

SOLUTION 1

(a) The elements of a financial statement are:

- Assets
- Liabilities
- Equity
- Income
- Expenses

An asset is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. Examples of assets are Property, Plant and Equipment, Inventory, Receivables, Bank and Cash.

A liability is a present obligation of an entity arising from past events. The settlements of which is expected to result in an outflow from the entity of resources embodying economic benefits. Examples of liabilities are Payables, Bank loans etc.

Equity is the residual interest in the asset of the entity after deducting all its liabilities.

Income encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent.

Expense encompasses losses as well as those expenses that arise in the course of ordinary activities of the entity. Expenses that arise in the course of ordinary activities of the entity include for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash equivalent, inventory, property, plant and equipment.

(b) The purpose 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 decision.

Financial Statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions; these decisions may include for example, whether to hold or sell their investment in the entity or whether to reappoint or replace the management.

(c) The components of a set of Financial Statements are:

- (i) Statement of Financial Statement
- (ii) Statement of Comprehensive income
- (iii) Statement of changes in equity
- (iv) Statement of cash flows
- (v) Notes

SOLUTION 2

Statement of Accumulated Funds

	GH¢	GH¢
Club pavilion	9,600	
Bar stock	3,500	
Subscription due	920	
Petty cash float	60	
Current accounts	900	
Deposit accounts	<u>1,400</u>	
		16,380
Less		
Subscription in advance	80	
Bar creditors	<u>1,700</u>	
		<u>1,780</u>
		<u>14,600</u>

Achimota Golf Club

Income and Expenditure Accounts for the year ended 31/12/2011

	GH¢	GH¢
<u>Income</u>		
Subscription	18,950	
Bar profit	3,860	
Matches collections	20,560	
Interest on deposits	<u>960</u>	
		44,330
<u>Expenditure</u>		
Salary	5,400	
Rent	3,680	
Repairs	850	
Postal expenses	180	
Equipment	1,000	
Transport	5,740	
Printing & stationery	1,120	
Depreciation		
25% x 8,800	2,200	
Club		<u>21,770</u>
Dep. Pavilion	<u>1,600</u>	
Surplus		<u>22,560</u>

Achimota Golf Club
Statement of financial position as at 31/12/2011

	GH¢	GH¢
<u>Non-current asset</u>		
Club pavilion		8,000
Cash register	8,800	
Less depreciation	<u>2,200</u>	<u>6,600</u>
		14,600
 <u>Current assets</u>		
Bar stock	1,920	
Subscription due	1,440	
Petty cash float	30	
Deposit account	8,500	
Bank savings account	<u>14,600</u>	
	26,490	
 <u>Current liabilities</u>		
Bar creditors	3,820	
Sub. in advance	<u>110</u>	<u>3,930</u>
		<u>22,560</u>
		<u>37,160</u>
 <u>Financed by</u>		
Accumulated funds		14,600
Surplus		<u>22,560</u>
		<u>37,160</u>

Determination of Bar Profit

Bar Trading Account

			GH¢
Bar takings			31,020
Less: Cost of sales			
Opening stock	3,500		
Add purchases	<u>25,580</u>		
		29,080	
Less Closing stock	<u>1,920</u>		
Cost of sales	27,160		<u>27,160</u>
			<u>3,860</u>

Subscription Account

				Bal b/d	80
				Bank	18,460
				Bal c/d	<u>1,440</u>
					<u>19,980</u>
		Bal c/d	920		
		I & E	18,950		
		Bal c/d	<u>110</u>		
			<u>19,980</u>		

SOLUTION 3

- (a) (i) A control is a summary-level account in the general ledger. The control contains aggregated totals for transactions that are individually stored in subsidiary ledger accounts. Control accounts are most commonly used for accounts receivable and accounts payable since these areas contain a large volume of transactions, and so need to be separated into subsidiary ledgers rather than cluttering up the general ledger with too much detailed information. The balance in a control account should match the total for the related subsidiary ledger. If the balance does not match, it is possible that a journal entry was made to the control account that was not also made in the subsidiary ledger.

(ii) The Purpose of Control Accounts

1. Check on the accuracy

They provide a check on the accuracy of entries made in the personal accounts in the sales ledger and purchase ledger. It is very easy to make a mistake in posting entries because there might be hundreds of entries to make. Figures might get transposed. Some entries might be omitted altogether, so that an invoice or a payment transaction does not appear in a personal account as it should. By comparing: the total balance on the debtors account with the total of individual balances on the personal accounts in the sales ledger. The total balance on the creditors account with the total of individual balances on the personal accounts in the purchase ledger. It is possible to identify the fact that errors have been made.

2. Location of errors

It could also assist in the location of errors where posting to the control are made daily or weekly or even monthly. If a clerk fails to record an invoice or a payment in a personal account, or makes a transaction error, it would be a formidable task to locate the errors at the end of a year, say, given the hundreds or thousands of transactions during the year.

By using the control account, a comparison with the total of individual balances on the personal accounts in the purchase ledger. It is possible to identify the fact that errors have been made.

3. For internal check

Where there is a separation of clerical bookkeeping duties, the control account provides an internal check. The person posting entries to the accounts will act as check on a different person whose job it is to post entries to the sales and purchase ledger accounts.

4. More simply and quickly

To provide debtors and creditors balances more quickly for producing a trial balance or balance sheet. A single balance on a control account is obviously expected simpler and quickly than many individual balances in the sales or purchases ledger.

This means also that the number of accounts in the double entry bookkeeping system can be kept down to a manageable size, since the personal accounts are memorandum accounts only and the control accounts instead provide the accounts required for a double entry system.

SOLUTION: FINANCIAL ACCOUNTING FUNDAMENTAL, NOVEMBER, 2014

(b) Agogo Brothers Enterprise
Sales Ledger Control Account

	GHC		GHC
Bal. b/d	18,000	Account received	34,000
Sales journal	40,000	Discount allowed	1,000
		Set-off	500
Bal. c/d	<u>2,000</u>	Bal. c/d	<u>24,500</u>
	<u>60,000</u>		<u>60,000</u>
Bal. b/d	24,500	Bal. b/d	2,000

SOLUTION 4

(a)

KOFI AGBOLA

		GHC
(i) Calculation of Turnover:	Sales	688,560
	Less Returns	<u>7,600</u>
		<u>680,960</u>

(ii) Cost of Goods sold: = $(\frac{3}{4} \times 680,960)$ = 510,720

(iii) Purchases:

Cost of Goods sold

Opening stock	27,560
Add purchases	<u>519,440</u>
Goods available	547,600
Less closing stock	<u>36,280</u>
Cost of sales ($\frac{3}{4} \times 680,960$)	<u>510,720</u>

(iv) Rate of stock turnover

$$\begin{aligned} \frac{\text{Cost of sales}}{\text{Average stock}} &= \frac{510,720}{(36,280 + 27,560)/2} \\ &= \frac{510,720}{31,920} \\ &= \underline{\underline{16 \text{ times}}} \end{aligned}$$

(b)

$$\begin{aligned}
 \text{(i) Sales} &= \text{cost of sales + gross profit} \\
 &= 180,000 + 1/9 (180,000) \\
 &= 180,000 + 20,000 \\
 &= \underline{\underline{\text{GH}\text{c}200,000}}
 \end{aligned}$$

$$\begin{aligned}
 \text{(ii) Purchases} &= \text{cost of goods available for sales – opening stock} \\
 &= 227,000 – 7,000 \\
 &= \underline{\underline{\text{GH}\text{c}220,000}}
 \end{aligned}$$

$$\begin{aligned}
 \text{(iii) Closing stock} &= \text{cost of goods available for sale – cost of goods sold} \\
 &= 227,000 – 180,000 \\
 &= \underline{\underline{\text{GH}\text{c}47,000}}
 \end{aligned}$$

$$\begin{aligned}
 \text{(iv) Total revenue expenses} &= \text{gross profit – net profit} \\
 &= 20,000 – 8,000 \\
 &= \underline{\underline{\text{GH}\text{c}12,000}}
 \end{aligned}$$

(v) Total value of current assets

$$\begin{aligned}
 \text{Current ratio} &= 4:1 \\
 \text{Net current asset} &= 9,000 \\
 \frac{\text{Current asset}}{\text{Current liabilities}} &= \frac{x}{1,600 + 1,400} \\
 &= \frac{x}{3,000} \\
 &= 3,000 \times 4 = \underline{\underline{\text{GH}\text{c}12,000}}
 \end{aligned}$$

$$\begin{aligned}
 \text{OR} \quad \text{Current asset} &= 4 \\
 \text{Current liabilities} &= 1 \\
 \text{Net current asset} &= 9,000
 \end{aligned}$$

$$\text{Current asset – current liabilities} = 9,000$$

$$4 - 1 = 9,000$$

$$\text{If } 3 = 9,000$$

$$4 = \frac{9,000 \times 4}{3} = \underline{\underline{\text{GH}\text{c}12,000}}$$

$$\begin{aligned}
 \text{(vi) Capital : Net book value of non-current assets} &= 163,000 \\
 \text{Net current assets} &= \underline{\underline{9,000}} \\
 &= \underline{\underline{172,000}}
 \end{aligned}$$

SOLUTION 5

(a) A trial balance is a list of balances extracted from the ledger accounts at a given date, arranged according to whether they are debit balances or credit balances. The total of the debit and credit balances should agree if the double entry rules have been properly followed.

Uses

- To check the arithmetical accuracy of entries in the ledger accounts
- To detect such errors of posting that can easily be identified by the trial balance
- To facilitate easy preparation of the final accounts

(b)

Sam Enterprise
Journal Entries

	DR GH¢	CR GH¢
(i) Suspense account	520	
<u>Sales account</u>		520
(ii) Discounts allowed account	250	
<u>Suspense account</u>		250
(iii) Discounts allowed account	240	
<u>Suspense account</u>		240
(iv) E. Acquah (Debtors) account	100	
<u>Suspense account</u>		100
(v) Suspense account	250	
W. Akuffo account		250