Less returns		1,000
		83,500
Less cost of sales		
Opening stock	10,000	
Add purchases	40,200	
	50,200	
Closing stock	18,000	32,200
Gross profit		51,300
Discount received		200
Less expenses		
Discount allowed	500	
Rent	650	
Electricity	2,200	
Lighting	2,000	
General expense	1,800	
Advertising	4,300	
Loan interest (900 + 900)	1,800	
Depreciation: Furniture	2,200	
Equipment	6,000	21,450
Net profit		30,050

SOLUTION FINANCIAL ACCOUNTING FUNDAMENTALS MAY 2010

TOM TOM ENTERPRISE

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2009

	GH¢	GH¢	GH¢
NON-CURRENT ASSETS			
Office equipment		40,000	
Less depreciation		6,000	34,000
Furniture		22,000	
Less depreciation		2,200	19,800
			53,800
CURRENT ASSETS			
Inventory		18,000	
Trade receivables		45,000	
Prepayments		600	
Cash		33,650	
		97,250	
Less CURRENT LIABILITIES			
Trade payables	35,000		
Loan interest	900		
Accrual	1,500	37,400	
Net current assets			59,850
Total net assets			113,650
Financed by			
Capital			65,600
Add net profit			30,500
			95,650
10% Loan			18,000
			113,650