DECEMBER 2022 PROFESSIONAL EXAMINATIONS
FINANCIAL ACCOUNTING (PAPER 1.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

The objective of the paper was to test candidates' basic understanding of the subject. While few candidates exhibited high levels of competence, majority showed poor knowledge of the fundamentals of the subject.

STANDARD OF THE PAPER

The standard of the question paper was good and similar to the previously administered ones. The marks allocation adhered to the weights stated in the syllabus and marks were allocated to all sub-questions. There were no ambiguities in the paper. The requirements of the were clearly stated. The questions were evenly spread over the topics in the syllabus.

PERFORMANCE OF CANDIDATES

The performance of candidates was not encouraging. Only few had good marks while most candidates obtained low marks. This sitting (December 2022) recorded a pass rate of 28.87% compared to the 36.57% achieved at the August 2022 sitting. High performers were spread across few centres, while low performers were spread across most of the centres. There were no signs of copying in any centre. A handful of candidates exhibited a high sense of preparedness while most candidates were not well prepared and therefore performed poorly.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

The strength of most candidates was demonstrated in questions 1, 3 and 5. The most prevalent reasons for low marks remains as in previous sittings, i.e. studying only a few selected topics; not reading the questions carefully enough; or a lack of structure in the approach to answering questions. There were cases of improper labeling and presentation of answers for some candidates. The overall standard of some answers was disappointing especially those for questions 1 ai), bii), 2 and 3 aiii). Some candidates showed a poor understanding of bookkeeping across several questions. Few candidates did not attempt the required number of questions, thus making the achievement of an overall passing mark a challenge.

The other areas of weakness around presentation are as follows:

- Poor and untidy handwriting
- Use of pencil instead of blue pen
- No workings presented for some questions
- Some candidates making calculation errors within workings and thus presenting an incorrect figure in the solution.
- Some candidates either did not number their answers or misnumbered them.
- Some candidates did not list the correct order in which questions were answered as required, on the cover page.
- Few candidates presented two solutions for a particular question without cancelling one.

QUESTION ONE

a) Financial Accounting and Management Accounting are similar with regard to determination of costs, their assignment to different accounting periods and allocation of costs to different departments and segments. This implies that the concepts and principles that are used in Financial Accounting may be suitable for Management Accounting.

Required:

i) Explain the purpose and scope of ***financial accounting***. **(4 marks)**

ii) Explain **THREE (3)** differences between Financial Accounting and Management Accounting. **(6 marks)**

b) On 1 January 2021, Mankessim Traders had the following entries in its ledger accounts.
Insurance: GH¢600 owing
Commission receivable: GH¢500 owing to Mankessim Traders
Allowance for receivables: GH¢1,600 credit balance

The following information is available for the financial year ended 31 December 2021.

- Insurance was paid as follows:

26 February 2021	GH¢2,000
15 October 2021	GH¢2,600

The payment on 15 October 2021 relates to the period 1 October 2021 to 31 March 2022.

- Commission receivable was as follows:

10 January 2021	GH¢400
18 January 2021	GH¢200
13 November 2021	GH¢3,000

On 31 December 2021, GH¢600 was owing in commission to Mankessim Traders.

- The trade receivables balance at 31 December 2021 was GH¢38,400. The allowance for receivables is to be provided as GH¢600 for a specific debt, plus 2% on the remainder of receivables.

Required:

Prepare the following ledger accounts, including in each case the transfer to the Statement of Profit and Loss, for the year ended 31 December 2021, and the balance carried down to the next financial year.

i) Insurance. **(2 marks)**

ii) Commission receivable. **(2 marks)**

iii) Allowance for receivables. **(2 marks)**

c) Explain why maintaining allowance for receivables is an application of the ***prudence concept.*** **(4 marks)**

(Total: 20 marks)

QUESTION TWO

a) Emma Ltd purchased an item of Property, Plant and Equipment to be used in its new factory site. The following costs were incurred:

	GH¢'000
Machine cost	12,800
Delivery cost	1,280
Installation cost	1,600
Trade discount granted	640
Cost of site preparation	2,560
Architect's fees	192
Administration expenses	1,920
Test run cost	960

Additional information:

i) The test run was to ensure that the asset was installed and working correctly without causing any air pollution. Items of inventories valued at GH¢128,000 were produced during the test run.

ii) The appropriate government agency has granted the company a licence to operate the asset on the condition that the company will remove the asset at the end of the project and return the site to its former condition. This will cost the company GH¢ 3,200,000.

Required:

Calculate the cost of the asset in accordance with the provisions of ***IAS 16: Property, Plant and Equipment***. **(5 marks)**

b) Kojo and Owusu have been in partnership for some years as estate agents. The partnership agreement states that they share profits and losses in the ratio 3:2. Interest on capital is payable at the rate of 4% per annum; whilst interest on drawings is charged at the rate of 5% per annum. A salary of GH¢15,000 is paid to Kojo and a salary of GH¢10,000 is paid to Owusu.

The following Trial Balance has been extracted from the books at 31 July 2021.

	Dr GH¢	**Cr GH¢**
Sales commission received		139,100
Electricity	7,000	
Wages and salaries	16,500	
Repairs	9,800	
General expenses	20,000	
Capital accounts: Kojo at 1 June 2020		60,000
Owusu at 1 June 2020		50,000
Current accounts: Kojo at 1 June 2020	2,500	
Owusu at 1 June 2020		5,000
Office Premises	60,000	
Provision for depreciation of premises		15,200
Office equipment	44,000	
Provision for depreciation of office equipment		13,500
Receivables	45,000	

Payables		32,000
Bank	65,000	
Drawings: Kojo	20,000	
Owusu	25,000	-
	314,800	**314,800**

Additional information:

1. Electricity owing at 31 July 2021 amounted to GH¢1,200.
2. Included in the general expenses is an item of office equipment purchased during the year for GH¢5,000. This item has not yet been included in the office equipment account.
3. Repairs include an amount of GH¢9,000 which relates to extension of office premises.
4. Wages and salaries of GH¢16,500 include an error of GH¢2,000 salary paid to Kojo and GH¢1,000 salary paid to Owusu.
5. Depreciation is to be provided as follows:

   Office equipment: 10% per annum on cost using the straight line method. A full year's depreciation is provided on all office equipment held on 31 July 2021, regardless of the date of purchase.

   Office Premises: 2% per annum by the straight line method. The rate applies to the cost value at the year end, regardless of the date of any additions during the year.

Required:

Prepare for Kojo and Owusu:

i) The Statement of Profit and Loss (Profit and Loss and Appropriation Account) for the year ended 31 July 2021. **(6 marks)**

ii) The Current Accounts for the year ended 31 July 2021. **(4 marks)**

iii) The Statement of Financial Position as at 31 July 2021. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

a) Odaw Ltd operates a manual set of accounts. A trial balance was extracted for the year ended 31 March 2021. The trial balance did not agree. Odaw Ltd does not operate a system of control accounts. The following errors have now been discovered:

1. A cheque for GH¢4,300 received from Kwame, a debtor, had been correctly recorded in the cash book but posted as a credit to Kwamena.
2. Goods purchased on credit for GH¢2,600 from Birim Ltd. had been correctly recorded in the purchases account but the corresponding double entry had not been made.
3. A payment of GH¢820 for Motor Vehicle repairs was entered in error as a debit in the Motor Vehicles account. No entries have been made to record depreciations in relation to this payment. The correct depreciation has been made for motor vehicles held by the business.
4. Discounts allowed of GH¢910 had been entered as a credit entry in the discounts received account.
5. A cheque received for GH¢7,500 from Awuah, a debtor, had been processed for the correct amount in the cash book but entered as GH¢5,700 in Awuah's account.
6. Sales for the year ending 31 March 2021 had been undercast by GH¢750.

Required:

i) Prepare journal entries with narratives to correct the above errors. **(7 marks)**

ii) Prepare the Suspense Account. **(3 marks)**

iii) Explain the use of a Suspense Account. **(4 marks)**

b) Odaw Ltd is considering introducing a system of control accounts.

Required:

Evaluate how control accounts would assist in each of the following;

i) detection of errors;

ii) prevention of fraud. **(6 marks)**

(Total: 20 marks)

QUESTION FOUR

The trial balance for Odum Ltd. as at 31 December 2021 is as follows:

	GH¢	**GH¢**
Sales revenue		377,615
Purchases	130,006	
Inventory as at 1 January 2021	60,890	
Insurances	5,678	
Salaries	61,600	
Electricity	4,250	
General expenses	8,663	
Allowance for receivables		540
Land and Buildings at cost	80,000	
Buildings accumulated depreciation as at 1 January 2021		21,500
Machinery at cost	65,000	
Machinery accumulated depreciation as at 1 January 2021		12,400
Fixtures and fittings at cost	24,000	
Fixtures and fittings accumulated depreciation as at 1 January 2021		9,600
Trade receivables	64,500	
Trade payables		14,062
Bank	20,110	
Ordinary shares		50,000
Retained earnings as at 1 January 2021		15,480
10% Loan		25,000
Loan interest	1,500	-
	526,197	**526,197**

Additional information:

i) Inventory at 31 December 2021 amounted to GH¢80,000. Some goods sent out on a sale or return basis have been treated as credit sales. These goods cost GH¢6,000 and had been invoiced to the customer for GH¢7,500. The customer has informed the company that it now intends to return these goods.

ii) The balance shown for salaries covers the 11 months to 30 November 2021. Salaries for December 2021 are due and unpaid. There have been no salary increases over the previous 12 months and an equal amount is paid each month.

iii) Insurances include GH¢660 for the half-year ended on 31 March 2022.

iv) Dividends paid during the year of GH¢2,700 have been credited to bank and debited to General expenses.

v) The loan was obtained in August 2018 and is repayable in full during the financial year ended 31 December 2023.

vi) Depreciation is to be provided on all machinery at 15% per annum using the reducing balance method. Machinery costing GH¢15,000 was purchased on 1 July 2021, and this is included in the balance shown for machinery. Depreciation is calculated for each proportion of the year for which machinery is held. There were no disposals of machinery during the year.

vii) All the fixtures and fittings were purchased for GH¢24,000 on 1 January 2019. Depreciation is to be charged using the straight line method.

viii) Buildings are to be depreciated by GH¢3,500 for the year. Land is not depreciated.

ix) Allowance for receivables is to be provided as GH¢2,400 for a specific debt, plus 4% on the remainder of receivables.

x) Taxation for the year is estimated as GH¢42,012.

(Note: Revenue and expenses are deemed to accrue evenly throughout the year)

Required:

Prepare, for Odum Ltd, the following statements in accordance with International Financial Reporting Standards (IFRS).

a) The Statement of Profit and Loss for the year ended 31 December 2021. **(10 marks)**

b) The Statement of Financial Position as at 31 December 2021. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

a) The following summarised information has been extracted from the accounts of Kotoku Ltd for the years ended 31 December 2021 and 31 December 2020.

Statements of Profit and Loss

	2021	**2020**
	GH¢'000	**GH¢'000**
Revenue	1,150	1,766
Cost of sales	(684)	(1,141)
Gross profit	466	625
Expenses	(338)	(472)
Interest on loans	(26)	(33)
Profit before tax	102	120
Tax	30	36
Profit after tax	**72**	**84**

Statements of Financial Position

	2021		**2020**	
	GH¢'000	**GH¢'000**	**GH¢'000**	**GH¢'000**
Non-current assets		979		653
Current assets				
Inventory	120		115	
Trade receivables	183		145	
Bank	18	321	25	285
Total assets		**1,300**		**938**
Share capital and reserves		340		325
Long term loans		660		500
Current liabilities		300		113
Total equity and liabilities		**1,300**		**938**

The current industry performance in which Kotoku Ltd operates are as follows:

Return On Capital Employed (ROCE)	21.2%
Asset turnover	2.28
Gross profit margin	38.2%
Acid test ratio	1.5:1
Receivables collection period	35 days

Required:

Calculate the following ratios for Kotoku Ltd for both years (2020 and 2021).

i) Return On Capital Employed (ROCE) **(2 marks)**
ii) Asset turnover **(2 marks)**
iii) Gross profit margin **(2 marks)**
iv) Acid test ratio **(2 marks)**
v) Receivables collection period **(2 marks)**

b) Using the additional information given and the ratios you calculated in part (a), comment on the financial performance of Kotoku Ltd. **(10 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

a)

i) Primarily, Financial Accounting information is prepared by enterprises for use by parties outside the organisation. It provides useful information to these external users to meet their needs. Managers might use the information in the financial statements, but the main purpose of financial reporting is for external reporting rather than to provide management information. Thus, Financial Accounting information is used to inform the company's shareholders (owners) about the financial performance and financial position of the company. It is also used as a basis for preparing the tax accounts and calculating the tax that the company should pay on its profits. Other external users such as potential investors, banks and suppliers need information to see what assets the business owns, how much money the business owes and if there are sufficient funds to meet current and future commitments. **(2 marks)**

Financial reporting is normally regulated by law and accounting standards and often audited. Regulations help to ensure that information reported in financial statements has the required qualities and content. Financial Accounting information requires presentation of financial statements from the books of the enterprise, summarising the historical data on performance and financial position of the enterprise over a particular period, normally a year. Financial Accounting concerns past activities not future. It is based on accounting concepts and conventions in particular the qualitative characteristics of useful information prescribed by the IASB. It deals mainly with those items that can be expressed in monetary terms. A complete set of financial accounting information comprises a Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and notes required to such statements. **(2 marks)**

ii) Difference between Financial Accounting and Management Accounting

- Whereas financial statements from the Financial Accounting system are intended mainly for external users of financial information, Management Accounting information obtained from the cost accounting system is prepared specifically for internal use by management.

- Financial accounts describe the performance of a business over a specific period and the state of affairs at the end of that period. The specific period is often referred to as the financial period and is usually one year long. The period-end date is referred to as the Balance Sheet Date. Management accounts, on the other hand, are used to help management record, plan and control the activities of a business and to assist in the decision-making process. They can be prepared for any period, for example, many retailers prepare daily management information on sales, margins and stock levels.

- Financial Accountants are usually solely concerned with summarizing historical data often from the basic records. Management Accounting is concerned with detailed financial information to management, so that they can plan and control the activities or operations for which they are responsible. It can therefore incorporate future information such as budgets. Although much of the information necessarily deals with past events and decisions, management accountants are also responsible for preparing budgets, helping to set price levels and other decisions about the future activities of a business.

- Incorporated companies are required by law to prepare and publish financial accounts. The format of published financial accounts is determined by several different regulatory elements such as company law, accounting standards and stock exchange listing rules. There is no legal requirement to prepare management accounts. There is no pre-determined format for management accounts. They can be as detailed or brief as management wish.

- Financial accounts concentrate on the business as a whole rather than analysing the component parts of the business. For example, sales are aggregated to provide a figure for total sales rather than publish a detailed analysis of sales by product or by market. Management accounts can focus on specific areas of a business' activities. For example, they can provide insights into performance of products, separate business locations and departments or divisions.

- Most Financial Accounting information is of a monetary nature. Management accounts, however, usually include a wide variety of non-financial information. For example, management accounts often include analysis of number of employees, sales volumes and customer transactions, for instance the number of calls received into a call centre.

(Any 3 points @ 2 marks each = 6 marks)

b)

i) **Insurance Account**

		GH¢			GH¢
26 February	Bank	2,000	1 January	Bal b/d	600
15 October	Bank	2,600	31 December	Profit & Loss	2,700
			31 December	Bal c/d	1,300
		4,600			**4,600**

(2 marks evenly spread with ticks)

ii) **Commission receivable Account**

		GH¢			GH¢
1 January	Bal b/d	500	10 January	Bank	400
31 December	Profit & Loss	3,700	18 January	Bank	200
			13 November	Bank	3,000
			31 December	Bal c/d	600
		4,200			**4,200**

(2 marks evenly spread with ticks)

iii) **Allowance for receivables Account**

		GH¢			GH¢
31 December	Profit & Loss	244	1 January	Bal b/d	1,600
31 December	Bal c/d	1,356			
		1,600			**1,600**

(2 marks evenly spread with ticks)

c) The prudence concept states that profits should be understated, rather than overstated and assets should be understated rather than overstated. Creating an allowance for receivables increases the expenses and reduces the profit. Allowance for receivables is subtracted from receivables thereby reducing assets. Thus, creating an allowance for receivables is an application of the prudence concept.
(4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS
For question 1 ai), candidates were asked to explain the scope and purpose of financial accounting. Most candidates could not explain the scope. In question 1 aii), even though most candidates answered the question, they could not get full marks because they could not bring out the main differences between management accounting and financial accounting.

Some candidates were able to display a fair knowledge in double entry by answering question 1 b), however the commission receivable account was poorly answered by most candidates.

For the c) part of the question, most candidates had an idea of why allowance for receivables should be maintained but could not link it to the Prudent Concept.

QUESTION TWO

a) **PPE Cost Computation**

	GH¢'000	GH¢'000
Purchase price	12,800	
Less: Trade Discount	640	12,160
Delivery Cost		1280
Installation Cost		1600
Cost of site preparation		2,560
Import duty		192
Removal cost		3,200
Test run cost	960	
Less: Inventory produced	128	832
Cost of PPE		**21,824**

(Marks are evenly spread using ticks = 5 marks)

b) **Kojo and Owusu**

i) **Profit or Loss and Appropriation Account for the year ended 31 July 2021**

		GH¢	GH¢
Sales commission received			139,100
Electricity (7,000 + 1,200)		8,200	
Wages and salaries (16,500 - 3,000)		13,500	
General expenses (20,000 – 5,000)		15,000	
Repairs		800	
Depreciation for premises (60,000 + 9,000) x 2%		1,380	
Depreciation for office equipment (44,000+5,000) x10%		4,900	
			(43,780)
Net Profit			**95,320**
Interest on drawings	Kojo (20,000 x 5%)	1,000	
	Owusu (25,000 x 5%)	1,250	2,250
			97,570
Interest on capital	Kojo (60,000 x 4%)	2,400	
	Owusu (50,000 x 4%)	2,000	(4,400)
			93,170
Salaries	Kojo	15,000	
	Owusu	10,000	(25,000)
			68,170
Share of profits	Kojo ($\frac{3}{5} \times 68{,}170$)	40,902	
	Owusu ($\frac{2}{5} \times 68{,}170$)	27,268	**68,170**

(6 marks evenly spread with ticks)

ii) **Current Accounts**

	Kojo	Owusu		Kojo	Owusu
	GH₵	**GH₵**		**GH₵**	**GH₵**
Bal b/d	2,500		Bal b/d		5,000
Drawings	20,000	25,000	Salaries	15,000	10,000
Salaries paid	2,000	1,000	Interest on capital	2,400	2,000
Interest on drawings	1,000	1,250	Share of profits	40,902	27,268
Bal c/d	32,802	17,018			
	58,302	**44,268**		**58,302**	**44,268**

(Marks are evenly spread using ticks = 3 marks)

iii) **Kojo and Owusu**
Statement of Financial Position as at 31 July 2021

		GH₵	GH₵
Non-current Assets			
Premises (69,000 – 15,200 – 1,380)		52,420	
Office equipment (49,000 – 13,500 – 4,900)		30,600	
			83,020
Current Assets			
Receivables		45,000	
Bank		65,000	
			110,000
Total Assets			**193,020**
Capital:			
Capital Accounts	Kojo	60,000	
	Owusu	50,000	110,000
Current Accounts	Kojo	32,802	
	Owusu	17,018	49,820
Current Liabilities			
Payables		32,000	
Accrued electricity		1,200	33,200
Total Capital and Liabilities			**193,020**

(Marks are evenly spread using ticks = 6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

With respect to question 2 a), candidates were asked to determine the cost of an asset. Most candidates exhibited a fair knowledge of the basic components of the cost of an asset but could not treat issues on test run and inventory cost. Only a handful of candidates obtained the full marks.

In question 2 b), candidates' knowledge on partnership was tested. The question did not have any complex issues such as admission and dissolution. However, candidates' performance was unsatisfactory. Also, they could not separate items of the appropriation account from the profit or loss account of the business. Some candidates also did not use the columnar format for the Partners' Current Account and it therefore became difficult to ascertain the current account balances of partners.

The partnership statement of financial position was fairly answered by a handful of the candidates. Even though the current account records the drawings of partners, some candidates showed the partners' capital accounts less drawings of the partners in the statement of financial position.

QUESTION THREE

a)

i) **Odaw Ltd Journal Entries**

	Dr	Cr
	GH¢	**GH¢**
Kwamena Kwame Being a cheque received from Kwame wrongly credited to Kwamena.	4,300	 4,300
Suspense Birim Ltd Being a credit purchase not credited to Birim Ltd account.	2,600	 2,600
Motor vehicle repairs Motor vehicles Being the correction of error in recording motor vehicle repairs in motor vehicle accounts.	820	 820
Discounts received Suspense Discounts allowed Suspense Being the correction of discounts allowed wrongly credited to discounts received account.	910 910	 910 910
Suspense Awuah Being the correction of a transposition error.	1,800	 1,800
Suspense Sales Being the correction of sales undercast.	750	 750

(marks are evenly spread using ticks = 7 marks)

ii) **Suspense Account**

	GH¢		GH¢
Birim Ltd	2,600	Discounts received	910
Awuah	1,800	Discounts allowed	910
Sales	750	Bal c/d	3,330
	5,150		**5,150**

(marks are evenly spread using ticks = 3 marks)

iii) **Uses of suspense account**

- Suspense account is used when errors have made the trial balance totals disagree. A bookkeeping error might have occurred, resulting in the failure of the total debits and total credits in the ledger accounts to be equal. To restore equality between debits and credits, the balancing figure can be posted to a suspense account.

- A suspense account is opened when the bookkeeper knows in which account to make the debit entry for a transaction but does not know where to make the corresponding credit entry. Until the mystery is sorted out, the corresponding credit entry can be recorded in a suspense account. Similarly, when the bookkeeper knows in which account to make a credit entry, but for some reason does not know where to make the corresponding debit entry, the debit can be posted to a suspense account.

- A suspense account is opened with either a debit balance or a credit balance. The balance entered into the suspense account should be an amount that makes the total debit balances equal to total credit balances. Once the errors have been fully corrected, by making relevant adjustments in the ledger, the balance will be reduced to zero.

- A suspense account is a temporary account that is required only until the errors have been identified and corrected. It allows the business to continue to produce final accounts.

(Any 2 points @ 2 marks each = 4 marks)

b)

i) How control accounts help in detecting errors

- The balance on the receivables control account should equal the balance on the schedule of receivables, and the balance on the payables control account should be equal to the balance on the schedule of payables. By comparing these balances, it is possible to identify the fact that errors have been made.
- The possibility of errors in the sales ledger and purchase ledger can be reduced since they have been reconciled before inclusion in the trial balance.
- If no controls were used and the trial balance did not agree all the accounts would need to be checked. Control accounts save time in finding errors.

(2 points @ 1.5 marks each = 3 marks)

ii) How control accounts help in preventing fraud

- Division of duties will mean control accounts are the responsibility of more than one person.
- This makes it difficult for employees to undertake in fraud. The control account acts as an independent check on the work of ledger clerks.

(2 points @ 1.5 marks each = 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Candidates were tested on correction of errors using journal entries. Most candidates used journal entries to correct the errors but could not identify the correct accounts to be debited and credited because they lacked knowledge in the type of error committed. In making journal entries, some candidates recorded credit entries before debit entries. They therefore did not follow convention, which requires debit entries to be recorded before credit entries. Also, a few candidates instead of using a journal, opened ledgers to correct the errors.

Some candidates were able to get the journal entries right but could not present them in the suspense account.

With regard to sub-question b), candidates were required to evaluate how control accounts can be used to detect errors and fraud. The question was poorly answered by most candidates.

QUESTION FOUR

a) **Odum Ltd.**

Statement of Profit and Loss for the year ended 31 December 2021

	GH¢	GH¢
Sales revenue (377,615 – 7,500)		370,115
Cost of sales (60,890+130,006-80,000-6,000)		(104,896)
Gross Profit		**265,219**
Expenses:		
Insurances (5,678 – $\frac{3}{6}\times 660$)	5,348	
Salaries (61,600 + 5,600)	67,200	
Electricity	4,250	
General expenses (8,663 – 2,700)	5,963	
Allowance for receivables [2,400+(4% (64,500-2,400)]-540	4,344	
Depreciation:		
Buildings	3,500	
Machinery (65,000–15,000–12,400)x15%+(15,000 x15%x$\frac{6}{12}$)	6,765	
Fixtures and fittings (9,600/2)	4,800	(102,170)
Profit before interest and tax		**163,049**
Loan interest (10% x 25,000)		(2,500)
Profit before tax		**160,549**
Taxation		(42,012)
Profit after tax		**118,537**

(marks are evenly spread using ticks = 10 marks)

b) **Odum Ltd**

Statement of Financial Position as at 31 December 2021

	GH¢	GH¢
Assets		
Non-current assets		
Land and buildings (80,000 – 21,500 – 3,500)	55,000	
Machinery (65,000 – 12,400 – 6,765)	45,835	
Fixtures and fittings (24,000-9,600-4,800)	9,600	
		110,435
Current assets		
Inventories (80,000 + 6,000)	86,000	
Trade receivables (64,500-4,884-7,500)	52,116	
Prepayment ($\frac{3}{6}\times 660$)	330	
Bank	20,110	
		158,556
Total assets		**268,991**

Equity and liabilities		
Equity		
Ordinary share capital 50,000		
Retained earnings (15,480 + 118,537 – 2,700)	131,317	
		181,317
Non-current liabilities		
10% Loan		25,000
Current liabilities		
Trade payables	14,062	
Accrued salaries	5,600	
Accrued loan interest (2,500 – 1,500)	1,000	
Tax payable	42,012	
		62,674
Total equity and liabilities		**268,991**

(marks are evenly spread using ticks = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Candidates were tested on the preparation of both Statement of Profit or Loss and Statement of Financial Position. Most candidates displayed good knowledge of the presentation and components of the various statements. Candidates however lacked knowledge in adjustments particularly allowances for receivables, prepayments and accruals.

Also, candidates were not able to correctly treat the returns inwards scenario. Most of them used the cost of the goods returned instead of the invoiced amount. This affected the Net Sales, Gross Profit and Net Profit figures

Most candidates were able to compute depreciation for the various assets but showed only the charge for the year instead of the accumulated depreciation figures in the statement of financial position.

QUESTION FIVE

a)

	31 December 2020	**31 December 2021**
i) ROCE: $\frac{Profit}{Capital\ employed}\times 100$	$\frac{(120+33)}{(325+500)}\times 100 = 18.5\%$	$\frac{(102+26)}{(340+660)}\times 100 = 12.8\%$

(2 marks)

ii) Asset turnover rate:

$$\frac{Sales}{Capital\ employed} \qquad \frac{1,766}{(325+500)} = 2.14 \qquad \frac{1,150}{(340+660)} = 1.15$$

(2 marks)

iii) Gross profit margin:

$$\frac{Gross\ profit}{sales}\times 100 \qquad \frac{625}{1,766}\times 100 = 35.4\% \qquad \frac{466}{1,150}\times 100 = 40.5\%$$

(2 marks)

iv) Acid test ratio:

$$\frac{Current\ assets - Inventory}{Current\ liabilities} \qquad \frac{(285-115)}{113} = 1.5:1 \qquad \frac{(321-120)}{300} = 0.67:1$$

(2 marks)

v) Receivables collection period:

$$\frac{Trade\ receivables}{(Credit)\ sales}\times 365\ days \qquad \frac{145}{1,766}\times 365 = 30\ days \qquad \frac{183}{1,150}\times 365 = 58.1\ days$$

(2 marks)

b)

Return on capital employed

The return on capital employed has declined over the period from 18.5% to 12.8% and is now well below the industry standard of 21.2%. This should be a cause for worry to the Board of Directors because Investors who can obtain a higher return elsewhere are likely to withdraw their investment. The return on capital employed being 12.8% means the company is not fully utilizing its capital. Also, it is not a good level of business performance in the industry. A higher return on capital employed can be obtained by increasing the profit margin or the asset turnover ratio.

The profit margin can be increased by reducing costs or by raising selling prices. However, if selling prices are raised, it is likely that sales demand will fall, with the possible consequences that the asset turnover will also decline. If higher prices mean lower sales turnover, the increase in profit margin might be offset by the fall in asset turnover, so that total return on capital employed might not improve.

Asset turnover rate
The asset turnover rate has declined over the period from 2.14 times to 1.15 times, and it is below the industry standard of 2.28. This implies the company is making inefficient use of its assets as far as the industry is concerned. To utilize assets more efficiently, Managers should try to create a higher volume of sales in order to achieve a higher asset turnover ratio.

Gross profit margin
The gross profit margin has risen over the period from 35.4% to 40.5% and it is above the industry standard of 38.2%. The company has either increased the selling price of its goods as a result of being able to sell at a premium because of perceptions regarding the quality of the goods sold, or reduced the cost of its supplies, possibly resulting from changing suppliers.

Acid test ratio
The quick ratio has also declined significantly during the period from 1.5:1 to 0.67:1 suggesting the company may be experiencing liquidity problems. This view is also supported when the ratio is compared to the industry standard which is over twice that of the company. The level of inventory may be a concern as it is taking a long time to sell inventories resulting in the tying up of cash. Management should ensure that delays in the disposal of inventories are avoided.

Receivables collection period
The time taken to collect debts has increased over the period from 30 days to 58 days. This seems very high when compared to the industry standard debt collection period of just 35 days. The period suggests that there is little control over debt collection.

In addition, the lengthening of the collection period means it is more likely that some debts will not be paid by customers. The poor control over debt collection will be a factor contributing to the adverse liquidity situation of the company.

(5 points @ 2 marks each = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS
This question required candidates to compute five ratios (Return on Capital Employed, Asset Turnover, Gross Profit Margin, Acid Test Ratio, and Receivable Collection Period)
This was a well-answered question. Most candidates scored high marks for this question compared to the other questions. Few candidates could not compute some of the ratios especially the return on capital employed and asset turnover. This was due to their inability to determine what kind of profit to use, i.e. Profit Before Interest

and Tax or Profit After Tax. Also, only few candidates were able to determine the total asset employed for the purpose of computing the asset turnover ratio.

In sub-question b), candidates were required to use the ratios computed in a) and other information to comment on the performance of the company. This part of the question was fairly answered by majority of the candidates.

Unfortunately, however, a handful of the candidates did not attempt the question at all.

CONCLUSION

Candidates and Lecturers should use past question papers as a guide to future question papers. Candidates however 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 should always read questions well and understand the requirements before answering them.

Candidates are also advised to ensure that they thoroughly study and exhaust the entire syllabus and practice a lot of questions before sitting for the examination.