MAY 2019 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. 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 below average and lower as compared to the previous sitting. This May 2019 sitting recorded a pass rate of 30% (refer to Appendix A, B and C for details). 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 questions 1 and 5. 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 for some candidates. 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 were 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.

. Some candidates either did not number their answers or miss-numbered them. This was the case on the cover page too.

QUESTION ONE

The trial balance below was extracted from the ledger of Nhyiraba Ltd as at 31 December 2018.

	GH¢'000	GH¢'000
Ordinary Share Capital		100,000
10% Preference Share Capital		50,000
9% Loan notes		60,000
General Reserve		46,400
Retained Earnings (1 January 2018)		15,300
Furniture & Equipment	26,800	
Land and Building	220,000	
Plant & Machinery at cost	85,000	
Motor vehicle at cost	45,000	
Accumulated depreciation – Building		30,000
Accumulated depreciation – Plant & Machinery		17,000
Accumulated depreciation – Motor vehicle		18,000
Accumulated depreciation – Furniture & Equipment		8,040
Inventories, 1 January 2018	24,000	
Accounts Receivable	242,000	
Provision for Doubtful Debt		4,840
Accounts Payable		201,460
Cash and Bank Balance	86,200	
Revenue		748,800
Purchases	440,075	
Carriage Inwards	16,200	
Salaries & Wages	56,600	
Rent & Rates	21,600	
Insurance	8,700	
Office Expenses	18,300	
Bad Debt	1,060	
Printing and Stationery	1,720	
Electricity & Water	4,500	
Interest Income		495
Repairs and Maintenance	2,580	
	1,300,335	**1,300,335**

The following additional information are provided:

i) Allowance is to be made for depreciation on the non-current assets on straight line method at the following rates:

Building	3%
Plant & Machinery	20%
Motor vehicle	20%
Furniture & Fittings	10%

ii) The value of land included in Land and Building is GH¢20,000,000.

iii) The following payments were made in advance:

Rent	GH¢4,320,000
Insurance	GH¢1,740,000

iv) One year interest is due on the loan notes.

v) Provision for doubtful debt is to be adjusted so that it is 3% of trade receivables.

vi) Allowance is to be made for audit fees of GH¢3,600,000.

vii) Directors' fees of GH¢4,500,000 were due at the year end.

viii) The cost of closing inventories at 31/12/2018 was GH¢43,740,000. However due to market recession the net realisable value of the goods is GH¢37,430,000.

ix) The directors have recommended transfer of GH¢20,000,000 to general reserve.

x) The year's preference dividend is to be provided for.

xi) Current year income tax charged was GH¢9,630,000.

xii) Authorised share capital comprise:
50,000,000 10% preference shares at GH¢1 each GH¢50,000,000.
250,000,000 ordinary shares at GH¢0.5 each GH¢100,000,000.

Required:
Prepare:

a) Nyhiraba Ltd's Statement of Profit or Loss account for the year end 31 December, 2018 and **(10 marks)**

b) Nhyiraba Ltd's Statement of Financial Position as at 31 December, 2018. **(10 marks)**

(Total: 20 marks)

QUESTION TWO

a) A bank reconciliation statement matches the cash balance on a company's cash book to the corresponding amount on its bank statement. Reconciling the two accounts helps determine if accounting changes are needed. Bank reconciliations are completed at regular intervals to ensure that the company's cash records are accurate. They also help detect fraud and any cash manipulations.

Required:
Identify **FOUR (4)** features of a bank reconciliation statement. **(4 marks)**

b) Nyantakyi Ltd (Nyantakyi) was preparing its reconciliation for the month of November 2018 and noted a difference between its bank statement balance and the balance on the bank account in its general ledger. The bank statement shows a balance of GH¢1,596 cash at bank. The balance on the bank account (cash book) in the general ledger was GH¢674(credit).

The following reasons accounted for the difference:

- Five cheques paid to suppliers have not yet been presented at the bank. These are:

Cheque No.	GH¢
120005	4,375
120006	2,282
120007	3,283
120008	854
120009	609
	11,403

- Cheque number 120005 was lost in the post and was cancelled. Nyantakyi have not yet recorded the cancellation of the cheque.
- Cheque number 120010 was incorrectly recorded in Nyantakyi's cash book as GH¢2,957. The cheque was correctly debited to the bank statement on 5 November 2018 as GH¢2,759.
- Bank Charges of GH¢2,681 was debited by the bank on 29 November 2018.
- A customer's cheque amounting to GH¢2,240 was returned by the bank in November as the customer had insufficient funds in his account. Nyantakyi is yet to record the returned cheque in their books.
- A deposit of GH¢5,950 entered in Nyantakyi's cash book on 30 November 2018 was credited on the bank statement on 3 December 2018.
- The bank has incorrectly credited Nyantakyi's account with an interest of GH¢1,540. This is interest on a deposit account held by the Managing Director personally. The bank had not corrected the error by 30 November 2018.

Required:

i) Prepare Nyantakyi's adjusted cash book including the necessary correcting entries as at 30 November 2018. (The answer format must clearly indicates whether each entry is a debit or credit) **(5 marks)**

ii) Prepare a reconciliation of the bank statement balance to agree with the cash book balance as at 30 November 2018. **(5 marks)**

c) The trial balance is an internal control check to confirm the arithmetic accuracy of the general ledger. Control accounts are impersonal accounts and part of the double-entry system. If the control accounts do not balance, then it is obvious that a mistake has taken place in the respective ledger.

Required:

i) With suitable explanations each, explain **TWO (2)** errors that can be detected by the trial balance. **(3 marks)**

ii) State **THREE (3)** reasons for having control accounts. **(3 marks)**

(Total: 20 marks)

QUESTION THREE

a) Identify, and briefly explain, the ***basic accounting principle*** which requires prepayments to be included in final accounts. **(3 marks)**

b) Briefly explain the purpose of ***depreciation charge*** in the statement of profit or loss. **(2 marks)**

c) A newly qualified Accountant has prepared draft accounts for a client for the year ended September 2018, but has not dealt with the adjustments for accrued expenses, prepaid expenses, irrecoverable debts, allowance for receivables and depreciation.
Below is the statement of financial position prepared by the newly qualified Accountant.

Draft statement of financial position as at 30 September 2018 (before adjustments)

Non-Current assets	**GH¢**	**GH¢**
Plant and Machinery (Cost)	875,000	
Accumulated Depreciation (at 1 October 2017)	(427,000)	
		448,000
Current Assets		
Inventory	211,695	
Trade receivables	747,055	
Cash and bank balance	31,400	990,150
		1,438,150
Proprietor's capital		1,005,350
Current Liabilities		
Trade payables		432,800
		1,438,150

The newly qualified Accountant has given the following information about the remaining adjustments:

- The last fixed bill paid for electricity covered three months period to 31 July 2018. The bill was GH¢34,350.
- Rent of GH¢142,500 for six months to December 2018 was paid in March 2018.

- The trade receivables figure of GH¢747,055 in the draft account is stated after deducting allowance for doubtful debts of GH¢39,500 from the total receivable balance of GH¢786,555.
- The trade receivable balance of GH¢786,555 includes a balance of GH¢3,300 which has been outstanding for 10 months. The client has decided to write this balance off his books.
- The policy of the client is to allow for receivables on the basis of the length of time the debt has been outstanding. The aged analysis of trade receivables as at 30 September 2018 and the required allowance is shown below:

Age of Debt		**Balance**	**Allowance required**
		GH¢	
0-30 days	First	626,375	Nil
31-60 days	Next	136,000	20% of balances
Over 60 days	Next	24,180	75% of balances
		786,555	

- Depreciation is to be provided at a rate of 20% per annum on reducing balance method.

Required:

Calculate the correct balances as at 30 September 2018 for each of the following:

i) Accrued expenses **(2 marks)**

ii) Prepaid expenses **(2 marks)**

iii) Allowance for receivables **(3 marks)**

iv) Accumulated Depreciation **(2 marks)**

v) Prepare a revised statement of financial position as at 30 September 2018. **(6 marks)**

(Total: 20 marks)

QUESTION FOUR

a) Mr. Preprah is a dealer in spare parts who has not kept proper books of accounts. As at 31 December 2017, the following balances were available:

Description of Assets	**GH¢**
Cash in hand	1,500
Cash at bank	15,000
Inventories	17,440
Trade receivables	8,540
Trade payables	9,520
Motor Vehicle (at valuation)	45,000
Furniture and Fittings	14,500

The following activities took place during 2018 accounting year.

- His drawings amounted to GH¢47,400. Wining from a lottery of GH¢5,000 was put into the business.
- He bought extra Furniture for GH¢2,000.
- Furniture and Fittings is to be depreciated at GH¢2,175 for the year.

- As at 31 December 2018 his assets and liabilities apart from Furniture and Fittings were as follows:

	GH¢
Cash in hand	1,000
Bank overdraft	12,000
Inventory	12,845
Trade receivables	5,750
Trade payables	5,290
Motor Vehicle to be valued at	40,000
Prepaid rent	10,000

Required:

i) Prepare the Statement of affairs for December 2017. **(2 marks)**

ii) Prepare the statement of financial position (showing the movements in retained earnings made by Mr Preprah) as at 31 December 2018. **(5 marks)**

b) ABC Ltd started business on 1/1/14, and its financial year ends on 31 December each year. It had the following Machinery as at December 2018.

	GH¢
• 2014 January 1, bought one machine costing	130,000
• 2015 June 30, bought one machine costing	780,000
• 2015 October 1, bought two machines costing	1,040,000 each
• 2017 April 1, bought one machine costing	520,000
• 2018 March 1, bought two machines costing	1,170,000 each

The company's policy is to depreciate assets at a rate of 15% per annum on a straight line basis proportionate to the date of purchase.

Required:

Prepare:

i) The assets accounts (2014-2018); **(4 marks)**

ii) Provision for depreciation account (2014-2018); and **(6 marks)**

iii) Statement of financial position extract for each year from 2014 to 2018. **(3 marks)**

(Total: 20 marks)

QUESTION FIVE

The conceptual framework for financial reporting sets out the concepts that underlie the preparation and presentation of financial statements for users. The objectives of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. Users of accounting information are classified into internal and external users

According to the Framework of IAS/IFRS, the underlying assumptions for the preparation of financial statements are accrual basis and going concern basis.

Required:

a) State **TWO (2)** internal users and **TWO (2)** external users of accounting information and their information needs. **(4 marks)**

b) Identify and explain **FOUR (4)** elements of financial statements. **(8 marks)**

c) Identify **FOUR (4)** benefits that financial statements provide to its users. **(4 marks)**

d) Explain what is meant by ***accrual basis of accounting.*** Illustrate your answer with a suitable example **(2 marks)**

e) Explain what is meant by ***going concern basis.*** **(2 marks)**

(Total: 20 marks)

QUESTION SIX

a) Mr. Alex Azugu, the managing director of Tojo Ltd has a number of specific queries in relation to Inventory and has asked you for advice in relation to ***IAS 2: Inventories***. As part of its overall inventory, Tojo Ltd has three items of inventories whose costs and Net Realisable Values (NRV) are as follows:

Inventory Items	**Item Cost (GH¢)**	**NRV (GH¢)**
1	72	80
2	56	48
3	92	96
	220	**224**

Required:

In the context of ***IAS 2: Inventories***, prepare a report for Mr. Alex Azugu on:

i) The closing value of each item of inventory and hence the total value of closing inventory for these items for Tojo Ltd at the year-end. **(2 marks)**

ii) The items that comprise inventory. **(2 marks)**

iii) **THREE (3)** examples of costs which are specifically excluded from the costs of inventories and instead are recognised as expenses in the period in which they are incurred. **(3 marks)**

iv) **THREE (3)** situations in which net realisable value is likely to be less than cost. **(3 marks)**

b) Davis Ltd's closing inventory as at 31 December 2018 is GH¢347,841. This includes GH¢4,640 for items accidentally destroyed on 31 December 2018 after the count was completed. Also included is GH¢2,980 which relates to the cost of inventory damaged in October 2018, which can be reworked at a cost of GH¢680 and which can then be sold for GH¢2,410.

Required:
Calculate the closing value of inventory at the year-end. **(4 marks)**

c) Danqua Ltd (Danqua) is in the process of finalising its financial statements for year ended 31 March 2019. The draft statements were completed on 14 April 2019, and the audit is currently in progress. The financial statements are expected to be approved by the board of directors on 15 May 2019, and published on 20 May 2019. The following matters have come to light during the audit and your advice is requested. No adjustment has yet been made for any of the following:

i) Closing inventory at 31 March 2019 includes 100 items carried at cost GH¢5,000 each. New safety regulations were announced on 5 April 2019 with immediate effect. The items of inventory do not comply with these regulations. As a result, the net realisable value of the inventory is only GH¢4,500 each.

ii) An investment in unquoted equity instruments was held by Danqua Ltd at 31 March 2019 at an amount of GH¢3.5 million. This was its fair value on 30 September 2018, the most recent reporting date. Due to the unavailability of professional valuers, an updated fair value was not available until 15 April 2019. On this date, the valuer provided an estimated fair value of GH¢2.8 million.

Required:
In each case (i) to (ii) above, prepare a briefing note advising on the accounting treatment and / or disclosures required as a result of the event(s) after the reporting date.

(6 marks)

(Total: 20 marks)

QUESTION SEVEN

Ayawaso Ltd operates a hotel in Accra and the following are its results for the last three years with its year end being 31 December.

	2016	**2017**	**2018**
Revenue increase / (decrease)	(5%)	4%	12%
Non-Current Assets increase / (decrease)	40%	10%	2%
Gross Profit	60%	61%	66%
Net Profit	23%	25%	21%
Return on Capital employed	12%	15%	10%
Current ratio	1.4:1	1.6:1	1.8:1
Acid ratio	0.6:1	1.0:1	0.9:1
Debt to equity ratio	50%	44%	43%
Dividend Cover	4 times	8 times	10 times

Required:

a) Using all of the above information, comment on the ***Gearing, Liquidity and Profitability*** of Ayawaso Ltd from 2016 to 2018. **(12 marks)**

b) Identify and explain **FIVE (5)** advantages of ratio analysis as a means of assessing the financial performance of a business. **(5 marks)**

c) State **THREE (3)** likely reasons for the significant change in non-current assets in 2016 and 2017. **(3 marks)**

(Total: 20 marks)

QUESTION ONE

Nhyiraba Ltd

a) Statement of profit and loss for the year ended 31/12/2018

	Notes	GH¢'000
Revenue		748,800
Cost Of Sales	1	(442,845)
Gross Profit		305,955
General & Administrative Expenses	2	(164,600)
Net Profit Before Taxation		141,355
Other Income		495
Profit Before Tax		141,850
Taxation		(9,630)
Net Profit After Tax		**132,220**

Note 1 Cost Of Sales	**GH¢'000**
Opening Inventories	24,000
Add Purchases	440,075
Carriage Inwards	16,200
	480,275
Less Closing Inventories	(37,430)
Cost Of Sales	442,845

Note 2 General & Administrative Expenses	**GH¢'000**
Salaries And Wages	56,600
Rent And Rates(21600-4320)	17,280
Insurance(8700-1740)	6,960
Office Expense	18,300
Bad Debt	1,060
Printing And Stationery	1,720
Electricity	4,500
Repairs And Maintenance	2,580
Depreciation	34,680
Finance Cost:	
Interest On Loan Notes	5,400
Preference Dividend	5,000
Provision For Bad Debt	2,420
Audit Fees	3,600
Directors Fees	4,500
	164,600

	Retain Earnings	General Reserves
	GH¢'000	**GH¢'000**
Balance B/F	15,300	46,400
Profit For The Year	132,220	-
Transfer	(20,000)	20,000
Balance C/F	**127,520**	**66,400**

(10 marks evenly spread using ticks)

b)

Statement of Financial Position as At 31/12/2018

		GH¢'000
Non-Current Assets	1	269,080
Current Assets		
Trade Receivables(242,000-7,260)		234,740
Other Receivables & Prepayments	2	6,060
Inventories		37,430
Cash And Bank Balance		86,200
Total Current Assets		364,430
Total Assets		**633,510**
Current Liabilities		
Trade Payables		201,460
Other Payables And Accrual	3	18,500
Taxation		9,630
Total Current Liabilities		229,590
Long Term Liabilites		
9% Loan Notes		60,000
Equity		
Ordinary Shares		100,000
10% Preference Shares		50,000
General Reserves		66,400
Retain Earnings		127,520
Total Equity		343,920
Total Liabilities And Equity		**633,510**

Note 1 Non-Current Assets

	Land	Building	Plant And Machinery	Motor Vehicle	Furniture & Equipment	Total
	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Cost						
At 1/1/18	20,000	200,000	85,000	45,000	26,800	376,800
Additions	-	-	-	-	-	-
At 31/12/1/	20,000	200,000	85,000	45,000	26,800	376,800
Depreciation						
At 1/1/18		30,000	17,000	18,000	8,040	73,040
Charge For The Year		6,000	17,000	9,000	2,680	34,680
At 31/12/18	-	36,000	34,000	27,000	10,720	107,720
Rate		3%	20%	20%	10%	
Net Book Value						
At 31/12/2018	**20,000**	**164,000**	**51,000**	**18,000**	**16,080**	**269,080**
At 31/12/2017	**20,000**	**170,000**	**68,000**	**27,000**	**18,760**	**303,760**

Note 2 Other Receivables	**GH¢'000**
Rent Prepaid	4,320
Prepaid Insurance	1,740
	6,060

Note 3 Other Payables And Accrual	**GH¢'000**
Audit Fees	3,600
Loan Notes	5,400
Directors Fees	4,500
Preference Dividend	5,000
	18,500

(10 marks evenly spread using ticks)
(Total: 20 marks)

EXAMINER'S COMMENTS

The part (a) of the question asked candidates to prepare a statement of Profit or Loss account and the Part (b) asked candidates to prepare a Statement of Financial Position. Some candidates did not follow the appropriate way in preparing the statement of profit or loss account. Some of them were not able to control the adjustments very well and for that matter got wrong figures in the profit or loss account. A number of candidates were not able to ascertain the correct figure of the cost sales. Poor format for the financial statements. Depreciation calculations were generally well handled. Some candidates omitted some adjustments.

QUESTION TWO

a) Features of bank reconciliation statement

- It is not part of books of accounts.
- It is prepared periodically depending on the volume of transactions. It could be weekly, monthly or quarterly.
- It's meant for transactions which affect both bank accounts in the books of the company (cash book) and its bank statements.
- **Company Prepares the Statement**
  The first and foremost feature of this statement is that it is the company which prepares this statement and bank has no role to play in this exercise and the only thing which company needs while preparing this statement is the bank account statement from the bank.
- **Starting Point is Important**
  The starting point is important as far as this statement is concerned because if company starts with balance as per cash book of the company than treatment of various items like interest credited by the bank, cash deposits made in the bank directly, cheques issued but not presented for payment will be different as opposed to that treatment if the starting point is the balance in bank account statement of the company.
- **Not Compulsory**
  Unlike financial statements like balance sheet and profit and loss account which are compulsory to prepare a bank reconciliation statement is not compulsory as no law requires a company to prepare this statement. This statement is basically prepared for the convenience of the company and also for early fraud detection as the majority of fraud involves bank account and if the company can put check and balance in the bank account then a company can save itself from any major fraud.

(4 points for 4 marks)

b)

i)

BANK ACCOUNT IN GENERAL LEDGER(CASH BOOK)					
		GH¢			**GH¢**
Error In Recoding Cheq(2)		198	Opening Balance		674
Cancelled Cheque(1)		4,375	Bank Charges(3)		2,681
			Return Cheque(4)		2,240
Closing Balance		1,022			
		5,595			**5,595**

(5 marks)

ii)

Nyantakyi
Bank Reconcilation Statement For November 2018

		GH¢	**GH¢**
Balance Per Bank Statement			1,596
Less :			
Unpresented Cheques	(11403-4375)(1)	7,028	
Interest Incorrectly Credited (6)		1,540	(8,568)
			(6,972)
Outstanding Deposit(5)			5,950
Balance Per Cash Book			(1,022)

(5 marks)

c)

i) Errors that can be detected by the trial balance are:

- Transposition
  A transposition error is a simple error of data entry that occurs when two digits that are either individual or part of a larger sequence of numbers are accidentally reversed when posting a transaction. If one is reversed and the other is correct.
- Omission (if it's one sided)
- Commission (If one sided, or two debit entries are made)

(2 errors explained @1.5 marks each = 3 marks)

ii) Reasons for having control accounts

- They provided a check on the accuracy of entries made in the personal accounts in the receivables and payables ledger.
- Control accounts also assist in the location of errors.
- Where there is a separation of clerical duties, the control account provides an internal check.

(3 points for 3 marks)
(Total: 20 marks)

EXAMINER’S COMMENTS

The part (a) required Candidates to identify four (4) features of bank reconciliation statement. Part (b) (i) required Candidates to prepare adjusted cash book including the necessary correcting entries. The (b) (ii) required for the preparation of the bank statement balance to agree with the cash book balance. The (c) required candidates with suitable explanations each explain two (2) errors that can be detected by the trial balance. The last part of the question required candidates to state three (3) reasons for having control accounts.

Majority of candidates did not have any knowledge about the features of bank reconciliation statement. They therefore lost all the marks allocated for this question.
Most candidates were able to prepare the adjusted cash book and the bank reconciliation statement. Some of the Candidates were confused in the preparation of the bank reconciliation statement.
The (c) part was well tackled by candidates.

QUESTION THREE

a) The accruals or matching concept requires that the revenue earned in a period is matched with the expenses incurred in earning that profit. Therefore if a payment includes a prepayment for the following period, this must be excluded from expenses in the statement of profit or loss. In other words, cost are recognised on the basis of the period covered by those costs, not by the timing of the payment. **(3 marks)**

b) Depreciation is a way of charging for the use of an asset in earning the current period's profits. It spreads the cost of a non-current assets over its useful life. This is an example of accrual or matching concept. **(2 marks)**

c)

i) Accrued Expenses

Electricity (2/3 *34,350) = 22,900 **(2 marks)**

ii) Prepayment

Rent (3/6 *142,500) = 71,250 **(2 marks)**

iii) Allowance for receivables

	Balance	Allowance required
	GH¢	GH¢
31-60 days	136,000 *20%	27,200
Over 60 days	24,180	
Irrecoverable debt	(3,300)	
	20,880 * 75%	15,660
Allowance required		42,860
Existing allowance		39,500
Increase in allowance		**3,360**

(3 marks)

iv) Accumulated Depreciation

Balance as at October 2017	427,000
Charge for the year (448,000* 20%)	89,600
	516,600

(2 marks)

v)

Statement of financial position	**GH¢**	**GH¢**
Non-Current Assets		875,000
Plant and Machinery (cost)		(516,600)
		358,400
Current Assets		
Inventory	211,695	
Trade receivables (WK 1)	740,395	
Prepaid rent (a ii)	71,250	
Cash and bank balance	31,400	1,054,740
		1,413,140

Capital (WK 2)		957,440
Current Liabilities		
Trade payables	432,800	
Accruals (c i)	22,900	455,700
		1,413,140

Workings	**GH¢**	**GH¢**
Trade receivables		
Receivables		747,055
Irrecoverable debt		3,300
Increase in allowance		3,360
		740,395
Capital		
Capital b/f		1,005,350
Less:		
Accrued Electricity	22,900	
Irrecoverable debt	3,300	
Depreciation Charge	89,600	
Increase in allowance	3,360	(119,160)
		886,190
Add Prepaid rent		71,250
		957,440

(6 marks evenly spread using ticks)
(Total: 20 marks)

EXAMINER'S COMMENTS

Part (a) required Candidates to identify and briefly explain the basic accounting principle which requires prepayments to be included in final accounts.

Part (b) required Candidates to briefly explain the purpose of depreciation charge in the statement of profit or loss.

Part (c) required Candidates to calculate the balances for each of the following: Accrued expenses (ii) Prepaid expenses (iii) Allowance for receivables (iv) Accumulated Depreciation (v) A revised statement of financial position.

The approach to this question by candidates was good as most of the candidates scored very good marks.

QUESTION FOUR

a)

i)Statement of Affairs as at December 2017

	Debit	Credit
	GH¢	**GH¢**
Motor vehicle	45,000	
Furniture and Fittings	14,500	
Inventory	17,440	
Debtors	8,540	
Bank balance	15,000	
Cash balance	1,500	
Creditors		9,520
Capital(Balancing figure)		92,460
Total	**101,980**	**101,980**

(2 marks)

ii)

Statement of financial position as at December 31 2018

	Debit	Credit
	GH¢	**GH¢**
Motor vehicle	40,000	
Furniture and Fittings	14,325	
Inventory	12,845	
Debtors	5,750	
Bank balance		12,000
Prepaid rent	10,000	
Cash balance	1,000	
Creditors		5,290
Capital		66,630
Total	**83,920**	**83,920**

Workings to show profit

Capital b/f	92,460
Drawings	(47,400)
Winnings	5,000
Profit(balancing figure)	16,570
Closing capital	**66,630**

(5 marks evenly spread using ticks)

b)

ABC LIMITED			**ABC LIMITED**		
MACHINERY ACCOUNT			**DEPRECIATION ACCOUNT**		
	2014	**GH¢**		**GH¢**	**GH¢**
01/01/2014	Balance b/f	-	Balance b/f	-	
01/01/2014	Purchases	130,000	Charge	19,500	
31/12/2014	Balance c/f	130,000	Balance c/f	19,500	
	2015				
01/01/2015	Balance b/f	130,000	Balance b/f	19,500	
30/06/2015	Purchases	780,000	Charge	156,000	
01/10/2015	Purchases	2,080,000	Balance c/f	175,500	
31/12/2015	Balance c/f	2,990,000			
	2016				
01/01/2016	Balance b/f	2,990,000	Balance b/f	175,500	
31/12/2016	Balance c/f	2,990,000	Charge	448,500	
			Balance c/f	624,000	
	2017				
01/01/2017	Balance b/f	2,990,000	Balance b/f	624,000	
01/04/2017	Purchases	520,000	Charge	507,000	
31/12/2017	Balance c/f	3,510,000	Balance c/f	1,131,000	
	2018				
01/01/2018	Balance b/f	3,510,000	Balance b/f	1,131,000	
01/03/2018	Purchases	2,340,000	Charge	819,000	
31/12/2018	Balance c/f	5,850,000	Balance c/f	1,950,000	

Workings for PPE					
Property , Plant and Equipment					
	2014	2015	2016	2017	2018
Cost					
01/01	-	130,000	2,990,000	2,990,000	3,510,000
Additions	130,000	2,860,000	-	520,000	2,340,000
31/12/	130,000	2,990,000	2,990,000	3,510,000	5,850,000
Depreciation					
01/01/	-	19,500	175,500	624,000	1,131,000
Charge	19,500	156,000	448,500	507,000	819,000
31/12/	19,500	175,500	624,000	1,131,000	1,950,000
Net book value	110,500	2,814,500	2,366,000	2,379,000	3,900,000
Statement of financial position extract					
	2014	2015	2016	2017	2018
Machinery	**110,500**	**2,814,500**	**2,366,000**	**2,379,000**	**3,900,000**

(13 marks evenly spread using ticks)

(Total: 20 marks)

EXAMINER'S COMMENTS
The Part (a) (i) asked the Candidates to prepare the statement of affairs and (ii) prepare the statement of financial position and the movements in retained earnings.
Part (b) required Candidates to prepare (i) the assets accounts (ii) provision for depreciation account (iii) statement of financial position extracts.
The (a) part of this question was well handled by most of the Candidates however the (b) part was not handled like the (a) part. Some of the Candidates were able to handle asset and depreciation accounts very well, likewise the financial position extracts.

QUESTION FIVE

a)

i) Internal users of accounting information

- **Management-** Need accounting information(Mgt a/c) to ensure that the different functional areas of the organisation are working together as a corporate body to achieve overall objectives of the organisation rather than their own individual objectives
- **Employees**-interest lies in seeing that the company keeps on operating (job security), also they want to know if the company is being fair to them ie they are getting a reasonable share of the profit their effort is generating.
- **Trade Unions**- They used the published accounts to decide when to press management for better remuneration and improved condition of service

(2 points for 2 marks)

External Users

- **Shareholders**- Two kinds of needs - stewardship(how their funds is being used) and investment (when to buy more shares or sell off their shares)
- **Bankers-** Assess the liquidity of the company.
- **Creditors-** Interested in the liquidity of the company to help them assess if the company will be able to pay them as and when their liability falls due.
- **Government agencies-GRA**- For statutory obligation purposes like payment of corporate taxes.
- **Stock Market**-Regulate the companies and so are interested in their financials.
- **General Public**

(2 points for 2 marks)

b) **The elements of financial statements are:**

- **Asset.** An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. **(2 marks)**
- **Liability.** A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. **(2 marks)**
- **Equity.** Equity is the residual interest in the assets of the entity after deducting all its liabilities. **(2 marks)**
- **Income.** Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. **(2 marks)**
- **Expense.** Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that

result in decreases in equity, other than those relating to distributions to equity participants. **(2 marks)**

(Any 4 points @ 2 marks each = 8 marks)

c) **Possible benefits of financial statements to users of financial statements include the provision of information**;

- To allow decisions to be made for the good of the company on the value of shareholders investments and the income they derive from their shareholding.
- To allow employees to look for alternative work in a different company, or look for pay increases and promotions based on the financial health of the company.
- To allow trade payables and banks to identify if the company can meets it financial obligations and commitments to them.
- To government agencies like revenue Commissioners and Central statistics office.
- To allow accountants audit or prepare tax returns on behalf of the company.

(Any 4 points for 4 marks)

d) **Accrual accounting basis:** Financial statements are prepared on the basis of recording income and expenditure when they are incurred and not when they are paid for. Expenses should always match the income that generates them. Example prepayments and accruals. **(2 marks)**

e) **Going concern:** Financial statement should be prepared on the basis that the entity will continue for the foreseeable future. Example inventory is valued at lower of cost or net realisable value. **(2 marks)**

(Total: 20 marks)

EXAMINER'S COMMENTS

The part (a) asked Candidates to state two (2) internal users and two (2) external users of accounting information and their information needs.
Part (b) asked Candidates to identify and explain four (4) elements of financial statements.
Part (c) asked the Candidates to identify four (4) benefits that financial statements provide for its users.
Part (d) asked the Candidates to explain what is meant by accrual basis of accounting.
Part (e) asked the Candidates to explain what is meant by going concern basis.
This question was very well handled by almost all the candidates and they scored good marks.

QUESTION SIX

REPORT
To: Mr. Alex Azugu, managing director – Tojo limited
From: future financial Accountant
Re: IAS 2 – Inventories
Date: May 2019

a)

i) The comparison should be made for each item of inventory and thus a value of GH¢212 would be attributed to inventories i.e.

Item	Cost - GH¢	NRV - GH¢	Lower of Cost/NRV - GH¢
1	72	80	72
2	56	48	48
3	92	96	92
	220	224	**212**

(2 marks)

ii) Inventories per IAS 2 comprise

- Merchandise
- Production supplies
- Materials
- Work in Progress
- Finished goods

(Any 4 points @ 0.5 marks each = 2 marks)

iii) (Paragraph 16 of IAS 2 outlines examples of costs which are excluded from the cost of inventories and instead recognised as expenses in the period in which they are incurred i.e.

- Abnormal amounts of wasted materials, labour or other production costs;
- storage costs unless these costs are necessary in the production process before a further production stage;
- Administrative overheads that do not contribute to bringing inventories to their present location and condition; and selling costs.

(3 points for 3 marks)

iv) The principal situations in which net realisable value is likely to be less than cost is where there has been;

- An increase in costs or a fall in selling price
- Physical deterioration of inventories
- Obsolescence of products
- A decision as part of a company's marketing strategy to manufacture and sell products at a loss due to errors in production or purchasing.

(Any 3 points for 3 marks)

Yours sincerely,
Financial Accountant

b) Closing value of inventory at the year-end 31 December 2018

	GH¢	GH¢
Working - Closing Inventory		
Total Inventories at Cost per Inventory Count		347,841
Accidentally Destroyed Inventory		(4,640)
Damaged Inventories - Cost	2,980	
NRV - Selling Price less costs to sell (2,410 - 680)	(1,730)	
Inventory Write Down		1,250
Value of Closing Inventories		**341,951**

(3 marks evenly spread using ticks)

	GH¢	GH¢
Dr. Inventory + Current Assets SOFP	341,951	
Cr. Closing Inventory - Cost of Sales SOPL & OCI		341,951

(1 mark)

c)

i) It would appear that the event causing the loss in value only occurred after the reporting date. There was no condition existing at the reporting date. Had we sold the goods at the reporting date we would have obtained full price for them. Hence this is a non-adjusting event. If the loss is material, disclosure of the event should be made in the notes to the financial statements. **(3 marks)**

ii) Unless it is clear that a particular event between 31 March and 15 April 2019 caused the drop in the value of this investment, it should be assumed that the investment had in fact lost value on 31 March 2019, and the subsequent valuation only provided evidence of this. Hence, the receipt of the valuation is an adjusting event, and the investment should be written down at the reporting date. **(3 marks)**

(Total: 20 marks)

EXAMINER'S COMMENTS

In Part (a) of this question Candidates were required in the context of IAS 2 on inventories to prepare a report:

(i)The closing value of each item of inventory and hence the total value of closing inventory at the year end.

(ii)The items that comprise inventory

(iii)Three (3) example of costs which are specifically excluded from the cost of inventories and instead are recognised as expenses in the period in which they are incurred.

(iv)Three (3) situations in which net realisable value is likely to be less than cost.

Part (b) required Candidates to calculate the closing value of inventory from a set of records,

Part (c) required Candidates to prepare a briefing note advising on the accounting treatment and /or disclosures required as a result of the event(s) after the reporting date.

This question was certainly the worst answered question on the paper and the candidates who attempted it scored very low marks.

QUESTION SEVEN:

a) **Commentary on Performance of Ayawaso Ltd from 2016 to 2018**

Profitability of Ayawaso

- **Revenue increase / (decrease)**
  The decrease and increase in Ayawaso limited revenue appears to be in line with how the hotel sector has performed in the recession and coming out of the recession in 2017. The hotel sector in Accra has shown a noticeable improvement in revenue in 2018 so Ayawaso limited has displayed a decent performance with its revenue over the period.

- **Non-Current Assets increase / (decrease)**
  Ayawaso limited appears to have carried out a sizeable capital improvement programme in 2016 with some residue of this spend rolling over to 2017. The 2018 spend is small and is consistent with the hotel not needing much capital spend given the refurbishment in 2016 and 2017.

- **Gross Profit Percentage**
  A good performance by Ayawaso limited in capitalising on improving market conditions in 2018 by increasing its rates and thereby increasing its gross margin. Again the results are in line with the hotel sector in Accra.

- **Net Profit Percentage**
  Ayawaso limited performed poorly in this ratio. As Accra gradually came out of recession in 2017, Ayawaso limited net profit percentage increased and showed the hotel was performing well. However, there has been a sizeable decrease in the net profit percentage from 2017 to 2018 which is very disappointing especially in light of the increase in the gross profit percentage. This is an area that the hotel management and shareholders needs to examine closely to identify and correct the reasons for the decrease in net profit percentage from 2017 to 2018.

- **Return on Capital Employed**
  Again a disappointing return and the decrease in profit is the significant reason for the decrease in the ratio. Underneath the line, the capital employed would have increased year on year which would also help to decrease the ratio but the change in profit from 2017 to 2018 has been the main driver for the decrease in the ratio from 2017 to 2018.

(4 points @1.5 marks each= 6 marks)

Liquidity of Ayawaso Ltd

- **Current Ratio**
  The company has struggled with this ratio particularly in 2016 and 2017 but it is improving and 2018 is getting closer to the norm of 2:1. Overall, the result from 2016 to 2018 has been decent and continued focus on this ratio can ensure that it gets to a satisfactory level in the years ahead.

- **Acid Ratio**
  Again this ratio has improved from 2016 to 2018 but it is disappointing to see that it decreased from the 2017 level. Therefore, management need to find the reasons for the decrease and work to ensure that it gets back to the norm of 1:1 at a minimum. The 2016 ratio shows that the hotel was carrying a sizeable quantity of inventory which then decreased in 2017 and increased again in 2018. This is surprisingly high for a hotel and needs serious investigation as normally inventory would not be at this level in a hotel.

(2 points @ 2 marks each = 4 marks)

Gearing of Ayawaso Ltd

- **Debt to Equity Ratio**
  It is pleasing to note the improvement in this ratio from 2016 to 2018 as the company has paid down its debt and improved its reserves. The decrease has slowed down in 2018 which is probably due to decreased profits leading to decreased cash flow to pay back debt as well as the company trying to improve its current ratio by holding on to more of its cash.

- **Dividend Cover**
  This ratio is going in the right direction as increased profits due to higher revenue are helping to increase the cover. It also appears as if a decision was made to reduce the amount of the dividend and leave more of the profit in the hotel to be used for future investment. Management need to ensure that the shareholders are happy with the decrease in the level of the dividend given the increased profits despite lower profit margins, the hotel is enjoying. Overall, the hotel is performing well with management's main focus to ensure that inventory levels are reduced to hotel norms and to remedy the decrease in net profits for 2018 while ensuring that the hotel improves its ratios overall due to a more buoyant hotel market existing in Accra.

(2 points @ 2 marks each = 2 marks)

b) Advantages of ratio

- **Comparison**
  Financial ratios provide a standardised method with which to compare companies and industries. Ratios can put all companies on a relatively equal playing field in the eyes of analysts; companies are judged on their performance rather than their size, sales volume or market share.
- **Industry Analysis**
  Ratios can reveal trends in particular industries, creating benchmarks against which the performance of all industry players can be measured thus providing valuable information to users, shareholders, trade payables, banks.
- **Stock/ Shares Valuation**
  Ratios help investors and analysts to evaluate the strengths and weaknesses of individual companies or industries and allow them to highlight companies to invest in or to avoid investing in.

- **Planning and Performance**
  Ratios can provide guidance to entrepreneurs when creating business plans or preparing presentations for lenders and investors. Ratios can also serve as an impetus for strategic change within an organisation, providing management with relevant guidance and feedback as ratio valuations shift in response to organisational changes. Ratios help to ensure managers perform by revealing financial weaknesses and opportunities.
- **Simplicity**
  It highlights important information in simple formats. A user can judge a company by just looking at a small amount of numbers instead of reading the whole financial statements.

(5 points well explained for 5 marks)

c) Reasons for significant change in Non-current assets
- Revaluation of fixed assets
- Additional investment in fixed assets
- Non-replacement of existing assets
- Non-disposal of existing assets

(3 points for 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS
The part (a) of this question required Candidates to comment on the Gearing, Liquidity and Profitability.
The part (b) required the Candidates to identify and explain five (5) advantages of ratio analysis as a means of assessing the financial performance.
The part (c) asked Candidates to state three (3) likely reasons for the significant change in non-current assets.
This question was reasonably well answered with most candidates achieving close to or above the pass mark.

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.