# THE INSTITUTE OF CHARTERED

# ACCOUNTANTS (GHANA)

**NOVEMBER 2011 EXAMINATIONS**

**(PROFESSIONAL)**

**PART 1**

**FINANCIAL ACCOUNTING FUNDAMENTALS**

**(Paper 1.1)**

**Attempt ALL Questions**

**TIME ALLOWED:**

**Reading & Planning - 15 Minutes**

**Workings - 3 Hours**

**QUESTION 1**

(a) Outline the due process followed by International Accounting Standards Board in coming out with an IFRS. (***6 marks***)

(b) Identify and explain **four (4)** qualitative characteristics of financial accounting information. (***6 marks***)

(c) Distinguish between a "Partnership" and a "Limited Liability Company" with regard to formation, ownership, management, financing and profit distribution. (***8 marks***)

(**Total: 20 marks**)

**QUESTION 2**

Kofi and Afia are in partnership business sharing profits and losses in the ratio of 2:1. The statement of financial position of the firm as at 31st December 2010 is shown below:

Kofi and Afia Partnership

Statement of Financial Position as at 31st December, 2010

| | | | GHS |
|---|---|---|---|
| Non-Current Assets | | | |
| Land and Buildings | | | 100,000 |
| Plant and Machinery | | | 48,000 |
| Motor Vehicles | | | 70,000 |
| | | | 218,000 |
| Current Assets: | | | |
| Inventory | | | 20,000 |
| Trade Receivables | | | 14,000 |
| | | | 34,000 |
| Total Assets | | | 252,000 |
| Capital and Liabilities: | | | |
| Capital: | Kofi | | 62,500 |
| | Afia | | 72,000 |
| | | | 134,500 |
| Current Accounts: | | Kofi | 16,000 |
| | | Afia | 8,000 |
| | | | 24,000 |
| Current Liabilities | | | |
| Trade Payables | | | 73,500 |
| Bank Overdraft | | | 20,000 |
| | | | 93,500 |
| Capital and Liabilities | | | 252,000 |

On 1st January 2011, the partners agreed to admit Kwame into the firm in order to open another sales outlet. Kwame was to contribute GHS110,000 as capital. He agreed to contribute his capitals as follows:

| | GHS |
|---|---|
| Cash | 30,000 |
| Moto vehicles | 60,000 |
| Computers | 20,000 |

The three partners agreed to share profits and losses equally and Current Account balances are to be transferred into Capital Accounts. The following adjustments are to be made in the asset values.

i. Inventory should be written down by 10%
ii. Land and buildings should be valued at GHS120,000 and plant and machinery at GHS100,000. The carrying value of the motor vehicles approximates the fair value.
iii. In addition to the revaluation of the tangible non-current assets, internally generated goodwill prior to the admission of Kwame was assessed at GHS24,000. This is to be adjusted through the partners' capital accounts and goodwill is not to be carried on the statement of financial position.

***Required***: Prepare

(a) Revaluation Account

(b) Partners' Capital Accounts.

(c) Statement of Financial Position for the new firm

**20 marks**

## QUESTION 3

The debit side of Kekele Enterprise's trial balance exceeds the credit side. The net profit for the period was GHS3,368,000. Critical investigations into the activities of the Enterprise revealed the following errors:

a. Insurance premium paid was understated by GHS600,000.

b. An amount of GHS440,000 in respect of private purchases made by Kekele had been included in the purchases account of the business.

c. The bank balance has been overcast by GHS1,488,000.

d. An entire page totalling GHS1,960,000 in the Sales Journal was omitted from the posting to the sales account.

e. Closing inventory was undercast by GHS336,000.

f. A transaction in the debit side of the cash book amounting to GHS528,000 was recorded as GHS5,280.

g. An invoice of GHS784,000 has been correctly included in the inventory and purchases account but not posted to the personal ledger.

h. The balance of the purchases journal of GHS3,466,000 was posted as GHS2,366,000.

i. The debit and credit side of the cash book recorded GHS75,000 and GHS187,000 in respect of discounts. Investigation revealed that the amounts have not been posted to the appropriate accounts in the general/nominal ledger.

***Required***:

(i) Show the journal entries necessary to correct the errors (narrations are not required)

(ii) Draw up a statement to show the adjusted net profit.

**20 marks**

## QUESTION 4

The following is the Trial Balance of Kama Enterprise, a dealer in Oracle Software, as at 31st December, 2010.

| | GHS | GHS |
|---|---|---|
| Capital | | 240,000 |
| Receivables and payables | 159,000 | 51,000 |
| Inventory | 99,000 | |
| Motor vehicles: (cost) | 72,500 | |
| Accumulated depreciation (31 December 2009) | | 32,500 |
| Office equipment: (cost) | 90,000 | |
| Accumulated depreciation (31 December 2009) | | 30,000 |
| Administrative expenses | 26,000 | |
| Purchases and sales | 243,750 | 490,500 |
| Employee benefits | 33,000 | |
| Selling expenses | 20,000 | |
| Plant: (cost) | 125,000 | |
| Accumulated depreciation (31 December 2009) | | 37,500 |
| Discounts | 7,500 | 12,500 |
| Accruals | | 79,000 |
| Investment income | | 27,500 |
| Returns | 12,000 | 17,500 |
| Cash and cash equivalents | 126,750 | |
| Allowance for doubtful debts 31 December 2009 | | 14,000 |
| Bad debts | 17,500 | |
| | 1,032,000 | 1,032,000 |

Additional information available is given below:

(1) The inventory sheets as at 31/12/2010 put the value of inventory at GHS129,500.

(2) Allowance for doubtful debt is to be increased to GHS19,080 as at 31 December 2010.

(3) An amount of GHS6,000 in respect of rent and rates is included in administrative expenses. This amount relates to 2011 financial year.

(4) All items of property, plant and equipment are depreciated at the rate of 10% per annum on the straight line basis.

(5) An amount of GHS10,000 incurred in the repair of plant had been debited to the plant account.

(6) Personal withdrawal of cash amounting to GHS25,000 was made by Mr. Kama, the proprietor. This has not been recorded in the financial records.

***Required***: Prepare

(a) Income statement for the year ended $31^{st}$ December, 2010.

(b) Statement of financial Position as at $31^{st}$ December, 2010.

**20 marks**

## QUESTION 5

On 30 June 2011 ABC Ltd's cash book showed that it had an overdraft of GHS6,000 on its current account at the bank. A bank statement as at end of June 2011 showed that ABC was in credit with the bank by GHS1,300.

On checking the cash book against the bank statement, you find the following:

(a) Cheques drawn, amounting to GHS10,000, had been entered in the cash book, but the payees have not submitted the cheques for clearance.

(b) Cheques received, amounting to GHS8,000, had been entered in the cash book, but had not been credited by the bank.

(c) On instructions from ABC, the bank had transferred interest received on its deposit account amounting to GHS1,200 to its current account, recording the transfer on 5 July 2011. This amount had, however, been credited in the cash book as on 30 June 2011.

(d) Bank charges of GHS700 shown in the bank statement had not been entered in the cash book.

(e) The payments side of the cash book had been undercast by GHS200.

(f) Dividends received amounting to GHS4,000 had been paid direct to the bank and not entered in the current account in the cash book.

(g) An amount of GHS1,000 drawn on deposit account had been shown in the cash book as drawn on current account.

(h) A cheque issued to Baba for GHS500 was replaced when it became stale. The re-issue of the cheque was entered again in the cash book, no other entry being made. Both cheques were included in the total of cheques not submitted for clearance by the payees in (a) above.

***Required***:

i. Indicate the appropriate adjustments in the cash book.

ii. Prepare a statement reconciling the amended balance with that shown in the bank statement.

iii. Indicate the bank balance that should be carried in the statement of financial position as at $30^{th}$ June 2011.

**20 marks**