NOVEMBER 2023 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. 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 marks allocation 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. Only a handful of candidates were able to approach all questions and displayed good knowledge in the subject area to obtain above average marks while few candidates were also able to obtain the required pass mark. This sitting (November 2023) recorded a pass rate of 33% compared to a pass rate of 34% achieved in July 2023 sitting resulting in an improved performance. High performers were distributed in all centres. There were no traces of malpractices such as copying in any of the centres. Some candidates exhibited a sense of preparedness while majority of the candidates were not well prepared and hence their poor performance.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

The strength of most candidates was demonstrated in questions 3 and 5. 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 question 1,2 and 4. Candidates displayed poor understanding of basic accounting principles, the underlying characteristics of financial information, and deducing certain figures from a given information. Others failed to attempt the required number of questions thus, making it difficult to achieve the required pass mark. Other weaknesses identified with presentation are as follows:

- Poor and untidy handwriting
- Use 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. This was the case on the cover page too.
- Some few candidates presented two solutions for a particular question without cancelling one.

- Not giving proper headings to answers as well as indicating the currency signs and units for example the company name, the type of account being prepared, the currency sign, units as in thousands (‘000) etc, showing totals of accounts on both debit and credit side and properly disclosing balance carried down (c/d) and brought down (b/d) etc.

QUESTION ONE

a) Explain each of the following characteristics of useful accounting information:

i) Relevance **(2 marks)**

ii) Understandability **(2 marks)**

iii) Materiality **(2 marks)**

iv) Completeness **(2 marks)**

v) Neutrality **(2 marks)**

b) The following details were taken from the records of Pramso Ltd for the year ended 31 December 2022.

i) Tangible non-current assets (at cost) as at 1 January 2022 were:

	GH¢
Land and buildings (Land GH¢400,000)	700,000
Motor vehicles	450,000
Machinery	310,000

ii) Accumulated depreciation as at 1 January 2022:

	GH¢
Land and buildings	85,000
Motor vehicles	210,000
Machinery	80,000

Pramso Ltd depreciates non-current assets as follows:

- Buildings - 4% per annum on cost.
- Motor Vehicles - 20% per annum using reducing balance method.
- Machinery - 15% per annum on cost.

Depreciation is charged for each month of ownership for all the assets.

iii) On 1 July 2022, land was revalued by an expert to GH¢520,000

iv) A Motor Vehicle purchased on 1 January 2020 for GH¢22,000 was sold for GH¢6,000 on 1 April 2022.

v) Machinery purchased on 1 July 2020 for GH¢70,000 was sold on 1 January 2022 for GH¢24,000.

vi) During the year the following assets were bought:

- Machinery GH¢24,000 on 1 July 2022.
- Motor vehicles GH¢40,000 on 1 October 2022.

Required:

Prepare the Non-Current Assets account and Accumulated Depreciation account showing the depreciation charge for the year. **(10 marks)**

(Total: 20 marks)

QUESTION TWO

Adu, Boateng and Dogbe are trading in partnership under an agreement which provides for interest on partners' capital accounts at the rate of 10% per annum, annual salaries of GH¢7,500 and GH¢4,000 for Boateng and Dogbe respectively and the balance of the profit or loss shared among Adu, Boateng and Dogbe in the proportion 5:3:2 respectively.

Partners' cash drawings for the year ended 30 April 2021 were as follows:

	GH¢
Adu	8,000
Boateng	5,000
Dogbe	6,000

The draft Statement of Financial Position as at 30 April 2021 of Adu, Boateng and Dogbe is as follows:

	GH¢	GH¢
Non-current assets at cost		100,000
Provision for depreciation		(35,000)
		65,000
Current assets		
Inventory	16,000	
Trade receivables	5,500	
Bank	6,500	28,000
Total assets		**93,000**
Capital accounts as at 30 April 2020		
Adu	30,000	
Boateng	25,000	
Dogbe	20,000	75,000
Current accounts		
Adu	4,200	
Boateng	3,500	
Dogbe	2,300	10,000
Current liabilities		
Trade payables		8,000
Total capital and liabilities		**93,000**

After the preparation of the draft final accounts for the year ended 30 April 2021, which disclosed a net loss of GH¢10,500, it was discovered that:

i) The partners' cash drawings for the year under review have been debited to purchases.

ii) On 1 November 2020 it was agreed that Boateng should increase his partnership capital from GH¢25,000 by transfering to the partnership a freehold property bought by Boateng five years earlier at a cost of GH¢10,000 and currently valued at GH¢30,000. Although the appropriate debit entry has been made in the non-current asset account, the corresponding credit entry appeared in the profit and loss appropriation account.

iii) The partners' salaries for the year ended 30 April 2021 have been debited to staff salaries and credited to the relevant partners' current accounts.

The partners have now decided that an allowance for receivables should be 4% of trade receivables.

Required:

a) Compute the revised net profit or loss of the partnership for the year ended 30 April 2021. **(5 marks)**

b) Prepare the revised partners' current accounts for the year ended 30 April 2021. (Note: the partners' current accounts should commence with the balances shown in the draft partnership Statement of Financial Position as at 30 April 2021). **(7 marks)**

c) Redraft the Statement of Financial Position of the partnership as at 30 April 2021. **(8 marks)**

(Total: 20 marks)

QUESTION THREE

a) Bank reconciliation is a process that compares and matches the financial records of a business with the bank statements to ensure they are consistent and accurate. It verifies that transactions made align with those recorded by the bank for the same period.

Required:

i) Explain **THREE (3)** reasons for carrying out a bank reconciliation. **(3 marks)**

ii) State **THREE (3)** items which may appear in the bank reconciliation statement. **(3 marks)**

b) Mensah is preparing his bank reconciliation for the month of June 2022. His bank statement shows a balance of GH¢1,824 cash at the bank. The balance on the cashbook in his general ledger is GH¢645 (credit).
He has identified the following reasons for the difference.

1) The bank has credited the account in error with GH¢485 which belongs to another customer
2) A cheque drawn, amounting to GH¢345, has been entered in the cashbook as GH¢354.
3) Bank charges of GH¢320 on the bank statement have not been entered in the cashbook.
4) Cheques totalling GH¢664 have been correctly entered on the debit side of the cashbook but have not been paid in at the bank.
5) A customer's cheque for GH¢460 was returned by Mensah's bank in June as the customer had insufficient funds in his account. Mensah has not recorded the return of the cheque in his records.
6) Six cheques have not yet been presented at the bank. These are:

Cheque No.	GH¢	
845763	550	
845739	1,540	see note (7)
846435	480	
846502	380	
846548	269	
846582	200	
	3,419	

7) Cheque number 845739 was lost and was cancelled. Mensah has not recorded the cancellation of the cheque.

Required:

i) Prepare the adjusted cashbook for Mensah in a format which clearly indicates whether each entry is a debit or credit. **(7 marks)**

ii) Prepare a reconciliation of the bank statement balance to the adjusted cashbook balance. **(7 marks)**

(Total: 20 marks)

QUESTION FOUR

Extracts from the financial statements for Oti Ltd for the year ended 31 March 2022 are as follows:

Statement of profit or loss for the year ended 31 March 2022

	GH¢
Profit from operations	752,960
Interest payable	(60,420)
Profit before tax	**692,540**
Income tax	(210,400)
Profit for year	**482,140**

Statements of Financial Position as at 31 March

	2022 GH¢	2021 GH¢
Non-current assets		
Property, plant and equipment	1,480,000	1,297,570
Current assets		
Inventories	440,000	295,000
Trade receivables	385,840	197,750
Bank	-	4,120
Total assets	**2,305,840**	**1,794,440**
Equity and liabilities		
Share capital	640,800	540,200
Retained earnings	641,340	301,200
Non-current liabilities		
10% Loan note	604,200	604,200
Current liabilities		
Trade payables	154,700	150,300
Income tax payable	204,600	198,540
Bank overdraft	60,200	-
Total equity and liabilities	**2,305,840**	**1,794,440**

Additional information:

i) The depreciation charged for the year was GH¢200,000.

ii) Dividends of GH¢142,000 were paid during the year.

iii) During the year, plant with an original cost of GH¢450,000 and a carrying amount at the date of disposal of GH¢315,000 was sold for GH¢412,000 which was received in cash.

Required:

a) In accordance with ***IAS 7: Statement of cash flows***, prepare a Statement of Cash Flows for Oti Ltd for the year ended 31 March 2022. **(18 marks)**

b) Explain what is meant by the term 'cash equivalents' in relation to cash flow statements. **(2 marks)**

(Total: 20 marks)

QUESTION FIVE

The following summarised information is available in respect of Edumfa Ltd for the year ended 31 July 2022.

		GH¢
Revenue		958,000
Cost of sales		(614,000)
Gross profit		**344,000**
Expenses		(164,000)
Interest on loans		(20,000)
Profit before tax		**160,000**
Tax		(48,000)
Profit after tax		**112,000**
Non-current assets		624,000
Current assets		
Inventory	120,000	
Trade receivables	152,000	
Bank	36,000	308,000
Total assets		**932,000**
Share capital and reserves		342,000
Long term loans		500,000
Current liabilities		90,000
Total equity and liabilities		**932,000**

The performance ratios for a competitor company for the same period are as follows:

Return On Capital Employed (ROCE)	25.2%
Asset turnover rate	1.06
Acid test ratio	0.9:1
Return on equity	31.5%
Receivables collection period	38 days

Required:

a) Calculate the performance indicators for Edumfa Ltd as shown for the comparable company. **(10 marks)**

b) Comment on the performance of Edumfa Ltd for the year ended 31 July 2022 using the information you calculated in (a) above. **(10 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a)

i) **Relevance:** This is defined as capable of making a difference in the decisions made by users. Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both. Predictive value consists of the capability of being used as an input in processes or models used to predict future outcomes. Confirmatory value exists when the information provides feedback about earlier estimations. The information will either confirm or change previous estimations. The relevance of information depends on its materiality since only material information is considered relevant. **(2 marks)**

ii) **Understandability:** An essential quality of the information provided in financial reports is that it is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business and economic activities and accounting. Classifying, characterizing and presenting information clearly and concisely makes it understandable. **(2 marks)**

iii) **Materiality:** Information is material if omitting or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. Materiality is an entity-specific aspect of relevance based on the nature or magnitude (or both) of the items to which the information relates in the context of an individual entity's financial report. For example, a large supermarket omitted expenses of GH¢1,500 would not be material to them but would be to a small local shop. **(2 marks)**

iv) **Completeness:** Completeness means that the depiction will include all the information, including descriptions and explanations, necessary for a user to understand the phenomenon. Omission of any information can lead to unreliability. Therefore, the more complete the information the better, but weigh against the costs of time and money needed to prepare full information. For example, if the omission of a particular asset would lead to incomplete and therefore unreliable information, the effect of having unreliable information must be weighed against the costs and time involved in the inclusion of the asset.

(2 marks)

v) **Neutrality:** Neutrality is obtained when a depiction is without bias in the selection or presentation of financial information. In other words, it is not manipulated in order to present a favourable or unfavourable depiction of an economic phenomenon. Financial statements are not neutral if a particular selection or presentation of information influences the user's decision. Competent individuals working independently should arrive at the same or very similar measures of given economic events or situations. For example, a provision for bad debts must be based on some evidence and not the biased view of the preparer of the financial statements.

(2 marks)

b) **Pramso Ltd**

Schedule of Non-Current Assets for the year ended 31 December 2022

	Land and Buildings	Motor vehicles	Machinery
	GH¢	**GH¢**	**GH¢**
Cost at 1 January 2022	700,000	450,000	310,000
Additions		40,000	24,000
Disposals	-	(22,000)	(70,000)
Revaluations	120,000	-	-
Cost at 31 December 2022	**820,000**	**468,000**	**264,000**
Accum. depreciation at 1 January 2022	85,000	210,000	80,000
Profit and loss (w1, w2, w3)	12,000	47,888	37,800
Disposals (w2, w3)	-	(8,624)	(15,750)
Accum. depreciation at 31 December 2022	**97,000**	**249,264**	**102,050**
Net book value at 31 December 2022	**723,000**	**218,736**	**161,950**

(Marks are evenly spread using ticks = 10 marks)

Workings:

1. Depreciation of buildings charged to profit and loss account:
   (700,000 – 400,000) x 4% = 12,000
2. Accumulated depreciation of motor vehicle disposed of:
   22,000 x 20% + (22,000 – 4,400) x 20% + (22,000 – 4,400 – 3,520) x 20% x 3/12 = 4,400 + 3,520 + 704 = 8,624.
3. Accumulated depreciation of machinery disposed of:
   70,000 x 15% x 6/12 + 70,000 x 15% = 5,250 + 10,500 = 15,750.
4. Depreciation of motor vehicle charged to profit and loss account:
   (428,000 – (210,000 – 7,920)) x 20% + (22,000 – 7,920) x 20% x 3/12 + 40,000 x 20% x 3/12 = 45,184 + 704 + 2,000 = 47,888.
5. Depreciation of machinery charged to profit and loss account:
   (310,000 – 70,000) x 15% + 24,000 x 15% x 6/12 = 36,000 + 1,800 = 37,800

(Total: 20 marks)

Alternative solution (1) **NON-CURRENT ASSEST A/C**

	GH¢		GH¢
1/1/22 Bal. b/d		1/1/22 Disposal (Machinery)	70,000
1/1/22 Land & Building	700,000	1/4/22 Disposal (Motor vehicle)	22,000
1/1/22 Motor vehicle	450,000	31/12/22 Bal. c/d	1,552,000
1/1/22 Machinery	310,000		
1/7/22 Revaluation	120,000		
1/7/22 Bank (Machinery)	24,000		
1/10/22 Bank (Motor vehicle)	40,000		
	1,644,000		1,644,000
1/1/23 Bal. b/d	1,552,000		

ACCUMULATED DEPRECIATION A/C

	GH¢		GH¢
1/1/22 Disposal (Machinery)	15,750	1/1/22 Bal. b/d:	
1/4/22 Disposal (Motor vehicle)	8,624	1/1/22 Land & Building	85,000
31/12/22 Bal. c/d	448,314	1/1/22 Motor vehicle	210,000
		1/1/22 Machinery	80,000
		31/12/22 Profit or Loss A/c (land & building)	12,000
		(motor vehicle)	47,888
		(machinery)	37,800
	472,688		472,688
		1/1/23 Bal. b/d	448,314

Alternative Solu 2

Land & Building A/C

	GH¢		GH¢
Bal b/f	700,000		
Revaluation	120,000	Bal. c/d	820,000
	820,000		820,000
Bal. b/d	820,000		

Machinery A/C

	GH¢		GH¢
Bal b/f	310,000	Disposal	70,000
Cash	24,000	Bal. c/d	264,000
	334,000		334,000
Bal. b/d	264,000		

Motor Vehicle A/C

	GH¢		GH¢
Bal. b/f	450,000	Disposal	22,000
Cash	40,000	Bal. c/d	468,000
	490,000		490,000
Bal. b/d	468,000		

DEPRECIATION ACCOUNTS

Land & Building

	GH¢		GH¢
		Bal. b/f	85,000
Bal. c/d	97,000	Profit or Loss A/c	12.000
	97,000		97,000
		Bal. b/d	97,000

Machinery

	GH¢		GH¢
Disposal	15,750	Bal. b/f	80,000
Bal. c/d	102,050	Profit or Loss A/c	37,000
	117,800		117,800
		Bal. b/d	102,050

Motor Vehicle

	GH¢		GH¢
Disposal	8,624	Bal. b/f	210,000
Bal. c/d	249,264	Profit or Loss A/c	47,888
	257,888		257,888
		Bal. b/d	249,264

EXAMINER'S COMMENTS

In Question 1(a) Candidates were to explain the characteristics of useful accounting information and quite a number of candidates could explain while few candidates could not explain. In general, the question was well answered.

Candidates had challenges in the (b) part of question 1 where they were asked to prepare the non-current asset account and the accumulated depreciation account which required that candidates to compute depreciation charges using the straight line and reducing balance methods. This was poorly answered as candidates were unable to treat the disposal of asset to balance the accounts and to deduce the written down values of the assets for subsequent depreciation charges. Also, candidates were unable to compute the depreciation for new acquisitions taking into account the dates of acquisition. Presentation of answers was also a challenge and it was also due to the fact that the question was not very specific with the presentation. However, candidates were not penalised if their answers did not conform with the examiner's suggested solution.

QUESTION TWO

a) Revised Net Profit or Loss

	GH¢
Net loss as per draft accounts	(10,500)
Add cash drawings, wrongly debited to purchases, and so included in the cost of sales in the trading account	19,000
	8,500
Add partners' salaries, wrongly charged as an expense in the P & L account. They are an appropriation of profit (7,500 + 4,000)	11,500
	20,000
Less increase in the allowance for receivables (4% of 5,500)	(220)
Adjusted net profit for the year	**19,780**

(Marks are evenly spread using ticks = 5 marks)

b) **Revised Partners' Current Accounts**

	Adu GH¢	Boateng GH¢	Dogbe GH¢		Adu GH¢	Boateng GH¢	Dogbe GH¢
P&L appropriation a/c: incorrect share of profit (w1)	6,000	3,600	2,400	Bal b/d per draft a/c,	4,200	3,500	2,300
P&L appropriation a/c: New share of losses (w2)	360	216	144	Increase in interest receivable		1,500	
Drawings	8,000	5,000	6,000	Bal b/d	10,160	3,816	6,244
	14,360	**8,816**	**8,544**		**14,360**	**8,816**	**8,544**
Bal c/d	10,160	3,816	6,244				

(Marks are evenly spread using ticks = 7 marks)

Adu, Boateng & Dogbe Partnership

c) Redrafted Statement of Financial Position as at 30 April 2021

	GH¢	GH¢
Non-Current Assets		
Cost		100,000
Depreciation		35,000
		65,000
Current Assets		
Inventory	16,000	
Trade receivables (GH¢5,500 - GH¢220)	5,280	
Cash at bank	6,500	27,780
Total Assets		**92,780**
Capital Accounts		
Adu	30,000	
Boateng	55,000	
Dogbe	20,000	105,000
Current Accounts		
Adu	(10,160)	
Boateng	(3,816)	
Dogbe	(6,244)	(20,220)
Current Liabilities		
Trade payables		8,000
Total Capital and Liabilities		**92,780**

(Marks are evenly spread using ticks = 8 marks)

Workings:

1. Profit or Loss Appropriation Account original incorrect version

		GH¢	GH¢
Net loss b/d			(10,500)
Freehold property	- Boateng		30,000
Interest on capital	- Adu (W3)	3,000	
	- Boateng	2,500	
	- Dogbe	2,000	(7,500)
			12,000
Share of profits	- Adu (5/10)	6,000	
	- Boateng (3/10)	3,600	
	- Dogbe (2/10)	2,400	**12,000**

2. Profit or Loss Appropriation Account corrected version year ended 30 April 2021

		GH¢	GH¢
Net profit b/d			19,780
Interest on capital	- Adu (W3)	3,000	
	- Boateng (2,500(W3) + 1,500(W4))	4,000	
	- Dogbe (W3)	2,000	(9,000)
Salaries	- Boateng	7,500	
	- Dogbe	4,000	(11,500)
			(720)
Share of losses	- Adu (5/10)	(360)	
	- Boateng (3/10)	(216)	
	- Dogbe (2/10)	(144)	**(720)**

3. Interest on capital

		GH¢
- Adu	(10% of 30,000)	3,000
- Boateng	(10% of 25,000)	2,500
- Dogbe	(10% of 20,000)	2,000

4. Interest on extra capital
   Interest on the extra capital should be provided for from 1 November 2020 until 30 April 2021 (6 months)
   i.e., 6/12 x 10% x 30,000 = GH¢1,500

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 2 was on partnership and the (a) part required candidates to adjust the profit or loss of the partnership with some errors that were ascertained after the financial statements of the partnership had been prepared. This was to test the fundamental knowledge of the candidates in book keeping. Only few candidates were able to answer the question and obtained full marks. This was a difficult question as some of the adjustments had to do with the appropriation account and had to be treated as such and its effect adjusted through the current account. No candidate was able to obtain full marks for this question.

The question 2(b) had to do with partnership current account and candidates performed averagely since the challenges faced in the "a" part affected the balancing of the current account. Again, candidates were cautioned to start with the balances given which meant that partners salaries, interest on capital etc had already been treated except for the errors that had to be corrected and most candidates missed it.

Candidates were also asked to prepare the partnership statement of financial position in question 2(c). This was well answered except for the effect of the current account which could not be ascertained and therefore no student could balance the statement of financial position. However, most candidates obtained very high scores for this part of the question.

QUESTION THREE

a)

i) A bank reconciliation is carried out for the following reasons:

- To confirm the accuracy of entries in the cash book.
- To uncover any error which may have been made by the bank.
- To provide a reliable cash figure for the trial balance.
- To identify any items, such as bank charges, which need to be entered in the accounting records, including the cash book.
- It serves as internal checks on Staff

(Any 3 points @ 1 mark each = 3 marks)

ii) Items appearing in the bank reconciliation are:

- The corrected cash book balance
- Unpresented cheques
- Outstanding lodgements
- Debit note
- Credit note
- Bank error

(Any 3 points @ 1 mark each = 3 marks)

b)

i) Adjusted Cashbook

	GH¢		GH¢
Cheque drawn entered as GH¢354	9	Bal b/d	645
Cheque cancelled	1,540	Bank charges	320
		Returned cheque	460
		Bal c/d	124
	1,549		**1,549**

(Marks are evenly spread using ticks = 7 marks)

ii) Bank Reconciliation Statement

	GH¢	GH¢
Balance per bank statement		1,824
Less: Cheque credited in error by the bank	485	
Unpresented cheques (3,419 – 1,540)	1,879	(2,364)
		(540)
Add: Outstanding lodgment		664
Revised balance agreed to ledger account		**124**

(Marks are evenly spread using ticks = 7 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Candidates were tested on book keeping specifically bank reconciliation which requires candidates to bring to bear their knowledge in keeping records in the cash book. The performance for this question was excellent as most candidates scored high marks and few candidates managed to score full marks.

QUESTION FOUR

a) **Oti Ltd**

Statement of cash flows for the year ended 31 March 2022

	GH¢	GH¢
Cash flows from operating activities		
Profit before interest and tax	752,960	
Adjustments for:		
Depreciation	200,000	
Profit on sale of tangible non-current asset (W3)	(97,000)	
Increase in inventories (440,000 – 295,000)	(145,000)	
Increase in trade receivables (385,840 – 197,750)	(188,090)	
Increase in trade payables (154,700 – 150,300)	4,400	
Cash generated from operations	527,270	
Interest paid	(60,420)	
Tax paid (W2)	(204,340)	
Net cash flow from operating activities		**262,510**
Cash flow from investing activities		
Purchase of non-current assets (W3)	(697,430)	
Proceeds from sale of tangible non-current asset	412,000	
Net cash used in investing activities		**(285,430)**
Cash flows from financing activities		
Dividends paid	(142,000)	
Proceeds from issuing shares (640,800 – 540,200)	100,600	
Net cash used in financing activities		**(41,400)**
Net decrease in cash and cash equivalents		**(64,320)**
Cash and cash equivalents at the beginning of the period		4,120
Cash and cash equivalents at the end of the period		**(60,200)**

Workings:

1. Non-current assets disposals

	GH¢		GH¢
Profit & Loss (bal. figure)	97,000	Acc dep^n (450,000-315,000)	135,000
Cost	450,000	Cash	412,000
	547,000		**547,000**

2. Tax

GH¢			GH¢
Tax paid (bal. figure)	204,340	Bal b/d	198,540
Bal c/d	204,600	Profit & Loss	210,400
	408,940		**408,940**

3. Non-current assets

	GH¢		GH¢
Bal b/d	1,297,570	Depreciation	200,000
Purchases	697,430	Disposal	315,000
		Bal c/d	1,480,000
	1,995,000		**1,995,000**

(Marks are evenly spread using ticks = 18 marks)

b) Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and that are subject to an insignificant amount of risk of changes in value. An investment normally qualifies as a cash equivalent only if it has a short maturity, say, three months or less, from the date of acquisition.

(2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Candidates were asked to prepare statement of cashflow in accordance with IAS 7. It was clear that majority of the candidates had not prepared for the question since it is not a popular question and therefore resulted in candidates scoring very low marks. Most candidates who attempted this question also had challenges of deducing profit on disposal of assets, acquisition of new assets and shares, payments made for taxes etc. Others also were able to compute those figures but failed to show the accounts in their answer booklets and therefore lost some marks.

Candidates were also required to explain what cash equivalents are in relation to cash flow statements and the question was fairly answered but quite a number of candidates also could not answer the question.

QUESTION FIVE

a) Computation of ratios

	Formula	Calculation for Edumfa Ltd	Edumfa Ltd	Comparator
ROCE	PBIT/CE*100	(160 + 20)/(342 + 500)*100	21.38%	25.20%
Asset turnover	Net Sales/Total Assets	958/842	1.14	1.06
Acid test ratio	Current Assets less Inventory/TCL	(308-120):90	2.09:1	0.9:1
ROE	NP/Shareholders Equity *100	112/342*100	46.78%	31.50%
Receivables collection period	Trade Receivable/Net Sales *365 days	(152/958) x 365	58 days	38 days

(Marks are evenly spread using ticks = 10 marks)

b) Comments on computed ratios

The ROCE is below that of the comparator. ROCE is still reasonable even if lower than that of the comparator. A higher return on capital employed can be obtained by increasing the profit margin or the asset turnover ratio.

The asset turnover rate is above that of the comparator. This means Edumfa Ltd is making better use of its assets, producing more output.

Acid test ratio is higher than that of the comparator and more attention could be given to reducing these ratios and making the working capital work harder.

ROE is very good for Edumfa Ltd due to the gearing up effect from long-term liabilities which appear to pay interest at approximately 4% when earnings from the loan resource are at 21%. This benefit goes to the shareholders.

Receivables period needs close attention. There may be issues surrounding bad debts. The period is higher than that of the comparator and suggests that there is little control over debt collection.

(5 comments @ 2 marks each = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question five (5a), candidates were requested to compute the ratios as given for the comparable company (Return on capital employed, Asset Turnover rate, Acid Test ratio, Return on Equity and Receivables collection period). This part of the question was fairly answered by majority of candidates who attempted it. Few 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 comment on the performance of the company in question. This was to be done effectively with the comparable company in focus and therefore the ratios were to be compared. Quite a number of students commented on the performance without comparing with the comparable company and therefore lost marks.

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 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 the questions.

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