

**NOVEMBER 2016 PROFESSIONAL EXAMINATION  
FINANCIAL ACCOUNTING (PAPER 1.1)  
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

**GENERAL COMMENTS**

The standard of the question paper was good and candidates were asked to answer five (5) questions out of seven (7) question. The questions were clear, well typed and the instructions were also clearly stated. There were no ambiguities in the paper except that in question 2 candidates were asked to prepare an appropriation account for partnership business in two parts and it poses problem to the candidates. Candidates scored very low marks in this questions.

The mark allocations followed the weight as stated in the syllabus and marks were allocated to all sub-questions.

**PERFORMANCE OF CANDIDATES**

The performance of candidates was very poor compared to the previous sittings. Candidates scored 46%. A small number of candidates exhibited a high sense of preparedness while majority were not well prepared. The strength of most candidates was demonstrated in the question 1 which was on depreciation. Candidates generally scored better in question one, three and five than in the other questions. High performers were evenly spread across some centres. Low performers were spread across all centres. There were no signs of copying in any centre.

The level of preparedness of candidates was mixed because while others performed extremely well others performed poorly.

The most prevalent reasons for some candidates obtaining low marks remains as in previous sittings, i.e. studying only a few selected topics, not reading the question carefully enough, or a lack of structure in the approach to answering questions.

There were improper labelling of answers as required in the answer booklet, low coverage and improper presentation of answers. Some candidates used pencils in writing which was a bad practice. The overall standard of some answers was disappointing. In particular some candidates showed a poor understanding of bookkeeping across several questions. Many candidates did not attempt the required number of questions, making the achievement of an overall passing mark a challenge. Some candidates presented ledger accounts when journals are requested in the question and thus losing marks.

The general presentation of scripts was acceptable. The majority of candidates are now filing question parts together, though some still scatter them throughout the answer book. The main areas of weakness around presentation are as follows:

- Poor and untidy handwriting
- No workings presented for some questions
- Some candidates are making calculation errors within workings and thus presenting an incorrect figure in the solution.

## FINANCIAL ACCOUNTING QUESTIONS

### QUESTION ONE

PQ Ltd had, among others the following balances in the books at 1<sup>st</sup> January 2015.

	<i>Debit (GH¢)</i>	<i>Credit (GH¢)</i>
Machinery at cost	750,000	
Machinery accumulated depreciation		301,000
Motor vehicles at cost	1,000,500	
Motor vehicles accumulated depreciation		402,000

The following information relate to the non-current assets for the financial year ended 31<sup>st</sup> December 2015.

- a) On 1<sup>st</sup> July 2015 PQ Ltd purchased machinery at a cost price of GH¢75,000, paying by cheque.
- b) On 1<sup>st</sup> December 2015 PQ Ltd purchased machinery at a cost price of GH¢27,600, on credit from BD Machinery Ltd.
- c) No disposals of machinery took place during the year ended 31<sup>st</sup> December 2015.
- d) Machinery is depreciated at 20% per annum using the straight line method, the rate being charged for each proportion of the year the machinery is owned. No allowance is made for any residual value. All machinery held at 31<sup>st</sup> December 2015 had been purchased within the previous four years.
- e) On 30<sup>th</sup> June 2015 motor vehicles which originally cost GH¢40,000 and with a net book value of GH¢16,000 at the date of sale, were sold at a profit of GH¢600. The disposal receipt was paid into the bank account.
- f) No purchases of motor vehicles took place during the year ended 31<sup>st</sup> December 2015.
- g) Motor vehicles are depreciated at 25% per annum using the straight line method, the rate being charged for each proportion of the year the motor vehicles are owned. No allowance is made for any residual value. All motor vehicles held at 31<sup>st</sup> December 2015 had been purchased within the previous three years.

#### **Required:**

Prepare the following ledger accounts of PQ Ltd for the year ended 31<sup>st</sup> December 2015, where appropriate showing the balance carried down to the next financial year. Dates are not required.

- a) Machinery. **(4 marks)**
- b) Accumulated Depreciation of Machinery. **(4 marks)**
- c) Motor vehicles. **(4 marks)**
- d) Accumulated Depreciation of Motor vehicles. **(4 marks)**
- e) Disposal of Motor Vehicles. **(4 marks)**

**(Total: 20 marks)**

## QUESTION TWO

- a) Mensah and Asamoah have been in partnership for several years. Up to 30<sup>th</sup> September 2015 the partnership agreement stated that there should be no partners' salaries and partners should not receive any interest on capital put into the business. It was agreed that profit and losses were shared equally between Mensah and Asamoah.

Asamoah made a loan to the partnership during the year ended 31<sup>st</sup> May 2015 and no repayments have been made.

From 1<sup>st</sup> October 2015, the partners decided to change the partnership agreement and the terms were as follows.

- i) Interest on the partner's loan account is to be 4% per annum.
- ii) Interest on partners' capital accounts is to be 6% per annum.
- iii) Interest on partners' total drawings is to be charged at 3% per annum. (For the period 1<sup>st</sup> October 2015 to 31<sup>st</sup> May 2016, interest on drawings were: Mensah GH¢542; Asamoah GH¢422).
- iv) Mensah's partnership salary is to be GH¢13,200 per annum.
- v) Profits and losses will be split between Mensah and Asamoah in the proportion 3:1 respectively.
- vi) No account has been taken of the interest on Asamoah's loan. The draft profit for the year ended 31<sup>st</sup> May 2016 was GH¢38,760. Profits were accrued evenly before allowing for loan interest.

- vii) The following balances were extracted from the books of account for the year ended 31<sup>st</sup> May 2016.

	<b>Mensah</b>	<b>Asamoah</b>
	GH¢	GH¢
Capital accounts	94,200	74,300
Drawings for the year	27,100	21,100
Current accounts at 1 <sup>st</sup> June 2015	10 520	(8 276)
Partner's loan account		10,800

### Required:

Prepare the partners' appropriation account for the year ended 31<sup>st</sup> May 2016, showing clearly the appropriation of profit for the periods:

- i) 1<sup>st</sup> June 2015 – 30<sup>th</sup> September 2015 and
  - ii) 1<sup>st</sup> October 2015 – 31<sup>st</sup> May 2016. **(11 marks)**
- b) For each of the following statements, identify the accounting concept involved and briefly explain the correct accounting treatment in each case.
- i) A business has good industrial relations and wishes to record this in the accounts at a value of GH¢10,000. **(3 marks)**

ii) A business has bought two door mats costing GH¢2 each. These are expected to last many years and have been recorded under non-current assets.

(3 marks)

iii) Goods to the value of GH¢3,000 were dispatched to a customer in the final month of the financial year. The invoice for these goods has been issued but no cash has been received from the customer. No entry has been made in the accounts at the financial year end.

(3 marks)

(Total: 20 marks)

### QUESTION THREE

BBT, a sole trader, prepared the following Trial Balance from his accounts on 30<sup>th</sup> September 2016.

	Dr GH¢	Cr GH¢
Sales		181,200
Sales returns	1,810	
Purchases	79,310	
Discounts received		1,520
Carriage outwards	420	
Rent and rates	30,800	
Insurance		780
Salaries	20,400	
Motor expenses	6,200	
General expenses	7,450	
Irrecoverable debts	240	
Allowance for receivables		280
Drawings		12,100
Loan interest	600	
10% Loan		8,000
Motor vehicles	20,000	
Accumulated depreciation for motor vehicles		7,600
Equipment	48,050	
Accumulated depreciation for Equipment		15,890
Inventory at 1 <sup>st</sup> October 2015	6,200	
Receivables	15,000	
Payables		16,120
Bank	1,250	
Capital		20,000
	<u>250,610</u>	<u>250,610</u>

The following information is also available.

- i) The closing inventory as at 30<sup>th</sup> September 2016 was valued at GH¢6,480.  
At 30<sup>th</sup> September 2016, loan interest owing amounted to GH¢200; rent owing was GH¢450; whilst insurance was prepaid by GH¢120.
- ii) BBT had included his son's school fees of GH¢1,400 in general expenses.
- iii) Receivables have been analysed as follows:

	GH¢
Current month	8,000
30 to 60 days	4,000
60 to 90 days	2,000
Over 90 days	1,000

Allowance to be made for receivables is as follows:

30 to 60 days	1%
60 to 90 days	2.5%
Over 90 days	5% (after writing off GH¢500)

- iv) One half of the 10% loan is repayable during the year ending 30<sup>th</sup> September 2016, and the balance after that date.
- v) Depreciation is to be provided for as follows.
  - Equipment 10% per annum on cost using the straight line method. There were no additions or disposals during the year.

Motor vehicles 20% per annum by the reducing balance method. There were no additions or disposals during the year.

**Required:**

- a) Prepare, for BBT, the Statement of profit or loss for the year ended 30<sup>th</sup> September 2016. **(12 marks)**
- b) Prepare, for BBT, the Statement of Financial Position as at 30<sup>th</sup> September 2016. **(8 marks)**

**(Total: 20 marks)**

## QUESTION FOUR

The accountant of Adom Providers Ltd has begun preparing financial statements for the year ended 31<sup>st</sup> December 2015, but the work is not yet complete. At this stage, the items included in the trial balance are as follows:

	GH¢'000	
<b>GH¢'000</b>		
Land	150	
Buildings	160	
Motor vehicles	130	
Accumulated depreciation		220
Share capital		100
Retained earnings		80
Receivables	80	
Payables		60
Inventories	50	
Operating profit		40
Debentures (15%)		80
Allowance for receivables		5
Bank balance (asset)	12	
Suspense	<u>3</u>	<u>-</u>
	<b><u>585</u></b>	<b><u>585</u></b>

The following additional information is relevant:

- i) Sales for the year ended 31<sup>st</sup> December 2015 had been overcast by GH¢2,300.
- ii) A credit note for GH¢3,500 for goods returned to Abu, a supplier, had not been posted to the suppliers account.
- iii) Discounts received of GH¢1,400 had been posted to the debit side of the discounts allowed account.
- iv) A credit purchase from Manu of GH¢640 had not been entered in the books.
- v) A new motor vehicle purchased for GH¢14,000 had been recorded as a motor expense. Depreciation has been correctly entered in the accounts.
- vi) The debentures were issued three months before the year end. No entries have been made as regards interest.
- vii) A dividend of 5 per cent of share capital was declared before the year end, but not paid until after the year end.

### Required

- a) Prepare journal entries **with narratives** to correct each of the errors in notes (i) to (v) above. **(7 marks)**
- b) Prepare a statement to show the revised operating profit. **(4 marks)**
- c) Prepare for Adom Providers Ltd for the year ended 31<sup>st</sup> December 2015
  - i) Statement of profit or loss for the year. **(2 marks)**
  - ii) Statement of Financial Position for the year end. **(7 marks)**

**(Total: 20 marks)**

## QUESTION FIVE

The Dabi Golf Club prepares its accounts annually on 31<sup>st</sup> March. The Receipts and Payments Account for the year ended 31<sup>st</sup> March 2016 was as follows.

	GH¢		GH¢
Balance b/ d	2,900	Competition prizes	2,800
Subscriptions received	70,800	Groundkeepers' wages	14,000
Competition receipts	12,000	Dinner dance expenses	6,800
Dinner dance ticket sales	13,000	Insurance	9,200
Donations	1,000	Equipment purchases	40,000
Sale of equipment	25,000	General expenses	30,100
		Electricity	1,400
		Balance c/d	20,400
	<u>124,700</u>		<u>124,700</u>

The following additional information is available:

- i) The remaining assets and liabilities of the Club at the beginning and end of the year were:

	1 <sup>st</sup> April 2015	31 <sup>st</sup> March 2016
	GH¢	GH¢
Clubhouse	130,000	130,000
Equipment	140,000	120,000
Electricity owing	400	200
Subscriptions due and unpaid	2,500	2,900
Subscriptions paid in advance	6,200	4,100
Stock of competition prizes	600	200

- ii) During the year equipment with a book value of GH¢30,000 was sold for GH¢25,000.
- iii) Of the subscriptions due on 1<sup>st</sup> April 2015, GH¢ 220 remains unpaid. This is to be treated as an irrecoverable debt.

### Required:

- a) Calculate the Accumulated Fund on 1<sup>st</sup> April 2015. (3 marks)
- b) Prepare the Subscription Account for the year ended 31<sup>st</sup> March 2016. (4 marks)
- c) Prepare:
- i) the Income and Expenditure Account for the year ended 31<sup>st</sup> March 2016
  - ii) Statement of Financial Position as at 31<sup>st</sup> March 2016.

(13 marks)

(Total: 20 marks)

## QUESTION SIX

Ato commenced business several years ago as a sole trader. Ato pays all the sales receipts into the business bank account. He has prepared the following bank account summary for the year ended 31<sup>st</sup> December 2015.

### Bank account summary for the year ended 31<sup>st</sup> December 2015

	GH¢		GH¢
Cash sales	16,420	Balance b/d	4,820
Receipt from customers	200,400	General expenses	20,000
Rent received	14,500	Wages	30,180
		Payments to suppliers	120,320
		Motor vehicles	16,000
		Equipment	15,000
		Drawings	24,520
	_____	Balance c/f	<u>480</u>
	<u>231,320</u>		<u>231,320</u>

The following information is also available:

- i) The assets and liabilities of the business at the beginning and end of the year were:

	1 <sup>st</sup> January 2015	31 <sup>st</sup> December 2015
	GH¢	GH¢
Trade receivables	20,100	25,400
Trade payables	16,200	18,320
Inventory at cost	21,000	16,200
General expenses prepaid	1,000	800
Rent received prepaid	600	-
Rent received owing	-	1,100
Wages owing	2,100	400
Premises	80,000	80,000
Equipment	25,200	23,800
Motor vehicles	62,500	66,100

- ii) Discounts received from suppliers amounted to GH¢2,500 for the year ended 31<sup>st</sup> December 2015.
- iii) Ato allowed his customers discounts of GH¢3,000 during the year ended 31<sup>st</sup> December 2015.
- iv) An allowance of receivables of 3% of receivables is to be created.
- v) Ato has taken goods at a cost price of GH¢2,800 for his personal use.



**Required:**

- a) Prepare the Statement of Profit or Loss for Ato for the year ended 31<sup>st</sup> December 2015. **(11 marks)**
- b) Prepare the Statement of Financial Position for Ato as at 31 December 2015. **(9 marks)**

**(Total: 20 marks)**

**QUESTION SEVEN**

- a) State any **FIVE** users of accounting information and their information needs. **(5 marks)**
- b) The following is a summary of the final accounts of Gade Ltd for the year ended 31<sup>st</sup> December 2015.

**Statement of profit or loss account for the year ended 31<sup>st</sup> December, 2015**

	GH¢	GH¢
Turnover		1,400,000
Cost of sales		<u>(800,000)</u>
Gross Profit		600,000
Distribution costs	64,000	
Administrative expenses	<u>140,000</u>	<u>(204,000)</u>
Operating Profit		396,000
Interest payable		<u>(22,000)</u>
Profit before tax		374,000
Company tax		<u>(58,000)</u>
Profit after tax		316,000
Profit and loss brought forward		<u>40,000</u>
		276,000
Ordinary dividend	200,000	
Transfer to reserves	<u>50,000</u>	<u>(250,000)</u>
Retained Profit		<u>26,000</u>

**Statement of Financial Position as at 31<sup>st</sup> December 2015**

	GH¢	GH¢
Non-Current Assets (net)		1,100,000
Current Assets		
Inventory	180,000	
Receivables	100,000	
Bank	<u>60,000</u>	
		<u>340,000</u>
		<b><u>1,440,000</u></b>

Equity and Reserves		
GH¢1 Ordinary shares	450,000	
General reserve	94,000	
Retained earnings	<u>26,000</u>	570,000
<b>Non-current Liabilities</b>		
Long term loans 4%		550,000
<b>Current Liabilities</b>		
Payables	62,000	
Dividends	200,000	
Taxation	<u>58,000</u>	
		<u>320,000</u>
		<b><u>1,440,000</u></b>

**Required:**

Calculate each of the following ratios (where appropriate calculations should be shown to two decimal places):

- i) Sales to capital employed. **(2 marks)**
- ii) Liquid (acid test) ratio. **(1 mark)**
- iii) Interest cover. **(2 marks)**
- iv) Dividend cover. **(2 marks)**
- v) Gearing ratio. **(2 marks)**
- vi) Earnings per share. **(2 marks)**

(vii) Explain the implications of the level of gearing for the ordinary shareholders of Gade Ltd.

**(4 marks)**

**(Total: 20 marks)**

## FINANCIAL ACCOUNTING SCHEME

### QUESTION ONE

(a)

(i)

Machinery			
	GH₵		GH₵
Bal b/d	750,000	Bal c/d	852,600
Bank	75,000		
BD Machinery Ltd	27,600		
	<b>852,600</b>		<b>852,600</b>

(ii)

Accumulated Depreciation of Machinery			
	GH₵		GH₵
Bal c/d	458,960	Bal b/d	301,000
		Income Statement (w)	157,960
	<b>458,960</b>		<b>458,960</b>

(iii)

Motor Vehicles			
	GH₵		GH₵
Bal b/d	1,000,500	Disposal	40,000
		Bal c/d	960,500
	<b>1,000,500</b>		<b>1,000,500</b>

(iv)

Accumulated Depreciation for Motor Vehicles			
	GH₵		GH₵
Disposal	24,000	Bal b/d	402,000
Bal c/d	624,250	Income Statement	246,250
	<b>648,250</b>		<b>648,250</b>

(v)

<b>Disposal of Motor Vehicles</b>			
	GH¢		GH¢
Motor Vehicle	40,000	Acc Dep of Mot. Veh.	24,000
Income Statement	600	Bank	16,600
	<b>40,600</b>		<b>40,600</b>

**Working (w)**

$$750,000 \times 20\% + 75,000 \times 20\% \times 6/12 + 27,600 \times 20\% \times 1/12 = 157,960$$

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

This question was on depreciation and candidates were asked to prepare the assets, depreciation and disposal accounts. The performance of candidates in this question was good. Candidates scored very good marks in this question but some of them could not prepare the disposal account very well. Some candidates had trouble calculating the depreciation on the motor vehicles correctly- not time apportioning the depreciation correctly in the year of disposal,

**QUESTION TWO**

(a)

	Calculation of adjusted profit		
	<b>4 months ended</b>		<b>8 months ended</b>
	<b>30 September 2015</b>		<b>31 May 2016</b>
	GH¢		GH¢
Profit for the year (net profit)	12,920	<b>W1</b>	25,840
Less: Interest on loan	144	<b>W2</b>	288 <b>W3</b>
Adjusted profit for the year (net profit)	<b>12,766</b>		<b>25,552</b>

**Mensah and Asamoah**  
**Appropriation account for the year ended 31 May 2015**

	4 months ended 30 September 2014	8 months ended 31 May 2015	
	GH¢	GH¢	
Adjusted profit for the year (net profit)	12,776	25,552	
Add: Interest on drawings Mensah		542	
Asamoah		422	
	<u>12,776</u>		
		<u>26,516</u>	
Interest on capital			
Mensah		(3,768)	<b>W4</b>
Asamoah		(2,972)	<b>W4</b>
Less: Salary (Mensah)		(8,800)	<b>W5</b>
Remaining profit	<u>12,776</u>	<u>10,976</u>	
Profit split			
Mensah	6,388		<b>W6</b>
Asamoah	<u>6,388</u>	8,232	<b>W6</b>
		<u>2,744</u>	

**W1**

**Net profit**

GH¢38,760 × 4/12 = GH¢12,920

GH¢38,760 × 8/12 = GH¢25,840

**W2**

**Interest on loan:**

GH¢10,800 × 4% × 4/12 = 144

**W3**

**Interest on loan:**

GH¢10,800 × 4% × 8/12 = 288

**W4**

**Interest on capital:**

Mensah: GH¢94,200 × 6% × 8/12 = GH¢3,768

Asamoah: GH¢74,300 × 6% × 8/12 = GH¢2,972

**W5**

**Partner Salary:**

GH¢13,200 × 2/3 = GH¢8,800

**W6**

**Split profit:**

$$\text{Gh}12,776/2 = \text{GH}6,388$$

**W7**

**Split profit:**

$$\text{Mensah: GH}10,976 \times 75\% = \text{GH}8,232$$

$$\text{Asamoah: GH}10,976 \times 25\% = \text{GH}2,744$$

**(11 marks)**

(b) (i) **Monetary measurement concept.** This convention states that the accountant only records those facts that are expressed in money terms. Any facts, however relevant they may be to the user of the information, are ignored by the accountant if they cannot conveniently be expressed in money terms. Since it is difficult to express in monetary terms good industrial relations the value of GH10,000 should not be recorded in the accounts of the business. **(3 marks)**

(ii) **Materiality concept.** This concept implies that insignificant items should not be given the same emphasis as significant items. The insignificant items are, by definition, unlikely to influence decisions or provide useful information to decision makers, but they may well cause complication and confusion to the user of accounts. The convention can be applied to the classification of items as 'revenue expenditure' rather than 'capital expenditure'. For example, the purchase of the door mats is strictly capital expenditure as they will be used over several years (and therefore they should be depreciated over their estimated useful life). However, their value is very small and therefore it is justifiable to treat them as revenue expenditure and include them in the income statement in the period in which they were bought. **(3 marks)**

(iii) **Realisation concept.** This convention states that we recognise sales revenue as having been earned at the time when goods or services have been supplied and a sales invoice issued. Sales revenue is not realised when a customer places an order, as at that stage it is too early to say whether an eventual sale will be made. On the other hand, we should not wait until the cash is received from a customer before recognising that a sale has been made. Since the goods have been sent to the customer and an invoice has been issued, sales revenue and a receivable of GH3,000 should be recognised in the financial statements. **(3 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

This question delivered very poor performance with candidates recording very low scores. Candidates struggled with the appropriation account which is in two parts. Candidates were asked to show clearly the appropriation of the profit for the periods June to September 2015 and October 2015 to May 2016. However candidates lumped everything together thereby losing vital points.

Part (b) of the question asked candidates to identify the accounting concepts and explain the correct accounting treatment. Very few candidates were able to get the correct concepts.

**QUESTION THREE**

a)

**BBT****Statement of profit or loss for the year ended 30<sup>th</sup> September 2016**

	GH¢	GH¢
Sales		181,200
Sales returns		<u>(1,810)</u>
		179,390
Opening inventory	6,200	
Purchases	<u>79,310</u>	
	85,510	
Closing inventory	<u>(6,480)</u>	
Cost of sales		<u>(79,030)</u>
Gross profit		100,360
Discounts received		1,520
Allowance for receivables <b>(W1)</b>		<u>165</u>
		102,045
Carriage outwards	420	
Rent and rates(30,800 + 450)	31,250	
Insurance(780 - 120)	660	
Salaries	20,400	
Motor expenses	6,200	
General expenses(7,450 - 1,400)	6,050	
Irrecoverable debts(240+500)	740	
Loan interest(10% x 8,000)	800	
Depreciation: Motor vehicles (20,000-7,600)x20%	2,480	
Equipment(48,050x10%)	<u>4,805</u>	
		<u>73,805</u>
Net profit		<u><b>28,240</b></u>

**W1****Allowance for receivables:**

	GH¢
Balance b/f	280
Provision for the year [4,000 x 1% + 2,000 x 2.5% + (1,000 - 500) x 5%]	<u>115</u>
Decrease in Allowance	165

**(12 marks)**

## Statement of Financial Position as at 30 November 2014

	GH¢	GH¢
<b>Non-Current Assets</b>		
Equipment (48,050-15,890- 4,805)		27,355
Motor vehicles (20,000-7,600-2,480)		<u>9,920</u>
		<b>37,275</b>
<b>Current Assets</b>		
Inventory	6,480	
Receivables (15,000-115 -500)	14,885	
Prepaid insurance	120	
Bank	<u>1,250</u>	
		<u>22,235</u>
Total Assets		<b><u>59,510</u></b>
<b>Capital</b>		
Brought down	20,000	
Net profit	28,240	
Drawings (12,100+1,400)	<u>(13,500)</u>	
		34,740
<b>Non-Current Liabilities</b>		
10% Loan		4,000(0.5)
<b>Current Liabilities</b>		
Payables	16,120	
Accrued rent	450	
Accrued loan interest (800-600)	200	
10% Loan	<u>4,000</u>	
		<u>20,770</u>
Total Capital and Liabilities		<b><u>59,510</u></b>

(8 marks)

(Total: 20 marks)

### EXAMINER'S COMMENTS

This question asked the candidates to prepare statement of profit or loss and a statement of financial position.

Majority of candidates were able to obtain good marks. However, some the candidates did not treat the accrued interest on the loan correctly, candidates did not recognised the adjustment required for interest. Many candidates did not account for the reduction in allowance for receivables correctly in both the profit or loss account and the statement of financial position. They were also not able to account for irrecoverable debt.



## QUESTION FOUR

### a) In the books of Adom Providers Ltd.

#### Journal Entries

	Dr	Cr
Sales	2,300	
Suspense		2,300
Correction of sales overcast by GH¢2,300		
Abu	3,500	
Suspense		3,500
Correction for goods returned and not posted to suppliers account		
Suspense	1,400	
Discounts allowed		1,400
Suspense	1,400	
Discounts received		1,400
Correction of discounts totals-discounts received wrongly debited to the discounts allowed account.		
Purchases	640	
Manu		640
Correction of a credit purchase not entered in the books.		
Motor vehicles	14,000	
Motor expenses		14,000
Correction of error in recording a purchase of a new motor vehicle-GH¢14,000 wrongly recorded as a motor expense.		

**(7 marks)**

**Statement to show revised Operating Profit**

	Increase GH¢	Decrease GH¢	GH¢
Original Operating Profit			40,000
Sales overcast		2,300	
Discounts received	2,800		
Purchases		640	
Motor expenses	14,000		
Revised Operating Profit	16,800	2,940	<u>13,860</u> <u>53,860</u>

**(4 marks)**

a(i)

**Adom Providers Ltd**

**Income Statement for the year ended 31 December 2015**

	GH¢
Operating profit	53,860
Debenture interest (80,000 x 15% x 3/12)	(3,000)
Profit for the year	50,860
Proposed Dividend	<u>5,000</u>
	<b>45,860</b>

**(2 marks)**

(ii)

**Adom Providers Ltd**

**Statement of financial position as at 31 December 2015**

Non-Current Assets	GH¢	GH¢
Property Plant and Equipment (150,000+160,000+130,000+14,000-220,000)	234,000	
		234,000
<b>Current Assets</b>		
Inventory	50,000	
Receivables (80,000+3,500-5,000)	78,500	
Bank	<u>12,000</u>	
		<u>140,500</u>
Total Assets		<b><u>374,500</u></b>
<b>Equity and Reserves</b>		
Share Capital	100,000	

Retained Earnings (80,000+45,860)	<u>125,860</u>	225,860
<b>Non-Current Liabilities</b>		
15% Debentures		80,000
<b>Current Liabilities</b>		
Payables (60,000+640)	60,640	
Accrued Debenture interest	3,000	
Proposed Dividend	<u>5,000</u>	
		<u>68,640</u>
Total Equity and Liabilities		<u>374,500</u>

(7 marks)  
(Total: 20 marks)

### EXAMINER'S COMMENTS

In part (a) journal preparation overall was reasonable but some candidates handled them very badly. Error (iii) prove challenging to candidates. Poor narrations were provided. In this question there was no need for Suspense Accounts but some candidates did it and wasted time.

In Part (b) the candidates showed the effect of the errors on the operating profit however the discount was challenging to them.

In part (c) many candidates were able to prepare the statement of financial of position however some did not have receivable, property, plant and equipment, retained earnings and payable correct.

### QUESTION FIVE

(a) Accumulated fund on 1 April 2015:

	Gh¢	
Clubhouse	130,000	
Equipment	140,000	
Bank	2,900	
Stock of competition prizes	600	
Subscriptions due	<u>2,500</u>	
	276,000	
Less:		
Electricity owing	400	
Subs. In advance	6,200	
	<u>6,600</u>	
	<b>269,400</b>	<b>(3 marks)</b>

(b) **Subscriptions Account for the year ended 31 March 2016**

	GH¢		GH¢
Balance b/d	2,500	Balance b/d	6,200
Income and expenditure	73,520	Bank	70,800
Balance c/d	4,100	Irrecoverable debt	220
		Balance C/D	<u>2,900</u>
	<u>80,120</u>		<u>80,120</u>

(4 marks)

**Dabi Golf Club**

(c) i

**Income and Expenditure Account for the year ended 31 March 2016**

<b>Income</b>	<b>GH¢</b>	<b>GH¢</b>
Subscriptions		73,520
Profit from competitions [12,000-(2,800+600-200)]		8,800
Profit from Dinner Dance (13,000-6,800)		6,200
Donations		<u>1,000</u>
		89,520
<b>Expenses</b>		
Groundkeepers' wages	14,000	
Insurance	9,200	
General expenses	30,100	
Electricity (1,400+200 -400)	1,200	
Irrecoverable debts	220	
Loss on sale of equipment (3,000-25,000)	5,000	
Depreciation of equipment (W3)	<u>30,000</u>	
		<u>89,720</u>
Deficit of income over expenditure		<u>(200)</u>

ii)

**Dabi Golf Club**  
**Statement of Financial Position as at 31 March 2015**

<b>Non-current Assets</b>	GH¢	GH¢
Clubhouse		130,000
Equipment		120,000
		<u>250,000</u>
<b>Current Assets</b>		
Inventory of competition prizes	200	
Subscriptions owing	2,900	
Bank	20,400	
		<u>23,500</u>
<b>Total Assets</b>		<b><u>273,500</u></b>
<b>Current Liabilities</b>		
Subscriptions in advance	4,100	
Electricity owing	<u>200</u>	
		4,300
<b>Accumulated Fund</b>		
Balance b/d	269,400	
Deficit of Income over Expend.	<u>(200)</u>	
		<u>269,200</u>
<b>Total Accumulated Fund and Liab.</b>		<b><u>273,500</u></b>

(13 marks)

**Working (W)**

**Depreciation calculation:**

	GH¢
Net book value of equipment at 1 April 2014	140,000
Disposal	(30,000)
Additions	40,000
Net book value of equipment at 31 March 2015	(120,000)
Depreciation of equipment	<b>30,000</b>

(Total: 20 marks)

**EXAMINER'S COMMENTS**

Part A - this was reasonably well answered. Some candidates failed to include the bank figure, subscriptions in arrears and advance confused some candidates.

Part B- this was also reasonably well answered. Some candidates did not treat subscriptions correctly, mixing up the adjustment for opening and closing subscriptions paid in advance and subscriptions due. Competition prizes were not controlled well.

Part C- this was reasonably answered except that some candidates were not able to treat equipment depreciation and disposal very well.

**QUESTION SIX**

a )

**Ato**

**Statement Profit or Loss for the year ended 31 December 2015**

	GH¢	GH¢
Sales (W1)		225,120
Opening inventory	21,000	
Purchases (W2)	<u>124,940</u>	
	145,940	
Drawings	<u>(2,800)</u>	
	143,140	
Closing inventory	<u>16,200</u>	
Cost of sales		<u>126,940</u>
Gross Profit		98,180
Rent received (14,500+1,100+600)		16,200
Discounts received		<u>2,500</u>
		116,880
General expenses (20,000+1,000-800)	20,200	
Wages (30,180+400-2,100)	28,480	
Discounts allowed	3,000	
Depreciation: equipment (25,200+15,000-23,800)	16,400	
Depreciation: motor vehicles (62,500+16,000-66,100)	12,400	
Allowance for receivables (25,400 x 3%)	<u>762</u>	
		<u>81,242</u>
Net Profit		<u><b>35,638</b></u>

**(11 marks)**

<b>W1</b>		<b>W2</b>	
<u>Trade Receivables Control Account</u>		<u>Trade Payables Control Account</u>	
Bank	200,400	Bank	120,320
Discount	3,000	Discount	2,500
Bal. c/d	<u>25,400</u>	Bal. c/d	<u>18,320</u>
	228,800		141,140
Bal. b/d	<u>20,100</u>	Bal. b/d	<u>16,200</u>
Credit sales	<u><b>208,700</b></u>		<u><b>124,940</b></u>

Total sales=Credit sales + Cash sales  
 208,700 + 16,120  
**225,125**

b)

Ato

**Statement of Financial Position as at 31 December 2015**

<b>Non-Current Assets</b>	<b>GH¢</b>	<b>GH¢</b>
Premises		80,000
Equipment		23,800
Motor vehicles		<u>66,100</u>
		169,900
<b>Current Assets</b>		
Inventory	16,200	
Receivables (25,400-762)	24,638	
General expenses	800	
Rent received	1,100	
Bank	<u>480</u>	
		<u>43,218</u>
Total Assets		<b><u>213,118</u></b>
<b>Capital</b>		
Brought down (W3)	186,080	
Net profit	35,638	
Drawings (24,520+2,800)	<u>(27,320)</u>	
		194,398
<b>Current Liabilities</b>		
Payables	18,320	
Wages	<u>400</u>	
		<u>18,720</u>
Total Capital and Liabilities		<b><u>213,118</u></b>

**Workings: W3**

**Capital:**

Total Assets (20,100+21,000+1,000+80,000+25,200+62,500)	209,800
Total Liabilities (4,820+16,200+600+2,100)	23,720
Capital at 1 January 2015	<b>186,080</b>

**(9 marks)**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

The performance in this question was average. The derivation of the sales and purchases figures through control accounts was a challenge for many candidates. Some of the candidates were not able to carry out basic adjustments for prepayments and accruals. Discounts allowed and received were interchange in the profit or loss

account. Candidates knew that the rent receivable should be included in the income statements as other income however they were unable to deal with the associated adjustments. The treatment of drawings of inventory was challenge for some candidates.

## QUESTION SEVEN

(a)

- Shareholders
- Bankers
- Government
- Suppliers
- Customers
- General public
- Management

**Any five points for 5 marks**

**b)**

- |      |                             |  |
|------|-----------------------------|--|
| i)   | (Sales to capital employed) | $1,400,000/1,120,000 = 1.25$ times         |
| ii)  | Liquid (acid test) ratio    | $160,000/320,000 = 0.5:1$                  |
| iii) | Interest cover              | $396,000/22,000 = 18$ times                |
| iv)  | Dividend cover              | $316,000/200,000 = 1.58$ times             |
| v)   | Gearing ratio               | $(550,000/1,120,000) \times 100 = 49.11\%$ |
| vi)  | Earnings per share          | $316,000/450,000 = 70.22$ pesewas          |

**(11 marks)**

**c) Implications of the level of Gearing for the Shareholders of Gade Ltd**

When profits are high the ordinary shareholders will benefit from the high gearing ratio of Gade Ltd and the ordinary shareholders will show an increased earnings per share. Lower interest rates of Gade Ltd will have a minimal effect on profit and will benefit the ordinary shareholders. If the profits of Gade Ltd were to fall, then the shareholders will be disadvantaged because the interest payments and preference share dividends must be met before any ordinary dividends are paid. An increase in interest rates would also affect the return of the ordinary shareholders. Gade Ltd might have to reduce gearing by selling off any surplus assets or increasing revenue reserves as an alternative to payment of dividends.

**(4marks)**

**(Total: 20 marks)**



## **EXAMINER'S COMMENTS**

Part (A) - candidates were able to provide five users of accounting information and their information needs and therefore scored all five (5) marks available.

Part (B) - was on calculation of ratios, Candidates tended to score either strongly or quite poorly. A number of candidates did not attempt this part at all and lost valuable marks. Majority of candidates did not know the formulae and were not able to calculate to ratios.

Part (C) - few candidates were able to explain the implications of the level of gearing for ordinary shareholders.

## **CONCLUSION**

Candidates and lecturers should use past question papers as a guide to future question papers, but candidates 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 are also advised to ensure that they go through the syllabus very well before sitting for the examination.