## MARCH 2024 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 (March 2024) recorded a pass rate of 45% compared to a pass rate of 33% achieved in November 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, 4 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 and 2. 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 approach 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) It is understood that different users require financial information for assistance in their economic decisions. Financial statements need to have certain characteristics or adhere to certain accounting principles in order to be useful to its users.

**Required:**
In relation to the statement above, write brief notes about the following:
i) Consistency
ii) Completeness
iii) Materiality
iv) Going concern

**(10 marks)**

b) The draft statement of financial position of Tinkong Ltd as at December 31, 2023, depicts the following:

| | **GH¢** |
|---|---|
| Plant and Machinery – Cost | 4,954,824 |
| Less: Accumulated Depreciation | 1,917,016 |
| | **3,037,808** |

On reviewing the accounts of the business, its auditor found that the records have been correctly recorded except for the following events:

- On January 17, 2023 a contract was signed for the purchase of a machine for GH¢450,000 which is to be delivered on July 17, 2024. The company made an advance payment of GH¢180,000 on signing of the contract and the balance was to be paid on delivery of the machine. The advance payment was debited to plant and machinery account.

- The cost of a new plant amounting GH¢1,080,000 was acquired on 21 January 2023 and debited to plant and machinery account. However, the cost of installation amounting to GH¢120,000 was debited to repairs account.

Depreciation is charged on a reducing balance method at 10% per annum. Depreciation on new assets commences in the month in which the asset is acquired.

**Required:**
Prepare the following account indicating the closing balances as at 31 December 2023:
i) Plant and machinery
ii) Accumulated depreciation - plant and machinery **(10 marks)**

**(Total: 20 marks)**

## QUESTION TWO

a) Lukay is a wholesaler who is into the distribution of soft drinks. Lukay has been in operation for some time now and the following transactions in relation to sales occurred in the first 3 years:

**Year 1**
Lukay made credit sales of GH¢60,000 and received GH¢45,000 from his credit customers. At the end of the year she decided to write off Abrantie's debt of GH¢2,400, made a specific allowance for Keke's debt totalling GH¢1,050 and create a general allowance of 5% of the remaining trade receivables balance.

**Year 2**
During the second year of trading, Lukay made credit sales of GH¢90,000 and received cash of GH¢84,000 including GH¢1,200 from Abrantie. He decided to write off Keke's debt, and create a specific allowance against 50% of Yakubu's total debt of GH¢1,800. He decided that his general allowance should now be 8% of remaining trade receivables balance.

**Year 3**
Lukay made credit sales of GH¢150,000 and received cash of GH¢120,000. Additionally, he also received a cheque from Yakubu for GH¢1,800. At the year-end he decided to create a specific allowance against Atia's debt of GH¢15,000 and maintained his general allowance at 8%.

**Required:**
For each of the above years show the trade receivables account, bad debt expense account and allowance for doubtful debts account, and the statement of financial position extract as at each year end. **(10 marks)**

b) Armah and Siameh were in partnership and shared profits and losses in the ratio of 3:2 respectively. The balances on the partners' capital accounts at July 1, 2022 were: Armah GH¢187,500, Siameh GH¢300,000.

Due to expansion of their business, Benya was admitted as a partner on October 1, 2022 under the following arrangements:

i) Assets were revalued upwards by GH¢150,000 but the revaluation was not recorded in the books.
ii) Goodwill of the firm was assessed at GH¢225,000 and was retained in the books.
iii) Benya invested GH¢375,000 as capital.
iv) Benya was allowed a monthly salary of GH¢15,000 whereas Armah and Siameh continued to receive salaries of GH¢21,000 and GH¢18,750 per month respectively, as in the past.
v) Profit was to be shared: Armah 35%; Siameh 35% and Benya 30%.
vi) Mr. Antwi was hired as manager from October 1, 2022 at a salary equal to 5% of the profit remaining. This is deducted before charging partners' salaries.

The profit for the year ended June 30, 2023 amounted to GH¢364,500 after:

- Making allowance for a debt of GH¢36,000 incurred prior to July 2022; and
- providing for the partners' salaries.

In addition to salaries, the partners withdrew the following amounts: Armah GH¢112,500; Siameh GH¢90,000; and Benya GH¢67,500

**Required:**
Prepare the Partners' capital accounts for the year ended June 30, 2023. **(10 marks)**

**(Total: 20 marks)**

## QUESTION THREE

a) Mr. Malik is a sole trader and carries on business under the name "Malik & Company". The balance on his cash book at 31 December 2023 did not agree with the balance as per the bank statement which shows a credit balance of GH¢183,750.

An examination of the cash book and bank statement disclosed the following:

1) A deposit of GH¢24,600 made on 29 December 2023 and recorded in the cashbook had been credited by the bank on 1 January 2024.
2) Bank charges of GH¢850 have not been entered in the cash book.
3) A debit of GH¢2,100 appeared on the bank statement for an unpaid cheque which had been returned marked "out of date". The cheque was re-dated by his customer and paid into the bank again on 3 January 2024. The earlier transaction was recorded in the cashbook.
4) A standing order for payment of an annual subscription amounting to GH¢500 has not been entered in the cash book.
5) On 26 December 2023, Mr. Malik had given the cashier a cheque for GH¢5,000 to pay into his personal account at the bank. The cashier deposited it into the business account by mistake.
6) On 27 December 2023, a customer had made an online transfer of GH¢24,950 in payment against goods supplied. The advice was received and recorded in the cash book on 2 January 2024.
7) On 30 September 2023, Mr. Malik entered into a hire purchase agreement and issued a standing order to the bank to pay a sum of GH¢1,300 on day 10 of each month, commencing from October 2023. No entries have been made in the cash book for these payments.
8) A cheque for GH¢18,200 received from Mr. Adoboe had been entered twice in the cash book.
9) Cheques issued amounting to GH¢233,600 was not presented to the bank for payment until after 31 December 2023.
10) Dividend received by the bank amounting to GH¢6,000 has not been recorded in the cash book.
11) A cheque of GH¢121,500 received from Mr. Bob was deposited in the bank but entered in the cash book as GH¢125,100.

**Required:**

i) Prepare the adjusted cash book for Mr. Malik. **(7 marks)**
ii) Prepare bank reconciliation statement as at 31 December 2023. **(7 marks)**

b) The Accountant of Abeiku Ltd has prepared a trial balance, but has found that the total of debit balances is GH¢691,680 and the total of credit balances is GH¢689,720.

On investigation, he discovers the following errors in the book-keeping:

i) Total purchases in the period were recorded at GH¢80 below their correct value, although the total value of trade payables was correctly recorded.
ii) Total telephone expenses were recorded at GH¢800 above their correct amount, although the total value of the amounts payable was correctly recorded.
iii) Purchase returns of GH¢440 were recorded as a debit entry in the sales returns account, but the correct entry had been made in the trade payables control account.
iv) Equipment costing GH¢1,600 had been recorded as a debit entry in the repairs and maintenance account.
v) Rental expenses of GH¢4,392 were entered incorrectly as GH¢4,932 in the expense account but were entered correctly in bank account in the ledger.
vi) Bank charges of GH¢160 have been omitted entirely from the ledger.

**Required:**

Prepare journal entries for the correction of the errors. **(6 marks)**

**(Total: 20 marks)**

**QUESTION FOUR**

Kontiba Enterprise is run by a sole trader. The following Trial Balance was prepared from the business accounts on 30 September 2023.

| | Debit GH¢ | Credit GH¢ |
|---|---|---|
| Capital | | 148,224 |
| Inventory | 19,360 | |
| Sales | | 337,160 |
| Purchases | 133,880 | |
| Purchase returns | | 4,832 |
| Electricity | 1,784 | |
| Discounts allowed | 1,936 | |
| Discounts received | | 3,416 |
| Motor expenses | 1,264 | |
| Drawings | 25,600 | |
| Bank | 19,600 | |
| Salaries | 86,400 | |
| Insurance | 12,320 | |
| Receivables | 88,112 | |
| Irrecoverable debts | 1,136 | |
| Allowance for receivables | | 2,520 |
| Payables | | 61,024 |
| General expenses | 5,424 | |
| 9% Loan (2016 – 2023) | | 120,000 |
| Loan interest | 9,600 | |
| Land and buildings | 272,000 | |
| Accumulated depreciation for buildings | | 20,800 |
| Equipment | 17,600 | |
| Accumulated depreciation for equipment | | 8,240 |
| Motor vehicles | 20,800 | |
| Accumulated depreciation for motor vehicles | - | 10,600 |
| | **716,816** | **716,816** |

The following information is also available:

1) Only 10 months' salaries are shown in the Trial Balance. An equal amount is paid for salaries for each month of the year.
2) As at 30 September 2023, GH¢2,560 had been prepaid for insurance, whilst GH¢328 was owing for general expenses.
3) GH¢3,680 had been charged to general expenses for the owner's private holiday.
4) As at 30 September 2023, inventory was valued at GH¢18,000.
5) A customer, owing GH¢4,032 has been declared bankrupt. This amount is to be written off in full.
6) An allowance for receivables is to be maintained at 3% of the receivables balance.
7) As at 30 September 2023, the business's land was valued at GH¢80,000. Land is not depreciated.
8) Depreciation is to be provided as follows:
   Buildings: 4% per annum using the straight line method.
   Equipment: 25% per annum using the straight line method.

Motor vehicles: 40% per annum using the reducing balance method.

9) There were no additions or disposals of non-current assets during the financial year.

**Required:**

i) Prepare the statement of profit or loss for the year ended 30 September 2023. **(10 marks)**

ii) Prepare the statement of financial position as at 30 September 2023. **(10 marks)**

**(Total: 20 marks)**

## QUESTION FIVE

You are the financial accountant for Ziekah Ltd, a company that manufactures household furniture. Ziekah Ltd has experienced both a reduction in sales revenue and cash flow during the last financial period. You are provided with the following information regarding Ziekah Ltd for the years ended 31 October 2022 and 2023:

**Statement of profit or loss for years ended**

| | **2023** | **2022** |
|---|---|---|
| | **GH¢000** | **GH¢000** |
| Revenue | 1,000 | 1,400 |
| Cost of sales | (600) | (700) |
| Gross profit | 400 | 700 |
| Operating expenses | (150) | (280) |
| Operating profit | 250 | 420 |
| Interest on debentures | (60) | (100) |
| Profit before tax | 190 | 320 |
| Tax | (24) | (40) |
| **Profit after tax** | **166** | **280** |

**Statement of financial position as at**

| | **2023** | **2022** |
|---|---|---|
| | **GH¢000** | **GH¢000** |
| **Non-current assets** | | |
| Property, plant and equipment | 2,320 | 2,400 |
| Intangible assets | 1,300 | 800 |
| | 3,620 | 3,200 |
| **Current assets** | | |
| Inventory | 82 | 78 |
| Trade receivables | 138 | 134 |
| Bank | - | 300 |
| | 220 | 512 |
| **Total assets** | **3,840** | **3,712** |
| **Equity and liabilities** | | |
| Issued share capital | 1,600 | 1,600 |
| Retained earnings | 1,224 | 1,058 |
| | 2,824 | 2,658 |

| | | |
|---|---|---|
| **Non-current liabilities** | | |
| 10% Debentures | 600 | 1,000 |
| | | |
| **Current liabilities** | | |
| Bank overdraft | 342 | |
| Trade payables | 74 | 54 |
| | 1,016 | 1,054 |
| | **3,840** | **3,712** |

**Required:**

a) Calculate the following ratios for both years:

i) Operating profit margin.

ii) Return on capital employed.

iii) Acid test ratio.

iv) Receivable days. **(8 marks)**

b) Write a report to the Managing Director of Ziekah Ltd explaining why the cash flow of the company has deteriorated during the current financial year. You should base your report on both the ratios calculated in (a) and any additional information provided in the financial statements. **(12 marks)**

**(Total: 20 marks)**

## SUGGESTED SOLUTION

## QUESTION ONE

a) **Accounting concepts/terms**

**i) Consistency:** The presentation and classification of items in the financial statements should be similar from one period to the next unless:

- It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies or
- A Standard or an Interpretation requires a change in presentation.

**ii) Completeness:** To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

iii) **Materiality:** Information is material if its omission or misstatement could influence the economic decisions taken by the users on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement and the circumstances related thereto.

iv) **Going concern:** Going concern means that the entity will continue in operation for the foreseeable future and that it has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

**(2.5 marks each = 10 marks)**

b)

i)

**Plant & machinery**

| **2023** | | **GH¢** | **2023** | | **GH¢** |
|---|---|---|---|---|---|
| | Balance before adjustment | **4,954,824** | | | |
| Jan. 21 | Cost of installation | **120,000** | Jan. 17 | Reversal of Advance against contract for future delivery of plant | **180,000** |
| | | | | Balance c/d: Plant & Machinery | 4,894,824 |
| | | **5,074,824** | | | **5,074,824** |

**(5 marks)**

**ii)**

**Accumulated depreciation - plant & machinery**

| **2023** | | **GH¢** | **2023** | | **GH¢** |
|---|---|---|---|---|---|
| | | | Jan. 1 | Balance before adjustment | 1,917,016 |
| | Removal of depreciation wrongly charged on advance (180,000 @ 10%) | 18,000 | | Extra depreciation on 120,000 @10% | 12,000 |
| | Balance c/d | 1,911,016 | | | |
| | | **1,929,016** | | | **1,929,016** |

**(5 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

In Question 1(a), candidates were to explain the characteristics and adherence to certain accounts principles in order to be useful to its user. This was poorly answered as candidates did not answer this part of the question which should relate to the statement.
Only a handful obtained the full marks allocated.

Candidates had challenges in the (b) part of the question where they were asked to reverse certain entries in the plant and machinery and accumulated depreciation account. It was totally new to the candidates. Only few candidates were able to answer the question.

**QUESTION TWO**

a) **Trade receivables**

| | | GH¢ | | | GH¢ |
|---|---|---|---|---|---|
| Year 1 | | | Year 1 | | |
| | Sales revenue | 60,000 | | Cash receipts | 45,000 |
| | | | | Bad debt expense (w/o) | 2,400 |
| | | - | | Balance c/d | 12,600 |
| | | **60,000** | | | **60,000** |
| Year 2 | | | Year 2 | | |
| | Balance b/d | 12,600 | | Cash receipts | 84,000 |
| | Sales revenue | 90,000 | | Bad debt expense (w/o) | 1,050 |
| | Bad debt expense (Abrantie) | 1,200 | | Balance c/d | 18,750 |
| | | **103,800** | | | **103,800** |
| Year 3 | | | Year 3 | | |
| | Balance b/d | 18,750 | | Cash receipts | 120,000 |
| | Sales revenue | 150,000 | | Cash (Yakubu) | 1,800 |
| | | - | | Balance c/d | 46,950 |
| | | **168,750** | | | **168,750** |
| Year 4 | | | | | |
| | **Balance b/d** | **46,950** | | | |

**Tutorial notes**

- If the receipt from Abrantie was not included in the 280,000 but had been recognised as a receipt from a customer with whom Lukay is no longer trading, it could have been credited directly to the bad debt expense a/c (as a recovery).
- It is unnecessary to adjust the write-off of Keke's balance against the allowance a/c just because it had previously been provided for. The allowance previously made is effectively "released" to the expense a/c because it is no longer required.
- Because Yakubu's debt has only been provided against but not written off it would be wrong top make a "reinstatement" adjustment.

**Bad debt expenses a/c**

| | GH¢ | | GH¢ |
|---|---|---|---|
| Year 1 | | Year 1 | |
| Trade receivables (Abrantie) | 2,400.00 | Profit & Loss Account | 2,400.00 |
| | **2,400.00** | | **2,400.00** |
| Year 2 | | Year 2 | |
| Trade receivables (Keke) | 1,050.00 | Trade receivables (Abrantie) | 1,200.00 |
| Allowance for doubtful debts | 150.00 | | |
| | **1,200.00** | | **1,200.00** |

**Allowance for doubtful debts a/c**

| | GH¢ | | GH¢ |
|---|---|---|---|
| Year 1 | | Year 1 | |
| Balance c/d (W1) | 1,627.50 | Bad debt expense | 1,627.50 |
| | | | |
| Year 2 | | Year 2 | |
| | | Balance b/d | 1,627.50 |
| Balance c/d (W2) | 2,328.00 | Bad debt expense | 700.50 |
| | **2,328.00** | | **2,328.00** |
| | | | |
| Year 3 | | Year 3 | |
| | | Balance b/d | 2,328.00 |
| Balance c/d (W3) | 17,556.00 | Bad debt expense | 15,228.00 |
| | **17,556.00** | | **17,556.00** |

| ***Workings*** | **GH¢** |
|---|---|
| (1) Allowances year 1 | |
| Specific (Keke) | 1,050.00 |
| General 5% × GH¢(12,600 – 1,050) | 577.50 |
| | **1,627.50** |
| | |
| (2) Allowances year 2 | |
| Specific (Yakubu) (50% × 1,800) | 900 |
| General 8% × GH¢(18,750 – 900) | 1,428 |
| | **2,328** |
| | |
| (3) Allowances year 3 | |
| Specific (Atia) | 15,000 |
| General 8% × (GH¢46,950 – 15,000) | 2,556 |
| | **17,556** |

**Statement of financial position extracts**

| | **Year 1 GH¢** | **Year 2 GH¢** | **Year 3 GH¢** |
|---|---|---|---|
| Trade receivables | 12,600.00 | 18,750 | 46,950 |
| Less Allowance for doubtful debts | (1,627.50) | (2,328) | (17,556) |
| | **10,972.50** | **16,422** | **29,394** |

**(marks are evenly spread using ticks = 10 marks)**

b)

**Calculating the profit before periodic allocation**

| | GH¢ |
|---|---|
| Net profit as per question | 364,500 |
| Add: Allowance for bad debts | 36,000 |
| Partners' salaries | |
| ▪ Armah (12 × 21,000) | 252,000 |
| ▪ Siameh (12 × 18,750) | 225,000 |
| ▪ Benya (9 × 15,000) | 135,000 |
| Net profit before partners' salaries | **1,012,500** |

**Statement of profit reconciliation**

| | **Period to Sept. 30 (3 months)** | **Period to June 30 (9 months)** |
|---|---|---|
| **Net profit (1,012,500 split 3:9)** | 253,125 | 759,375 |
| Less: Bad debts | 36,000 | - |
| Less: Share of profit of manager (759,375×5/105) | - | 36,160.50 |
| | **217,125** | **723,214.50** |

**Profit share:**

| **First 3 months** | **Armah** | **Siameh** | **Total** |
|---|---|---|---|
| Salaries: | | | |
| 3 × 21,000 | 63,000 | | 63,000 |
| 3 × 18,750 | | 56,250 | 56,250 |
| | | | **119,250** |
| | | | |
| A's share ($^3/_5$ of 97,875) | 58,725 | | 58,725 |
| S's share ($^2/_5$ of 97,875) | | 39,150 | 39,150 |
| Residual profit | | | **97,875** |
| | | | |
| **Profit for the first 3 months** | **121,725** | **95,400** | **217,125** |

**Profit share:**

| **Last 9 months** | **Armah** | **Siameh** | **Benya** | **Total** |
|---|---|---|---|---|
| Salaries: | | | | |
| 9 × 21,000 | 189,000 | | | 189,000 |
| 9 × 18,750 | | 168,750 | | 168,750 |
| 9 × 15,000 | | | 135,000 | 135,000 |
| | | | | **492,750** |
| | | | | |
| A's share (35% of 230,464.5) | 80,662.5 | | | 80,662.5 |
| S's share (35% of 230,464.5) | | 80,662.5 | | 80,662.5 |
| B's share (30% of 230,464.5) | | | 69,139.5 | 69,139.5 |
| Residual profit | | | | **230,464.5** |

| | | | | |
|---|---|---|---|---|
| **Profit for the last 9 months** | **269,662.5** | **249,412.5** | **204,139.5** | **723,214.5** |

**Partners' Capital accounts for the year to June 30, 2023**

| | Armah GH¢ | Siameh GH¢ | Benya GH¢ | | Armah GH¢ | Siameh GH¢ | Benya GH¢ |
|---|---|---|---|---|---|---|---|
| | | | | Balance b/f | 187,500 | 300,000 | - |
| | | | | Goodwill | 135,000 | 90,000 | |
| Revaluation | 52,500 | 52,500 | 45,000 | Revaluation | 90,000 | 60,000 | - |
| | | | | Bank | | | 375,000 |
| | | | | **Share of profit:** | | | |
| **Drawings:** | | | | *First 3m* | | | |
| *Salaries* | 63,000 | 56,250 | | Salaries | 63,000 | 56,250 | |
| | | | | Profits | 58,725 | 39,150 | |
| | | | | *Last 9m* | | | |
| | 189,000 | 168,750 | 135,000 | Salaries | 189,000 | 168,500 | 135,000 |
| | **252,000** | **225,000** | **135,000** | Profits | 80,662.5 | 80,662.5 | 69,139.5 |
| *Cash* | 112,500 | 70,000 | 67,500 | | | | |
| Balance c/f | 386,887.5 | 427,312.5 | 331,639.5 | | | | |
| **Total** | **803,887.5** | **794,812.5** | **579,139.5** | | **803,887.5** | **794,812.5** | **579,139.5** |

**(marks are evenly spread using ticks = 10 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

Candidates were asked to prepare Receivable Account, Bad debts expense Account, Allowance for Receivable Accounts as well as Statement of Financial Position Extract. Candidates performed poorly with respect to the receivable account, bad debt and allowance for receivable. This question was not very popular among candidates. They had difficulty in determining the specific and general provision and also the treatment of bad debt recovered account. Performance was below average.

**QUESTION THREE**

a)

**Malik & Company**
**Bank Reconciliation Statement as at 31 December, 2023**

| | **GH¢** |
|---|---|
| Balance as per bank statement | 183,750 |
| Less : Cheques issued but not presented | 233,600 |
| Less: wrong Credit | 5,000 |
| Add: Amount deposited but not credited by bank | 24,600 |
| Adjusted balance as per Cash Book | **(30,250)** |

**Alternative**

| | |
|---|---|
| Adjusted Balance as per Cash Book | **(30,250)** |
| Add: Unpresented Cheques | 233,600 |
| Add: wrong Credit (deposit error) | 5,000 |
| | 208,350 |
| Less: Uncredited Cheques | 24,600 |
| Balance as per Bank Statement | 183,750 |

**Adjusted Cash Book**

| | **GH¢** | | **GH¢** |
|---|---|---|---|
| | | bal b/d | 32,050 |
| | | Bank charges | 850 |
| Debtor's A/c (direct deposits) | 24,950 | Cheque returned and re-deposited after re-dating | 2,100 |
| Dividend A/c | 6,000 | Annual subscription | 500 |
| | | Hire purchase vendor | 3,900 |
| | | Mr. Adoboe - Cheque entered twice now adjusted | 18,200 |
| | | Error - cheque over booked | 3,600 |
| Balance c/d | 30,250 | | |
| | **61,200** | | **61,200** |

**(marks are evenly spread using ticks = 14 marks)**

b) Abeiku Limited Journal Entries:

| | Transaction | **Debit** | **Credit** |
|---|---|---|---|
| | | GH¢ | GH¢ |
| i | Purchases | 80 | |
| | Suspense account | | 80 |
| | Correction of error: purchases under-stated by GH¢80. | | |
| ii | Suspense account | 800 | |
| | Telephone expenses | | 800 |

| | | Debit | Credit |
|---|---|---|---|
| | Correction of error: telephone expenses over-stated by GH¢800. | | |
| iii | Suspense account | 880 | |
| | Purchase returns | | 440 |
| | Sales returns | | 440 |
| | Correction of error. Purchase returns of GH¢440 incorrectly recorded as a debit entry in sales returns. | | |
| iv | Equipment | 1,600 | |
| | Repairs and maintenance | | 1,600 |
| | Correction of error. Equipment purchase costs incorrectly recorded as repairs and maintenance expenses | | |
| v | Suspense account | 540 | |
| | Rent expenses | | 540 |
| | Correction of error: rent expenses over-stated by GH¢540. | | |
| vi | Interest expense (Bank Charges) | 160 | |
| | Bank account | | 160 |

**(1 mark for each = 6 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

Candidates were asked to prepare an Adjusted Cash Book and a Bank Reconciliation Statement. They were to start preparing the Bank Reconciliation Statement in order to ascertain the Adjusted Cash Book bank balance and were to work backwards to arrive at the opening adjusted cash book balance.

The performance for this question was excellent as most candidate scored high marks for this.

**QUESTION FOUR**

a) **Kontiba Enterprise**

**Statement of profit or loss for the year ended 30 September 2023**

| | GH¢ | GH¢ |
|---|---|---|
| Sales | | 337,160 |
| Opening inventory | 19,360 | |
| Purchases | 133,880 | |
| Purchases returns | (4,832) | |
| | 148,408 | |
| Closing inventory | (18,000) | |
| Cost of sales | | (130,408) |
| Gross profit | | 206,752 |
| Discount received | | 3,416 |
| | | 210,168 |
| **Less Expenses:** | | |
| Electricity | 1,784 | |
| Discounts allowed | 1,936 | |
| Motor expenses | 1,264 | |
| Salaries (86,400 + 17,280) | 103,680 | |
| Insurance (12,320 – 2,560) | 9,760 | |
| Irrecoverable debts (1,136 + 4,032) | 5,168 | |
| General expenses (5,424 – 3,680 + 328) | 2,072 | |
| Loan interest (9% * 120,000) | 10,800 | |
| Depreciation: Buildings (272,000 – 80,000) * 4% | 7,680 | |
| Equipment (17,600 * 25%) | 4,400 | |
| Motor vehicles (20,800 – 10,600) * 40% | 4,080 | |
| Increase in Provision (2,522.40-2,520) | 2.40 | |
| | | (152,626.4) |
| **Net profit** | | **57,541.6** |

**(marks are evenly spread using ticks = 10 marks)**

b) **Kontiba Enterprise**

**Statement of financial position as at 30 September 2023**

| | GH¢ | GH¢ |
|---|---|---|
| **Non-current assets** | | |
| Land and buildings (272,000 – 20,800 – 7,680) | | 243,520 |
| Equipment (17,600 – 8,240 – 4,400) | | 4,960 |
| Motor vehicles (20,800 – 10,600 – 4,080) | | 6,120 |
| | | 254,600 |
| **Current assets** | | |
| Inventory | 18,000 | |
| Receivables (88,112 – 4,032 – 2,522.4) | 81,557.6 | |
| Prepaid insurance | 2,560 | |
| Bank | 19,600 | |
| | | 121,717.6 |
| **Total assets** | | **376,317.6** |
| **Capital** | | |
| Brought down | 148,224 | |
| Net profit | 57,541.6 | |
| Drawings (25,600 + 3,680) | (29,280) | |
| | | 176,485.6 |
| **Non-current liabilities** | | |
| 9% Loan | | 120,000 |
| **Current liabilities** | | |
| Payables | 61,024 | |
| Accruals: General expenses | 328 | |
| Salaries (8,640 * 2) | 17,280 | |
| Loan interest | 1,200 | |
| | | 79,832 |
| **Total capital and liabilities** | | **376,317.6** |

**(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, allowance for receivables, prepayments and accruals.

Also candidates were not able to correctly treat the return inwards scenario. They used the cost of the goods, net sales, gross profit and net profit figures. Most candidates were able to calculate the depreciation for the various assets but showed only the charge for the year instead of the accumulated depreciation figure in the Statement of Financial Position. Their performance was average.

**QUESTION FIVE**

a) **Computation of ratios**

| | **2023** | **2022** |
|---|---|---|
| **Operating profit margin** =(operating profit/sales) *100 | 250/1,000*100=25% | 420/1400*100= 30% |
| **Return on capital employed** =[Operating profit/(Total assets-current liabilities)]*100 | 250/3,424*100=7.3% | 420/3,658*100=11.48% |
| **Acid test ratio** =(current assets-inventory)/current liabilities | (220-82):418=0.33:1 | (512-78):54=8.04:1 |
| **Receivable days** =(receivables/revenue)*365 days | 138/1,000*365=50 days | 134/1,400*365days=35 days |

**(3 marks for each ratio for both years = 8 marks)**

b) **MEMORANDUM**

To: Managing Director
From: Accountant
Date: November 2023

**(2 marks)**

**Subject: Liquidity problems**
Ziekah Ltd is performing well in terms of generating profit. For the year ended 31 October 2023 the company generated a profit after tax of GH¢166,000. Operating margin has reduced to 25% in the period and there is also a reduction in the ROCE in 2023. The ability of the company to generate profits is not the reason that the company is experiencing a cash-flow problem. **(5 marks)**

During 2023 the company repaid debentures of GH¢400,000 and purchased plant costing, at least, GH¢600,000. The company did not raise any long term sources of finance to undertake this exercise, they paid it out of short term funds. At the end of 2022 the company only had GH¢136,000 in the bank and therefore did not have any excess short term funds to undertake this exercise. This lead to a drastic reduction, in both the current ratio and acid test ratio during 2023. At the end of 2023 Ziekah Ltd has an acid test ratio of 0.33:1. This means that they do not have enough liquid short term funds to pay their short term liabilities. **(2.5 marks)**

During 2023, it took the company 16 days longer to receive money from their trade receivables. This also meant that the company were not receiving cash as quick as in the past. Inventory days increased to 50 days which could have led to an increase in their expenses (storage cost) and therefore reduced their cash-flow.

**(2.5 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**
In question 5 a), candidates were requested to compute four ratios (operating profit margin, return on capital employed, acid test ratio and receivable days). This part of the question was fairly answered by majority of candidates who attempted it. It is worthy to note that some candidates were not able to ascertain and determine, return on capital employed as well as acid test ratio. 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 write a report on the ratios calculated in (a) to the Managing Director explaining why the cash flow of the company has deteriorated. Most candidates were not able to answer the question satisfactorily and also did not know the structure of the report writing. Some were rather commenting on the wrong ratios computed which is beyond accepted benchmark.

**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.