NOVEMBER 2017 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 and candidates were asked to answer five (5) questions out of seven. The mark allocations followed the weight as stated in the syllabus and marks were allocated to all sub-questions. Question 3 was overloaded. There were no ambiguities in the paper. The questions were clear, well typed and the instructions were also clearly stated. The questions were evenly spread over the topics in the syllabus. The marking scheme was well typed.

PERFORMANCE OF CANDIDATES

The performance of candidates was above average and better as compared to the previous sitting. Candidates scored 65.5%. High performers were evenly spread across all centres and so also were low performers. There were no signs of copying in any centre. Some candidates exhibited a high sense of preparedness while others were not well prepared and therefore performed poorly.

NOTABLE STRENGTHS & WEAKNESS OF CANDIDATES

The strength of most candidates was demonstrated in the question 5 and 7. 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 and not reading the question carefully enough, or a lack of structure in the approach to answering questions. There were improper labelling of answers and improper presentation of answers. The overall standard of some answers was disappointing. In particular some candidates showed a poor understanding of bookkeeping across several questions. Few candidates did not attempt the required number of questions, making the achievement of an overall passing mark a challenge. The other 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.
- Many candidates either did not number their answers or miss-numbered them. This was the case on the cover page too.

QUESTION ONE

a) A businessman who wants to take advantage of the One District One Factory initiative has approached you to assist him with the following accounting issues raised from (i) to (iii)
   i) State **TWO** objectives of financial statements. **(2 marks)**
   ii) Explain the ***accrual*** and ***going concern*** concepts. **(4 marks)**
   iii) State **FOUR** duties of directors of a company. **(4 marks)**

b) From the following information, draw up a Payables ledger control account for the month of October 2017.

	GH¢
Payable to Suppliers at 01/10/2017	2,127,721
Receivable from Suppliers at 01/10/2017	127,721
Credit Purchases excluding VAT	4,000,100
Vat on Purchases	123,714
Returns Outwards including VAT	25,100
Cash Purchases excluding VAT	2,150,150
Cheques paid to Suppliers	5,222,100
Discounts received from Suppliers	22,500
Contra entries to Receivables ledger	950

A reconciliation of the books of accounts with some of the suppliers revealed that some of the products were overpriced leading to an over invoiced amount of GH¢52,330. Amount receivable from suppliers at 31/10/2017 amounted to GH¢33,100.

(10 marks)

(Total: 20 marks)

QUESTION TWO

You took over from a Trainee Accountant after he had prepared a draft account for the year ended 31 December 2016. A careful examination of the Income Statement revealed the following:

i) There is no figure for closing inventory. However, the December 31, 2015 Statement of Financial Position has a figure of GH¢60,000 as closing inventory value. The closing stock was valued on First In, First Out (FIFO) basis. There were 600 items, valued at GH¢100 per item.

ii) Purchases during the year were:

	Number of Items	**Cost per item (GH¢)**
01/03/2016	1,600	110
01/06/2016	2,500	120
01/09/2016	3,500	130
01/12/2016	4,000	140

iii) Sales during the year were:

	Number of Items	Price per item(GH¢)
01/02/2016	400	210
01/05/2016	1,000	200
01/08/2016	2,000	215
03/12/2016	4,000	250

iv) Other cost captured in the books of Account during the year 2016 were:

	(GH¢)
Staff cost	55,000
Rent of premises	47,500
Administrative Expenses	23,500
Marketing cost	44,200
Carriage inwards	5,100
Carriage outwards	6,200
Depreciation	13,500
	195,000

Required:

a) Calculate

i) The number of items in inventory at 31/12/2016. **(2 marks)**

ii) The value of inventory at 31/12/2016 on FIFO basis. **(2 marks)**

b) Using the revised inventory value calculated in (a) above, calculate

i) Cost of sales for 31/12/2016 **(3 marks)**

ii) Gross Profit for 31/12/2016 **(2 marks)**

iii) Net Profit for 31/12/2016 **(2 marks)**

iv) Net Assets for 31/12/2016 if the figure prepared by the Trainee Accountant was GH¢96,500. **(2 marks)**

c) State the basic rule set out in ***IAS 2- Inventories*** which is to be applied to the valuation of Inventory. **(2 marks)**

d) Describe how a business would verify the quantity of inventory held at the year end. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

a) The trial balance drawn up for the year ended 31 December 2016 for AB Ltd failed to agree with a difference of GH¢7,200. The difference was credited to the suspense account pending investigations.
During 2017 the following errors were identified:

- GH¢10,000 received from sale of an old machinery has been entered in the sales account
- Purchase day book has been overstated by GH¢16,000.
- A private purchase by the director amounting to GH¢12,000 has been included in the purchases of the company
- Bank charges of GH¢4,800 in the cash book have not been posted to the bank charges account
- Sale of goods to Kofi amounting to GH¢69,000 was correctly entered in the sales day book but entered in the personal account as GH¢96,000.
- The draft account for the year ended for AB Ltd showed a net profit of GH¢145,000.
- Discount received of GH¢4,500 have been posted to the debit side of discount allowed account.
- Wages of GH¢40,000 paid has not been posted from the cash book.
- Stationery amounting to GH¢24,000 has not been accounted for in the books of AB Ltd.

Required:

i) Show the journal entries to correct the errors **(4 marks)**
ii) Write up the suspense account to eliminate the errors **(3 marks)**
iii) Prepare a statement to show the revised profit **(3 marks)**

b) The cash book of Lexis Limited as at 31 December 2016 discloses a balance of GH¢18,450 which did not agree with the bank statement balance. Investigation revealed the following:

- Cheques received of GH¢52,000, GH¢5,000 and GH¢12,450 were still in the business drawer.
- GH¢1,200 and GH¢1,800 standing orders for the payment of Electricity charges and Insurance respectively were paid by the bank but this has not been recorded in the cash book of Lexis Limited.
- The bank charged GH¢150 for a cheque book issued to Lexis Ltd.
- The bank has wrongly debited a cheque of GH¢4,955 into Lexis Ltd account which should have been placed in another customers account.
- A credit transfer of GH¢5,000 had been made in favour of Lexis Ltd. The transfer has not been recorded in the cash book.
- A cheque of GH¢70,000 drawn by Lexis limited was correctly entered in the cash book but debited to the bank statement as GH¢7,000
- The following cheques which were paid in November 2016 had not been presented :

	GH¢
00001142	2,000
00001168	5,000
00001190	4,655

Required:

Prepare

i) The adjusted cash book. **(4 marks)**

ii) A statement to reconcile the balance in (i) above to the bank statement balance.

(6 marks)

(Total: 20 marks)

QUESTION FOUR

You are the Financial Accountant for Kantamanto Ltd, a company that manufactures household furniture. Kantamanto 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 Kantamanto Ltd for the years ended 31 October 2016 and 2017:

Statement of Profit or Loss for years ended

	31/10/2017	**31/10/2016**
	GH¢000	**GH¢000**
Revenue	500	700
Cost of sales	(300)	(350)
Gross profit	200	350
Operating expenses	(75)	(140)
Operating profit	125	210
Interest on debentures	(30)	(50)
Profit before tax	95	160
Tax	(12)	(20)
Profit after tax	83	140

Statement of Financial Position as at

	31/10/2017	**31/10/2016**
Non-current assets	**GH¢000**	**GH¢000**
Property, Plant and Equipment	1,160	1,200
Intangible assets	650	400
	1,810	1,600
Current assets		
Inventory	41	39
Trade receivables	69	67
Bank	-	150
	110	256
Total Assets	**1,920**	**1,856**
Equity and Liabilities		
Issued Share Capital	800	800
Retained earnings	612	529
	1,412	1,329

Non-current liabilities		
10% Debentures	300	500
Current liabilities		
Bank Overdraft	171	-
Trade payables	37	27
	508	527
	1,920	**1,856**

Required:

a) Calculate the following ratios for both years:
   i) Operating profit margin.
   ii) Current ratio.
   iii) Acid test ratio.
   iv) Inventory days.
   v) Receivable days.
   vi) Payable days.
   vii) Return on capital employed.
   viii) Debt/equity ratio. **(8 marks)**

b) Write a report to the Managing Director of Kantamanto 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 Part (a) and any additional information provided in the financial statements. **(12 marks)**

(Total: 20 marks)

QUESTION FIVE

The following trial balance was extracted from the ledger account of Bob & Sons, a sole proprietor as at 31 December 2016.

Trial Balance as at 31 December 2016

	DR GH¢	CR GH¢
Building, at cost	650,000	
Office equipment at cost	135,000	
Plant and Machinery	263,500	
Accumulated depreciation (as at 1 January 2016)		
Building		39,000
Office equipment		27,000
Plant and Machinery		65,875
Purchases	248,000	
Sales		500,000
Inventory 1 January 2016	27,500	
Discount allowed	4,800	
Returns inwards	3,200	
Wages and Salaries	64,885	
Rent	5,580	
Insurance	6,000	
Trade receivables	145,000	
Trade payables		132,750
Provision for bad debt		24,840
Bank overdraft		58,956
Cash in hand	5,400	
Long term loan		350,000
Capital 1 January 2016		360,444
	1,558,865	**1,558,865**

The following additional information as at 31 December 2016 is available:

i) Inventory as at December 2016 was valued at GH¢24,000.

ii) Insurance was paid for 15 months ending 31 March 2018.

iii) 3 months rent is outstanding. The agreed amount per month is GH¢ 620.

iv) Included in wages and salaries is an amount of GH¢2,500 withdrawn by the owner. Secondly the cleaner has not been paid his salary for December 2016 as at the end of the year. His monthly salary is GH¢500.

v) Interest on capital per anum is 15% and is yet to be recorded.

vi) Depreciation for the year ended 31 December 2016 has not been charged as follows:

- Building 3% per anum using straight line method.
- Office equipment 20% using reducing balance method.
- Plant and machinery 25% using reducing balance method.

(Please ignore taxation)

Required:

a) Prepare Bob & Sons Statement of profit or loss account for the year ended 31 December 2016. **(8 marks)**

b) Statement of financial position as at that date. **(12 marks)**

(Total: 20 marks)

QUESTION SIX

The following details are available from the books of Sun City Social Club.

Summary of Bank Account for 31 December 2015

	GH¢		GH¢
Balance at 1 January 2015	10,710	Bar Suppliers	49,020
Subscriptions	14,655	Rent	13,440
Bar Sales	63,600	Rates	4,125
Life Membership	900	Sundry Expenses	885
Balance at 31 December 2015	3,285	Salaries	25,680
	93,150		**93,150**

	31 Dec.2014 GH¢	31 Dec. 2015 GH¢
Bar Stocks	13,680	6,015
Creditors for bar suppliers	615	3,330
Creditors for sundry expenses	90	225
Equipment	12,000	
Subscriptions	450	795

Additional Information:

i) Equipment is to be depreciated at 20%

ii) One-tenth of life membership fees is to be credited to Income and Expenditure Account each year.

iii) The bar keeper who had handled bar sales all for cash had disappeared taking with him some monies. It was not known how much money he had stolen, but all bar sales were sold at a profit of $33\frac{1}{3}$ % on cost price.

iv) The cash stolen should be credited to Bar Trading Account and debited to the Income and Expenditure Account.

Required:

a) Prepare a Bar Trading Account for the year ended 2015. **(7 marks)**

b) Prepare an Income and Expenditure Account for the year ended 31 December 2015. **(7 marks)**

c) Prepare a Statement of Financial Position as at 31 December 2015. **(6 marks)**

(Total: 20 marks)

QUESTION SEVEN

Moon, Sun and Star are in partnership with an agreement to share profits and losses in the ratio of 3:2:1.

They also agreed the following terms:

i) Interest on capital is agreed at 12% per annum.
ii) Star is to receive a salary of GH¢8,400 per annum.
iii) Interest is to be charged on drawings at the rate of 5% on balances at the end of the year.
iv) The interest on Moon loan is 5% per annum.

The Statement of financial position of the partnership as at 31 December 2015 revealed the following:

Capital accounts balances:	**GH¢'000**	**GH¢'000**
Moon	28,000	
Sun	11,200	
Star	8,400	47,600
Current Accounts balances		
Moon	4,900	
Sun	(980)	
Star	2,520	6,440
Loan account (Moon)		8,400
Capital Employed		62,440

Drawings made during the year to 31 December 2015 were as follows:

	GH¢'000
Moon	8,400
Sun	5,600
Star	9,800

The net profit for the year 31 December 2015 was GH¢34,342,000 before deducting loan interest.

Required:

a) Prepare the partners appropriation account for the year ended 31 December 2015. **(5 marks)**

b) Prepare partners' capital accounts for the year ended 31 December 2015. **(5 marks)**

c) Prepare partners' current accounts for the year ended 31 December 2015. **(5 marks)**

d) i) State **THREE** advantages of a partnership business **(3 marks)**
ii) List **TWO** demerits of a partnership business. **(2 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a)

i) Objectives of Financial Statements

- According to IASB Framework for Preparation and Presentation of Financial Statements, objective of (general purpose) financial statements is to provide information about the*: **financial position; financial performance; and changes in financial position of the entity*** to the wide range of users in making economic decisions.

- Another major purpose of preparing financial statements is that it helps the stakeholders in assessing the stewardship of management. Management acts on behalf of shareholders and is thus responsible to make the entity profitable so that shareholders' wealth increases. Financial statements provide an insight on how management is managing the business and whether they have fulfilled their responsibility or not. Through financial statements one can assess what kind of resources were available to the management and how such resources have been used by the management. **(2 marks)**

ii) Accrual Concept

The accrual method of accounting means that "revenue or income is recognized when earned regardless of when received and expenses are recognized when incurred regardless of when paid". Hence, income is not the same as cash collections and expense is different from cash payments. Under accrual basis, revenues and expenses are recognized when they occur regardless of when the amounts are received or paid. **(2 marks)**

Going Concern Concept

The going concern principle, also known as continuing concern concept or continuity assumption, means that a business entity will continue to operate indefinitely, or at least for another twelve months. Financial statements are prepared with the assumption that the entity will continue to exist in the future, unless otherwise stated. The going concern assumption is the reason assets are generally presented in the balance sheet at cost rather that at fair market value. Long-term assets are included in the books until they are fully utilized and retired. **(2 marks)**

iii) Duties of Directors of a Company

- **Act within powers**
  You must act in accordance with the company's constitution, and only exercise your powers for the purposes for which they were given.

- **Promote the success of the company**
  You must act in the way you consider, in good faith and would be most likely to promote the success of the company for the benefit of its members as a whole.

- **Exercise independent judgment**
  You must exercise independent judgment and make your own decisions. This does not prevent you from acting in accordance with the company's constitution or an agreement which the company has entered into.

- **Exercise reasonable care, skill and diligence**
  You must exercise the same care, skill and diligence that would be exercised by a reasonably diligent person with: the general knowledge, skill and experience that may reasonably be expected of a person carrying out the same functions as you.

- **Avoid conflicts of interest (a "conflict situation")**
  You must avoid a situation in which you have, or could have, an interest that conflicts, or may conflict, with the interests of the company. This applies in particular to the exploitation of any property, information or opportunity, regardless of whether the company could take advantage of it.

- **Declare interests in proposed or existing transactions or arrangements with the company.**
  If you are in any way, directly or indirectly, interested in a transaction or arrangement with the company, you must declare the nature and extent of that interest to the other Directors. In the case of a proposed transaction you must do this before it is entered into. In the case of an existing transaction you must do this as soon as reasonably practicable

(Any 4 points for 4 marks)

b) Payables Ledger Control Account

	GH¢		GH¢
Balance at 01/10/2017	127,721	Balance at 01/10/2017	2,127,721
Returns Outwards	25,100	Credit Purchases	
Cheques paid to Suppliers	5,222,100	(4,000,100 +123,714)	4,123,814
Contra entries	950		
Over-invoiced	52,330		
Discount Received	22,500		
Amount payable to Suppliers			
(833,934-33,100)	800,834		
	6,251,535		**6,251,535**
		Balance 01/11/2017	800,834

(1 mark for an entry=10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The Part A of the question asked candidates the following: I) to state two objectives of financial statements ii) explain the accrual and going concern concepts and iii) state four duties of directors of a company. A number of candidates were able to explain issues as demanded by the question but other showed poor understanding of the purposes of financial statements and wrote on qualitative characteristics and the users. The duties of directors were mostly the duties of management. It appears the corporate governance tuition was poorly done.

The Part B was on control account and candidates were asked to prepare Payable Ledger Control account. This question was poorly answered by most of the candidates. Double entry understanding was simply lacking. A lot of candidates interchanged the debits for credits and vice versa while a good number of candidates just left out this part of the question unanswered.

QUESTION TWO

a)

Date	Sales		Purchases		Balance
	Quantity	GH¢	Quantity	GH¢	Quantity
01/01/2016					600
01/02/2016	400	84,000			200
01/03/2016			1,600	176,000	1,800
01/05/2016	1,000	200,000			800
01/06/2016			2,500	300,000	3,300
01/08/2016	2,000	430,000			1,300
01/09/2016			3,500	455,000	4,800
01/12/2016			4,000	560,000	8,800
03/12/2016	4,000	1,000,000		-	**4,800**
		1,714,000		**1,491,000**	

i) 4,800 **(2 marks)**
ii) GH¢664,000 **(2 marks)**

b)

Working

400 *100	40,000
200*100	20,000
800*110	88,000
800*110	88,000
1,200*120	144,000
1,300*120	156,000
2,700*130	351,000
7,400	**887,000**

		GH¢	
i)	Opening Stock	60,000	
	Purchases	1,491,000	
	Carriage inwards	5,100	
		1,556,100	
	Less closing stock	664,000	
	Cost of goods sold	**892,100**	**(3 marks)**

		GH¢	
ii)	Sales	1,714,000	
	Less cost of goods sold	892,100	
	Gross profit	**821,900**	**(2 marks)**

		GH¢	
iii)	Gross Profit	821,900	
	Staff cost	55,000	
	Rent	47,500	
	Admin Expenses	23,500	
	Marketing	44,200	
	Carriage Outwards	6,200	
	Depreciation	13,500	(189,900)
	Net Profit		**632,000**

(2 marks)

		GH¢
iv)	Net Assets	
	Figure originally reported	96,500
	Closing inventory	664,000
		760,500

(2 marks)

c) Under IAS 2 inventory should be valued at the lower of Cost & Net Realisable value
Cost = all expenditure incurred in bringing the product to its present location and condition. This includes costs such as transport, import duties, production overheads etc. It excludes things like selling costs, abnormal waste, general expenses, and storage costs.

NRV = the actual or estimated selling price less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.

(2 marks)

d) Closing stock is verified through either physical count at the end of the year or by a continuous or perpetual inventory count. This figure is posted to the Statement of Financial Position. Movement of stock are monitored to ensure an accurate stock quantity count and stock valuation.

No matter what method a business uses to control and count stock, receipts, issues and movement of inventory are monitored using control sheets like stock cards, goods received notes, stock movements note etc.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question was on valuation using the FIFO method and candidates were asked to calculate the number of items in inventory at end of the year and the value of the inventory. In addition candidates were to determine the cost of sales, gross profit and net profit.

The other question asked the candidates to state the basic rule set out in IAS 2- Inventories which is to be applied to the valuation of Inventory and to describe how a business would verify the quantity of inventory held at the year end.
Quite a small number of candidates attempted the question and did not obtain the pass mark. Though the question was not difficult many candidates were not prepared for it.

QUESTION THREE

a)

i) Journal entries

	DESCRIPTION	DR	CR
		GH¢	GH¢
1	Sales	10,000	
	Asset Disposal		10,000
2	Suspense	16000	
	Purchases		16000
3	Drawings	12000	
	Purchases		12000
4	Bank Charges	4800	
	Suspense		4800
5	Suspense	27000	
	Kofi		27000
	Suspense	9000	
6	Discount Received		4500
	Discount Allowed		4500
7	Wages	40,000	
	Suspense		40,000
8	Stationery	24,000	
	Cash/accrual		24,000

(8 postings @ 0.5 each =4 marks)

ii)
SUSPENSE ACCOUNT

	DR	CR
	GH¢	**GH¢**
Balance b/f		7,200
Purchase	16,000	
Discount allowed	4,500	
Discount received	4,500	
Kofi	27,000	
Bank Charges		4,800
Wages		40,000
Total	**52,000**	**52,000**

(3 marks evenly spread using ticks)

iii)

Profit or loss account

	DR	CR
	GH¢	**GH¢**
Balance b/f		145,000
Sales	10,000	
Bank charges	4,800	
Wages	40,000	
Purchases		12,000
Purchases		16,000
Stationery	24,000	
Discount Allowed		4,500
Discount received		4,500
Revised Profit		**103,200**

(3 marks evenly spread using ticks)

b)

i)ADJUSTED CASH BOOK

DESCRIPTION	**DR GH¢**	**CR GH¢**
BALANCE B/F	18,450.00	
CREDIT TRANSFER	5,000.00	
ELECTRICITY CHARGES		1,200
BANK CHARGES		150
INSURANCE		1,800
BALANCE C/F	**20,300.00**	

(4 marks)

ii)

BANK RECONCILIATION STATEMTENT

BALANCE PER CASH BOOK			**20,300**
ADD UNPRESENTED CHEQ			
	1142	2,000.00	
	1168	5,000.00	
	1190	4,655.00	11,655
ADD CHEQUE UNDERSTATED			63,000
			153,965
LESS WRONG CREDIT			4,955
LESS UNCREDITED CHEQUES			
		52,000.00	
		5,000.00	
		12,450.00	
			69,450
BALANCE PER BANK STATEMENT			**79,560**

(6 marks evenly spread using ticks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The Part A of the question required candidates to show the journal entries to correct errors, write up the suspense account to eliminate the errors and prepare a statement to show the revised profit.

The Part B asked candidates to prepare a statement showing the cash book balance and statement to reconcile cash book and the bank statement balance.
The performance of candidates in this question was average as many of them obtained the pass mark.

The correction of errors was poorly done and candidates showed lack of proper understanding of double entry bookkeeping and struggled to score marks as a result. Some candidates prepared T accounts as opposed to journal entries.
The suspense account was not well prepared since it is dependent on the proper correction of the errors and so also is the statement to show the revised profit. The adjusted cash book and the reconciliation statement was mixed as some did well and others performed poorly.

QUESTION FOUR

(a)

	2017	**2016**
i)**Operating profit margin** =operating profit/sales *100	125/500*100=25%	210/700*100= 30%
ii)Current ratio =current assets: current liabilities	110:208=0.53:1	256:27=9.48:1
iii)**Acid test ratio** =(current assets-inventory):current liabilities	(110-41):208=0.33:1	(256-39):27=8.04:1
iv)**Inventory days** =inventory/cost of sales*365 days	41/300*365 = 50 days	39/350*365 days=41 days
v)**Receivable days** =receivables/revenue*365 days	69/500*365=50 days	67/700*365days=35 days
vi)**Payable days** =payables/cost of sales*100	37/300*365=45 days	27/350*365 days=28 days
vii)**Return on capital employed** =Operating profit/(Total assets-current liabilities)	125/1,712*100=7.3%	210/1,829*100=11.48%

viii)**Gearing ratio** =Long term liabilities/(Total assets-current liabilities)	300/1,712*100=17.52%	500/1,829*100=27.34%

(b) MEMO
To: Managing Director
From: Accountant
Date: November 2017

Subject: Liquidity problems
Kantamanto Ltd is performing well in terms of generating profit. For the year ended 31 October 2017 the company generated a profit after tax of GH¢83,000. Operating margin has reduced to 25% in the period and there is also a reduction in the ROCE in 2017. The ability of the company to generate profits is not the reason that the company is experiencing a cash-flow problem.

(3 marks)

During 2017 the company repaid debentures of GH¢200,000 and purchased plant costing, at least, GH¢300,000. 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 2016 the company only had GH¢68,000 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 2017. At the end of 2017 Kantamanto 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.

(3 marks)

During 2017, 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.
Payable days increased by 17 days, probably as the company did not have the cash to pay on time. The company need to review this situation as it may damage their credit rating and this will have a negative impact on future cash-flow.

(3 marks)

The debt/equity ratio has reduced due to the repayment of the debentures. The company needs to correct their liquidity problem by injecting new debt capital or equity into the company. As the company is generating sufficient profits to repay new debt this would offer a solution to their problem.

(3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS
This question was very well answered by candidates who showed a relatively better understanding of the ratios. The category of ratios which caused most difficulty was profitability, few candidates calculated ROCE and Debt/equity ratio correctly. Candidates should resist rounding ratios as those who did missed the opportunity to identify trends.
However a few candidates had some challenges which are stated below:

- Formula were wrongly presented
- Wrong selection of figures for the computation of the ratios.

Part (b) of the question required candidates to explain why the cash flow of the company has deteriorated during the current financial year. This was met with a very mixed response and is clearly an area where candidates are less comfortable.

QUESTION FIVE

BOB & SONS		
Statement of profit or loss account for the year ended 31 December 2016		
	GH¢	**GH¢**
Sales less returns (500,000 -3200)		496,800.00
Less Cost of sales		
Opening inventory	27,500.00	
add purchases	248,000.00	
Less closing inventory	(24,000.00)	251,500.00
Gross Profit		245,300.00
General and Admin expenses		
Wages and salaries(64,885-2,500+500)	62,885.00	
Rent(5,580+1,860)	7,440.00	
Insurance(6,000-1,200)	4,800.00	
Depreciation	90,506.25	
Discount allowed	4,800.00	170,431.25
Net profit		**74,868.75**
(8 marks evenly spread using ticks)		

Statement of financial position as at 31 December 2016		
	GH¢	**GH¢**
Property, Plant and Equipment		826,118.75
Current Assets		
Trade receivables(145000-24840)	120,160.00	
Inventory	24,000.00	
Prepayment	1,200.00	
Cash and bank balance	5,400.00	
Total current Asset	150,760.00	
Current Liabilities		
Trade payables	132,750.00	
Accruals	2,360.00	
Bank overdraft	58,956.00	
Total current liabilities	194,066.00	
Net asset		(43,306.00)
Total assets		**782,812.75**
Financed by :		
Capital		
Balance b/f	360,444.00	
Net profit	74,868.75	
drawings	(2,500.00)	
Balance c/f		435,212.75
Long term liabilities		350,000.00
Total		**782,812.75**

(12 marks evenly spread using ticks)

(Total: 20 marks)

Workings on depreciation	GH¢		GH¢	
Building(Cost)	650,000.00	3%	19,500.00	
Plant and machinery(NBV)	197,625.00	25%	49,406.25	
Office Equipment(NBV)	108,000.00	20%	21,600.00	
			90,506.25	
Property, Plant and Equipment				
COST	**Building**	**P&M**	**OE**	**Total**
Balance 31/12/2016	650,000.00	263,500.00	135,000.00	1,048,500.00
Depreciation				
Balance 01/01/2016	39,000.00	65,875.00	27,000.00	131,875.00
charge for the year	19,500.00	49,406.25	21,600.00	90,506.25
Balance 31/12/16	58,500.00	115,281.25	48,600.00	222,381.25
Net book value	**591,500.00**	**148,218.75**	**86,400.00**	**826,118.75**

EXAMINER'S COMMENTS

This question asked candidates to prepare statement of profit or loss and statement of financial position from a trial balance and additional information provided.
This question was more traditional in nature and examined the candidates' ability to make necessary adjustments and prepare the required accounts.

Most of the candidates were able to calculate depreciation of buildings, plants and motor vehicles. Wages and salaries and Insurance was poorly answered. Most candidates were also not able to treat provision for bad debt and a lot them were treating it in the profit or loss whereas there was no increase or decrease in the figure in the trial balance.
However candidates were able to score good marks.

QUESTION SIX
(i)

Sun City Social Club
Bar Trading Account for year 2015

	GH¢	GH¢
Sales-Banked	63,600	
-Stolen	15,600	79,200
Less cost of goods sold		
Opening Stock	13,680	
Purchases	51,735	
	65,415	
Less closing stock	6,015	59,400
Gross Profit		**19,800**

(7 marks evenly spread using ticks)

(ii)

Sun City Social Club
Income and Expenditure Account for year ended 31 December, 2015

Income		
Annual Subscription		15,000
Life Membership Subscription		90
Bar Profits		19,800
		34,890
Expenditure		
Rent	13,440	
Rates	4,125	
Sundry Expenses	1,020	
Salaries	25,680	
Equipment depreciation	2,400	
Loss due to defalcation	15,600	62,265
Excess of Expenditure over Income		**(27,375)**

(7 marks evenly spread using ticks)

(iii)

Sun City Social Club
Statement of Financial Position as at 31 December 2015

	GH¢	GH¢	GH¢
Non-Current Assets			
Equipment	12,000	2,400	9,600
Current Assets			
Stocks		6,015	
Subscription owing		795	
		6,810	
Current Liabilities			
Bar suppliers	3,330		
Accruals	225		
Overdraft	3,285	6,840	
Net Current Assets			(30)
Net Assets			**9,570**
Financed by:			
Accumulated Fund		36,135	
Deficit		27,375	8,760
Life Membership			810
			9,570

(6 marks evenly spread using ticks)

(Total: 20 marks)

All Workings in GH¢

W1

Accumulated Fund		
Equipment	12000	
Stocks	13680	
Bank	10710	
Subscription owing	450	36840
Less: Creditors for bar	615	
Creditor for expenses	90	705
		36135

W2

Subscription

Bank	14,655	
Closing owing	795	
	15,450	
Opening owing	450	**15,000**

W3

Purchases

Bank	49,020	
Closing Creditor	3,330	
	52,350	
Opening creditors	(615)	
		51,735

EXAMINER'S COMMENTS

The majority of candidates understood how to prepare a bar trading account. However only a small number of candidates correctly calculated the bar purchases. Most of the candidates simply took the figure paid as per the bank account. Almost all the candidates could not calculate cash stolen.

A significant number of candidates made no attempt to calculate the subscriptions for the year. Majority of them omitted the balance as per the bank in error. However, most of them obtained good marks.

QUESTION SEVEN
a)

MOON, SUN AND STAR
APPROPRIATION ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2015

	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Net Profit b/d				33,922
Interest on drawings				
Moon			420	
Sun			280	
Star			490	
				1,190
				35,112
Salaries-Star		8,400		
Interest on Capital				
Moon	3,360			
Sun	1,344			
Star	1,008			
		5,712		
Share of profits				
Moon	10,500			
Sun	7,000			
Star	3,500			
		21,000		**35,112**

(5 marks evenly spread using ticks)

c)
PARTNERS' CURRENT ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015

	Moon GH¢'000	Sun GH¢'000	Star GH¢'000		Moon GH¢'000	Sun GH¢'000	Star GH¢'000
Balance b/f		980		Balance b/f	4,900		2,520
Interest on drawings	420	280	490	Loan interest	420		
Drawing	8,400	5,600	9,800	Interest on capital	3,360	1344	1,008
Balance c/f	10,360	1,484	5,138	Salary			8,400
				Share of profits	10,500	7,000	3,500
	19,180	**8,344**	**15,428**		**19,180**	**8344**	**15,428**
				Balance b/f	**10,360**	**1,484**	**15,428**

b)

PARTNERS' CAPITAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015

	Moon	Sun	Star
	GH¢'000	**GH¢'000**	**GH¢'000**
Balance b/f	28,000	11,200	8,400

(10 marks evenly spread using ticks for(c) and (b))

d)

i)

Advantages of Partnership

- **Capital** – Due to the nature of the business, the partners will fund the business with start-up capital. This means that the more partners there are, the more money they can put into the business, which will allow better flexibility and more potential for growth. It also means more potential profit, which will be equally shared between the partners.

- **Flexibility** – A partnership is generally easier to form, manage and run. They are less strictly regulated than companies, in terms of the laws governing the formation and because the partners have the only say in the way the business is run (without interference by shareholders) they are far more flexible in terms of management, as long as all the partners can agree.

- **Shared Responsibility** – Partners can share the responsibility of the running of the business. This will allow them to make the most of their abilities. Rather than splitting the management and taking an equal share of each business task, they might well split the work according to their skills. So if one partner is good with figures, they might deal with the book keeping and accounts, while the other partner might have a flare for sales and therefore be the main sales person for the business.

- **Decision Making** – Partners share the decision making and can help each other out when they need to. More partners means more brains that can be picked for business ideas and for the solving of problems that the business encounters.

(Any 3 points for 3 marks)

ii) Disadvantages of Partnership

- **Disagreements** – One of the most obvious disadvantages of partnership is the danger of disagreements between the partners. Obviously people are likely to have different ideas on how the business should be run, who should be doing what and what the best interests of the business are. This can lead to disagreements and disputes which might not only harm the business, but also the relationship of those involved. This is why it is always advisable to draft a deed of partnership during the formation period to ensure that everyone is aware of what procedures will be in place in case of disagreement and what will happen if the partnership is dissolved.

- **Agreement** – Because the partnership is jointly run, it is necessary that all the partners agree with things that are being done. This means that in some circumstances there are less freedoms with regards to the management of the business. Especially compared to sole traders. However, there is still more flexibility than with limited companies where the directors must bow to the will of the members (shareholders).

- **Liability** – Ordinary Partnerships are subject to unlimited liability, which means that each of the partners shares the liability and financial risks of the business. Which can be off putting for some people. This can be countered by the formation of a limited liability partnership, which benefits from the advantages of limited liability granted to limited companies, while still taking advantage of the flexibility of the partnership model.

- **Taxation** – One of the major disadvantages of partnership, taxation laws mean that partners must pay tax in the same way as sole traders, each submitting a Self-Assessment tax return each year. They are also required to register as self-employed with HM Revenue & Customs. The current laws mean that if the partnership (and the partners) bring in more than a certain level, then they are subject to greater levels of personal taxation than they would be in a limited company. This means that in most cases setting up a limited company would be more beneficial as the taxation laws are more favourable

- **Profit Sharing** – Partners share the profits equally. This can lead to inconsistency where one or more partners aren't putting a fair share of effort into the running or management of the business, but still reaping the rewards.

(Any 2 points for 2 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question delivered the most mixed performance with candidates recording either very high scores or very low scores. Some candidates struggled with the basic appropriation account and allocation of profit. The current account showed a less varied performance and overall candidates made reasonable attempts. In an effort to save time candidates should consider combining the current accounts into one account rather than showing three separate accounts. The capital account was well delivered.

The theory part about the advantages and disadvantages partnership was well done.

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.