JULY 2023 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. The questions were clear, well typed and the instructions were also clearly stated. There were no issues of ambiguities in the questions and questions were evenly spread over the topics in the syllabus. Candidates were asked to answer all the five (5) questions within three (3) hours, and fifteen (15) minutes allowed for reading. The mark allocations followed the weight as specified in the syllabus and marks were allocated to all sub-questions.

PERFORMANCE OF CANDIDATES

The performance of candidates was below average compared to the immediate sitting. Only a handful had good marks while a smaller number of candidates obtained pass marks. This sitting (July 2023) recorded a pass rate of 34% (refer to Appendices A and B for details) compared to the 49% achieved at the March 2023 sitting resulting in 31% decline in performance. 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. Some of the candidates exhibited a high sense of preparedness while majority of the candidates were not well prepared and therefore performed poorly.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

The strengths of most candidates was demonstrated in questions 2, 3 and 5a. The most apparent reasons for some candidates obtaining low marks remains as in previous sittings, i.e. studying only few selected topics, not reading the questions carefully enough, or a lack of structure in the approach to answering questions. There were improper labeling of answers and presentation of answers for some candidates. The overall standard of some answers was disappointing especially questions 1, 4 and 5b. Some candidates showed poor understanding of bookkeeping across several questions. Few candidates did not attempt the required number of questions, thus making it difficult to achieve the required pass mark. Other weaknesses identified with presentation were as follows:

- Poor and untidy handwriting
- Using of pencil instead of blue or black 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 mis-numbered them.
- Few candidates presented two solutions for a particular question without cancelling one.

QUESTION ONE

a) Describe the **FIVE (5)** main elements of financial statements in accordance with the IASB's Conceptual Framework. **(10 marks)**

b) Bimbila Ltd commenced business on 1 June 2020 and reported the following net profits during its first two years in business.

	GH¢
1 June 2020 to 31 May 2021	135,000
1 June 2021 to 31 May 2022	140,000

During this period the following non-current assets were purchased on the dates shown:

Machinery

1 June 2020 to 31 May 2021:

		GH¢
Machine 1	1 June	80,000
Machine 2	1 December	15,000

1 June 2021 to 31 May 2022:

Machine 3	1 March	52,000

Equipment

1 June 2020 to 31 May 2021:

Equipment 1	1 June	40,000

1 June 2021 to 31 May 2022:

Equipment 2	1 December	8,000

Bimbila Ltd has a policy to depreciate machinery at 25% per annum on cost (straight line method) and equipment at 20% per annum on cost (straight line method), rates being charged for each month of ownership.

Bimbila Ltd is now considering using the reducing balance method, with the following rates applying to the balance at the end of each year.

Machinery	20%
Equipment	15%

A full year's depreciation is charged irrespective of the date of purchase.

Required:

i) Calculate the total depreciation for the years ended 31 May 2021 and 31 May 2022 using the original method (straight line) and rates for:

- Machinery **(2 marks)**
- Equipment **(1 mark)**

ii) Calculate the total depreciation for the years ended 31 May 2021 and 31 May 2022 using the alternative method (reducing balance) and rates for:

- Machinery **(2 marks)**
- Equipment **(1 mark)**

iii) Prepare a statement to show the net profit which would have been reported for each of the years ended 31 May 2021 and 31 May 2022 if the reducing balance method had been used. **(4 marks)**

(Total: 20 marks)

QUESTION TWO

a) A company owns a number of properties which are rented to tenants. The following information is available for the year ended 30 June 2021:

	Rent in advance	Rent in arrears
	GH¢	GH¢
30 June 2020	140,500	5,200
30 June 2021	148,200	9,200

Cash received from tenants for the year ended 30 June 2021 was GH¢820,400.

All rent in arrears was subsequently received.

Required:
Prepare the ledger account for rental income showing the transfer to the Statement of Profit and Loss, for the year ended 30 June 2021. **(5 marks)**

b) Awuni, Adjetey and Kwame are in partnership, running an evening school, and sharing residual profits and losses in the ratio 4:3:3 respectively. At 1 October 2021 their capital and current account balances were:

	Capital account	Current account	
	GH¢	GH¢	
Awuni	40,000	1,400	(debit)
Adjetey	24,000	1,800	(credit)
Kwame	16,000	850	(credit)
	80,000	**1,250**	

By formal agreement, the partners are entitled to receive interest at 5% on capital. In addition, Adjetey is paid an annual salary of GH¢5,455 for his part in running the business.

On 1 April 2022, by mutual agreement, Kwame increased his capital by paying a further GH¢4,000 into the partnership bank account. Awuni reduced his capital by GH¢5,000, but kept this in the partnership as a loan bearing interest at 10% per annum. Interest on the loans, by agreement, is credited to Awuni's current account.

The partners are allowed to take out drawings at any time during the year, but they have agreed to charge interest on such drawings. The date of taking out the drawings, the amount drawn out by each partner, and the interest payable, were as follows during the year to 30 September 2022.

	Date of drawings	Drawings GH¢	Interest on drawings GH¢
Awuni	5 June 2022	9,500	550
Adjetey	10 June 2022	6,500	400
Kwame	15 June 2022	4,000	250

The profit before interest, of the evening school for the year ended 30 September 2022 was GH¢25,480.

Required:

i) Prepare the profit and loss appropriation account for the year ended 30 September 2022. **(8 marks)**

ii) Prepare the partners' current accounts for the year ended 30 September 2022. **(7 marks)**

(Total: 20 marks)

QUESTION THREE

a) The transactions below relates to Affram Ltd for the year ended 30 April 2022:

1 May 2021 balance b/d:

	GH¢
Sales Ledger Control Account	180,000 Dr

Totals for the year 1 May 2021 to 30 April 2022:	
Credit sales	600,500
Receipts from customers	690,100
Discount allowed	12,000
Irrecoverable debts	5,400
Sales returns	4,600
Dishonoured cheques from customers	3,000
Contras between sales and purchases	14,000

The Sales Ledger Control Account balance failed to agree with the total receivables of GH¢67,800 as shown by the Schedule of Receivables.

The following errors were subsequently discovered:

1) The discount allowed total in the Cash Book had been overstated by GH¢400.
2) The total of sales in the Sales Journal had been understated by GH¢3,000.
3) A cheque received from a customer for GH¢2,000, correctly processed through the books, had subsequently been dishonoured. This item had been correctly dealt with in the customer's account, but no other entry has yet been made.
4) Goods costing GH¢5,000 had been returned by a customer. The transaction had been correctly recorded in the Sales Ledger Control Account, but this has not been entered in the customer's account.
5) Papa Yaw, a customer, has been declared bankrupt and his debt of GH¢1,500 is to be written off. No entries have yet been made.

Required:

i) Prepare the Receivables Control Account for the year ended 30 April 2022. **(8 marks)**

ii) Prepare a statement reconciling the corrected balance on the Receivables Control Account with the corrected balance on the Schedule of Receivables. **(3 marks)**

b) Book-keeping is the process of recording financial transactions in the accounting records (the books) of an entity. Transactions are initially recorded in books of prime entry also known as books of original entry.

Required:

Identity **SIX (6)** books of prime entry and their functions. **(9 marks)**

(Total: 20 marks)

QUESTION FOUR

The following trial balance relates to Pakro Ltd at 31 July 2022.

			Dr	Cr
			GH¢	**GH¢**
Sales revenue				211,820
Cost of sales			84,600	
Inventory at 31 July 2022		i)	38,400	
Distribution costs			11,000	
Administrative expenses			12,500	
Rent received		iii)		39,000
Land			30,000	
Building:	Cost	v)	100,000	
	Accumulated depreciation at 1 June 2021			28,000
Plant and equipment:	Cost	v)	128,000	
	Accumulated depreciation at 1 June 2021			32,000
Allowance for receivables				12,000
Trade receivables		ii)	68,200	
Trade payables				56,000
12% Loan		iv)		60,000
Loan interest			3,600	
Cash at bank			15,100	
Ordinary shares				40,000
Retained earnings			-	12,580
			491,400	**491,400**

The following matters remain to be adjusted for in preparing the financial statements for the year ended 31 July 2022.

i) The cost of inventory of GH¢ 38,400 for the year ended 31 July 2022 was based on an inventory count on 4 August 2022.

Between 31 July 2022 and 4 August 2022, the following transactions took place:

	GH¢
Purchases of goods	8,000
Sales of goods (profit margin 20% on sales)	12,000
Goods returned by Pakro Ltd to a supplier	800

ii) Trade receivables totalling GH¢24,000 are to be written off and allowance for receivables is to be adjusted to GH¢8,000. The irrecoverable debt expense is to be included in administrative expenses.

iii) Pakro Ltd receives rent for subletting part of its building. The Rent which is receivable quarterly in advance, was received as follows:

Date of receipt	**Period covered**	**GH¢**
1 July 2021	3 months to 30 September 2021	7,200
1 October 2021	3 months to 31 December 2021	7,200
30 December 2021	3 months to 31 March 2022	9,000
4 April 2022	3 months to 30 June 2022	9,000
1 July 2022	3 months to 30 September 2022	9,000

iv) The loan of GH¢60,000 was taken out on 1 January 2022 with annual interest of 12%. The interest is payable in equal instalments on the first day of April, July, October and January in arrears. The loan is repayable in full during the financial year ended 31 July 2026.

v) Depreciation is to be provided for as follows:

Buildings	2.5% per year on cost
Plant and equipment	25% per year on cost

70% of the depreciation is to be charged in cost of sales, and 15% each in distribution costs and administrative expenses.

vi) Current year income tax charged was GH¢18,105.

Required:

Prepare, for Pakro Ltd, the following statements in accordance with International Accounting Standards (IASs).

a) The Statement of Profit and Loss for the year ended 31 July 2022. **(10 marks)**

b) The Statement of Financial Position as at 31 July 2022. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

The following is a summary of the final accounts of Beposo Ltd for the year ended 31 December 2022.

Statement of Profit and Loss

	GH¢	**GH¢**
Turnover		1,600,000
Cost of sales		950,000
Gross Profit		**650,000**
Distribution costs	70,000	
Administrative expenses	140,000	210,000
Operating Profit		440,000
Interest payable		24,000
Profit before tax		**416,000**
Company tax		104,000
Profit after tax		**312,000**
Profit and loss brought forward		60,000
		372,000
Ordinary dividend	250,000	
Transfer to reserves	100,000	350,000
Retained Profit		**22,000**

Statement of Financial Position

	GH¢	**GH¢**
Non-current Assets (net)		1,400,000
Current Assets		
Inventory	150,000	
Receivables	140,000	
Bank	70,000	360,000
Total Assets		**1,760,000**
Equity		
Ordinary shares	600,000	
General reserve	343,000	
Retained profit	22,000	965,000
Non-current Liabilities		
Long-term loans 6%		400,000
Current Liabilities		
Payables	85,000	
Dividends	220,000	

Taxation	90,000	395,000
Total Equity and Liabilities		**1,760,000**

Required:

a) Calculate each of the following ratios (where appropriate, calculations should be to two decimal places).

i) Sales to capital employed **(2 marks)**
ii) Current ratio **(2 marks)**
iii) Liquid (acid test) ratio **(2 marks)**
iv) Interest cover **(2 marks)**
v) Gearing ratio **(2 marks)**

b) Explain **FOUR (4)** ways in which Beposo Ltd could improve its liquidity. **(10 marks)**

(Total: 20 marks)

SUGGESTED SOLUTIONS

QUESTION ONE

a) **Elements of Financial Statements**

Asset

A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.

Liability

A present obligation of the entity to transfer an economic resource as a result of past events.

Equity

The residual interest in an entity after the value of all its liabilities has been deducted from the value of all its assets.

Income

Increases in assets or decreases in liabilities that result in increases in equity, other than those relating to contributions from holders of equity claims.

Expenses

Decreases in assets or increases in liabilities that result in decreases in equity, other than those relating to distributions to holders of equity claims.

(5 points @ 2 marks each = 10 marks)

b)

i) Computation of depreciation charge (Straight Line Method)

Description		**31 May 2021**		**31 May 2022**
		GH¢		**GH¢**
Machine :				
1	(25%*80,000)	20,000	(25%*80,000)	20,000
2	(25%*15,000*6/12)	1,875	(25%*15,000)	3,750
3		-	(25%*52,000*3/12)	3,250
		21,875		**27,000**
Equipment:				
1	(20%*40,000)	8,000	(20%*40,000)	8,000
2		-	(20%*8,000*6/12)	800
		8,000		**8,800**
Total		**29,875**		**35,800**

Marks Allocation:
Machine: Marks evenly spread using ticks = 2 marks
Equipment: Marks evenly spread using ticks = 1 mark

ii) Computation of depreciation charge (Reducing Balance Method)

Description		**31 May 2021**		**31 May 2022**
		GH¢		**GH¢**
Machine :				
1	(20%*80,000)	16,000	(20%*64,000)	12,800
2	(20%*15,000)	3,000	(20%*12,000)	2,400
3		-	(20%*52,000)	10,400
		19,000		**25,600**
Equipment:				
1	(15%*40,000)	6,000	(15%*34,000)	5,100
2		-	(15%*8,000)	1,200
		6,000		**6,300**
Total		**25,000**		**31,900**

Marks Allocation:
Machine: Marks evenly spread using ticks = 2 marks
Equipment: Marks evenly spread using ticks = 1 mark

iii) Statement to show revised net profit

	31 May 2021	**31 May 2022**
	GH¢	**GH¢**
Original net profit	135,000	140,000
Add depreciation (straight line)	29,875	35,800
	164,875	175,800
Deduct depreciation (reducing balance)	25,000	31,900
Revised net profit	**139,875**	**143,900**

Marks evenly spread using ticks = 4 marks

(Total: 20 marks)

EXAMINER'S COMMENTS
In Question 1(a) Candidates were to explain the elements of financial statements. Surprisingly, this was poorly answered as candidates rather described the components of financial statements. Some candidates did not answer this part of the question. Only a handful obtained the full marks allocated.

Candidates had challenges in the (b) part of question 1 where they were asked to compute depreciation charges using the straight line and reducing balance methods. This was poorly answered as candidates rather showed the depreciation account, not considering the acquisition dates for the assets to rightly apportion the charges and poor presentation of answers that made candidates lose some marks.

QUESTION TWO

a) Rental Income A/c

	GH¢		GH¢
Bal b/d arrears	5,200	Bal b/d advances	140,500
Profit & loss (bal fig)	816,700	Cash received	820,400
Bal c/d advances	148,200	Bal c/d arrears	9,200
	970,100		**970,100**

(Marks are evenly spread using ticks = 5 marks)

b) **AAK Partners**

i) Appropriation account for the year ended 30 September 2022

		GH¢	GH¢
Net profit (W1)			25,230
Interest on drawings	- Awuni	550	
	- Adjetey	400	
	- Kwame	250	1,200
Interest on capital (W2)	- Awuni	1,875	
	- Adjetey	1,200	
	- Kwame	900	(3,975)
Salary	- Adjetey		(5,455)
			17,000
Share of profits	- Awuni (4/10)	6,800	
	- Adjetey (3/10)	5,100	
	- Kwame (3/10)	5,100	**17,000**

(Marks are evenly spread using ticks = 8 marks)

ii) **Partners' Current A/c**

Description	**Awuni**	**Adjetey**	**Kwame**	**Description**	**Awuni**	**Adjetey**	**Kwame**
	GH¢	**GH¢**	**GH¢**		**GH¢**	**GH¢**	**GH¢**
Bal b/d	1,400			Bal b/d		1,800	850
Drawings	9,500	6,500	4,000	Interest on loan	250		
				Salary		5,455	
Interest on drawings	550	400	250	Interest on capital	1,875	1,200	900
				Share of profit	6,800	5,100	5,100
Bal c/d	-	6,655	2,600	Bal c/d	2,525	-	-
	11,450	**13,555**	**6,850**		**11,450**	**13,555**	**6,850**

(Marks are evenly spread using ticks = 7 marks)

Workings:

1. **Net profit**

   Interest on loan = 10% x 6/12 x GH¢5,000 = GH¢250

	GH¢
Profit before interest	25,480
Loan interest	(250)
Net profit	**25,230**

b) Interest on capital

		GH¢	GH¢
Awuni	6/12 x 5% x GH¢40,000	1,000	
	6/12 x 5% x GH¢35,000	875	1,875
Adjetey	5% x GH¢24,000		1,200
Kwame	6/12 x 5% x GH¢16,000	400	
	6/12 x 5% x GH¢20,000	500	900

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 2(a) was well answered. Candidates were asked to prepare rent income account involving advance payments and arrears. Most candidates were able to score full marks for this question.

The question 2(b) had to do with Partnership Profit or Loss Appropriation Account and candidates as well performed creditably with few challenges such as the treatment of the interest on loan by a partner which does not form part of the appropriation and therefore should have been adjusted in the profit of the partnership.

Candidates were also asked to prepare the partners current account in question 2(c). This was also well answered by most candidates. Candidates again failed to show the interest on loan in the current accounts and this affected the balance for one of the partners.

QUESTION THREE

a)

i) **Receivable Control Account**

	GH¢		GH¢
Balance b/d	180,000	Bank	690,100
Sales (600,500 + 3,000)	603,500	Discounts allowed (12,000–400)	11,600
Bank (dishonoured)3000+2000	5,000	Irrecoverable debts (5,400+1,500)	6,900
		Sales returns	4,600
		Contra purchases ledger	14,000
		Balance c/d	61,300
	-		
	788,500		**788,500**

(Marks are evenly spread using ticks = 8 marks)

ii) **Revised Schedule of Receivables**

	GH¢
Original balance	67,800
Sales returns	(5,000)
Irrecoverable debt	(1,500)
Revised balance	**61,300**

(Marks are evenly spread using ticks = 3 marks)

b)

- **Sales Day Book:**
  Records credit sales transactions. This book captures details of sales made to customers on credit, including the date, customer name, sales amount, and relevant accounts affected.

- **Purchases Day Book**
  Purchases Journal: Records credit purchases transactions. It records purchases made on credit, including the date, supplier name, purchase amount, and relevant accounts impacted.

- **Cash Book**
  Records cash receipts and payments. It records all cash transactions, including cash receipts from customers, cash payments to suppliers, and other cash-related activities.

- **General Journal:**
  Records non-routine or adjusting entries. It is used for transactions that cannot be recorded in the other specialized journals. This includes adjusting entries, corrections, and any other miscellaneous transactions.

- **Sales Return Day Book:**
  Records returns of goods by customers. This journal captures details of goods returned by customers, including the date, customer name, return amount, and relevant accounts affected.

- **Purchases Return Day Book**
  Records returns of goods to suppliers. It records details of goods returned to suppliers, including the date, supplier name, return amount, and relevant accounts impacted.

- **Petty Cash book**
  Records routine or unexpected petty or small cash payments.

(6 day books well explained @ 1.5 marks = 9 marks)
(Total: 20 marks)

EXAMINER'S COMMENTS
Candidates were tested on control accounts and were asked to prepare the receivables control accounts where the balance on the receivables schedule did not agree with the control accounts balance and were asked to also reconcile the balances. Here candidates displayed high level of understanding but had challenges reconciling the balances hence only few candidates obtained full marks.

The question 3(b) also tested candidates' knowledge in book keeping and the use of the prime books of records. Some candidates' knowledge in this area was poor hence the low marks attained. Some candidates were mentioning ledgers and source documents; some also could not identify the functions of the books of prime entry.

QUESTION FOUR

PAKRO LTD

a) **Statement of profit or loss for the year ended 31 July 2022**

	GH¢	GH¢
Sales revenue		211,820
Cost of sales (W4)		(106,350)
Gross profit		105,470
Other income (W6)		33,000
Distribution costs (11,000 + 5,175(W2))		(16,175)
Administrative expenses (12,500 + 20,000(W5) + 5,175(W2))		(37,675)
Finance costs (W7)		(4,200)
Profit before tax		**80,420**
Income tax expense		(18,105)
Profit for the year		**62,315**

(Marks are evenly spread using ticks = 10 marks)

PAKRO LTD

b) **Statement of financial position as at 31 July 2022**

	GH¢	GH¢
Non-current assets (W3)		
Property, plant and equipment (30,000+69,500+64,000)		163,500
Current assets		
Inventory (W1)	40,800	
Trade receivables (68,200 -8,000 – 24,000)	36,200	
Bank	15,100	92,100
Total assets		**255,600**
Equity and liabilities		
Ordinary shares	40,000	
Retained earnings	12,580	
Profit for the year	62,315	114,895
Non-current liabilities		
12% Loan		60,000
Current liabilities		
Trade payables	56,000	
Prepaid rent income	6,000	
Accrued loan interest (W7)	600	
Current tax payable	18,105	80,705
Total equity and liabilities		**255,600**

(Marks are evenly spread using ticks = 10 marks)

Workings:

1. **Closing inventory:**

	GH¢
Inventory count value	38,400
Less purchases	(8,000)
Add sales (12,000 x 80/100)	9,600
Add goods returned	800
Adjusted inventory figure	**40,800**

2. **Depreciation:**

	GH¢
Buildings (100,000 x 2.5%)	2,500
Plant and equipment (128,000 x 25%)	32,000
	34,500

70% to cost of sales: 24,150, 15% to distribution cost: 5,175 and 15% to administration expenses: 5,175.

3. **Non-current assets:**

	GH¢
Land	
Carrying amount per trial balance	30,000
Building	
Carrying amount per trial balance (100,000 – 28,000)	72,000
Depreciation for the year	(2,500)
Carrying amount at 31 July 2022	69,500
Plant and equipment	
Carrying amount per trial balance (128,000 – 32,000)	96,000
Depreciation for the year	(32,000)
Carrying amount at 31 July 2022	64,000

4. **Cost of sales:**

	GH¢
Per trial balance	84,600
Add back inventory count value	38,400
Add depreciation (W2)	24,150
Deduct adjusted inventory figure (W1)	(40,800)
	106,350

5. **Irrecoverable debts expense**

	GH¢
Allowance for receivables	8,000
Previous allowance	(12,000)
Reduction	(4,000)
Debts written off	24,000

Irrecoverable debts expense	**20,000**

6. **Rent received**

Receipt	**GH¢**
1 July 2021 (GH¢7,200 x 2/3)	4,800
1 October 2021	7,200
30 December 2021	9,000
4 April 2022	9,000
1 July 2022 (GH¢9,000 x 1/3)	3,000
Credit to statement of profit or loss	**33,000**
Prepaid rent income (GH¢9,000 x 2/3)	6,000

7. Loan interest

	GH¢
Loan interest payable (60,000 x 12% x 7/12)	4,200
Loan interest paid (April and July: (60,000 x12%)/4x2)	(3,600)
Accrued loan interest	**600**

(Total: 20 marks evenly spread using ticks)

EXAMINER'S COMMENTS

Candidates were asked to prepare Statement of Profit or Loss and Statement of Financial Position respectively. Most candidates attempted the question but had challenges with the treatment of some adjustments, such as the determination of the closing inventory figure which was a subsequent event after the financial year, rent earned for the financial year, interest on loan computation to determine interest accrued and the treatment of receivables allowance. The asset schedule however was well prepared by some candidates. The overall performance for this question was average.

QUESTION FIVE

a)

i) Sales to capital employed =

$$\frac{Sales}{Capital\ employed} = \frac{1,600,000}{(965,000+400,000)} = 1.17\ times$$

(2 marks)

ii) Current ratio =

$$\frac{Current\ assets}{Current\ liabilities} = \frac{360,000}{395,000} = 0.91:1$$

(2 marks)

iii) Liquid ratio

$$\frac{Current\ assets - Inventory}{Current\ liabilities} = \frac{(360,000-150,000)}{395,000} = 0.53:1$$

(2 marks)

iv) Interest cover

$$\frac{Profit\ before\ interest\ and\ tax}{Interest\ charges\ in\ the\ year} = \frac{440,000}{24,000} = 18.33\ times$$

(2 marks)

v) <u>Gearing ratio</u>

$$\frac{Long\ term\ debt}{Capital\ employed} x100 = \frac{400,000}{(965,000+400,000)} x100 = 29.30\%$$

(2 marks)

b) Ways by which Beposo Ltd could improve its liquidity position.

- Beposo Ltd could improve its liquidity position by reducing the amount tied up in inventory through improved inventory management.

- Beposo Ltd could consider the sale of non-current assets which might be surplus such as land and buildings. This would give a large cash injection and improve the liquidity of the company.

- Beposo Ltd could consider an injection of cash through increasing the amount of long-term loans or issuing more ordinary shares.

- Beposo Ltd could also consider its dividend policy by reducing the amount of dividends. This would improve the liquidity position of the company. It could also consider a bonus issue of shares, instead of paying out cash dividends to the shareholders.

- Factoring of debt by using debt factoring companies could also be considered. The factoring company will pay a percentage of debtors and the Beposo Ltd will have a regular cash flow.

(Any 4 points @ 2.5 marks each = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

In question five (5a), candidates were requested to compute five ratios (Sales to capital employed, current ratio, liquid/acid test ratio, interest cover and gearing ratio) This part of the question was fairly answered by majority of candidates who attempted it.

It is worthy of note that some candidates were not able to ascertain and determine, Net profit before Interest and tax and capital employed. Candidates also did not know how to present their answers in percentages, times or ratio form.

In respect of question 5(b), candidates were asked to explain ways of improving the liquidity of the company and most candidates were not able to answer the question satisfactorily. Some were rather commenting on how to improve the various ratios computed.

CONCLUSION

Candidates and Lecturers should review past question papers as a guide to future question papers, however candidates need to be aware that future papers, although still follow 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 the questions.

Candidates are also advised to ensure that they go through the syllabus very well before sitting for the examination.