

QUESTION 1

(a) Good accounting information must have the following characteristics:

1. Relevance

Accounting information is relevant if it has the ability to influence the economic decisions of users and is provided in time to influence those decisions. Information that is relevant has both predictive value and confirmatory value. Relevance implies the following:

- Timeliness
- Completeness
- Appropriateness and suitability to user objective.

2. Reliability

Accounting information is reliable if it is free from material errors, it is complete and faithfully represents what it purports to represent. Reliability implies reasonable accuracy.

3. Comparability

Accounting information should permit meaningful comparison between one period and as well as between one enterprise and another. The principle of comparability requires that consistent methods are applied over time and among different. It also requires full disclosure of material information.

4. Understandability

Users of accounting information need to be able to perceive the significance and implication of information. Information must be understandable before it can be useful.

(b) There are various stakeholder groups that need financial information. Below is a list of some users of financial statements and their needs.

i. Equity investors- existing and potential.

These categories of users are the owners of the business enterprises and they require information on:

- Returns on investments such as earnings yield, dividends yield etc.
- Stewardship of management; that is management conduct in the use of resources.
- The long term stability and solvency of the enterprise.

ii. Lenders- existing and potential.

These are stakeholders who have lent resources to an enterprise, e.g. lending financial institutions, etc. lenders generally will require information on the following areas of performance;

- The generality of the enterprise and its ability to repay debts when due.
- Nature of assets to be used as securing for debt.
- Profitability of projects for lending that is tied to specific projects and the repayments of which depends on the projects outcome.
- The level of financial gearing.

iii. Employees- past, existing and potential;

These categories of users are those who have been employed by the enterprise. Such stakeholders may require information that reflects the following:

- Job security (financial stability and level of gearing)
- Viability of pension plans and schemes.
- Conditions of service and remuneration.
- The performance of employees (variable reports).

iv. Government- government is an interested party through various agencies such as:

- a. Tax authorities- assessment of taxable income and liabilities.
- b. Local authorities- rate assessment and determination.
- c. Regulatory bodies- bodies concerned with the regulation o commerce and industry need information reflecting whether or not business enterprises have complied with policy directives. E.g. here include, Ghana Stock Exchange, Securities and Exchange Commission, Mining and Mineral Commission.

v. Business Contact group- This category includes customers and clients, suppliers of materials, competitors and those interested in mergers and amalgamations. Stakeholders in this group may need information reflecting on:

- | | | |
|---|---|--------------------------------|
| Customers/clients | - | customer service |
| | - | cost levels and profit margins |
| Suppliers | - | liquidity and solvency |
| Competitors | - | competitive strategy |
| | - | Market share |
| Entities interested in mergers and takeovers- | - | value of net assets |
| | - | market share |
| | - | performance trends |
- vi. The general public and opinion leaders- This category of users will be interested in the extent to which the enterprise has fulfilled its social responsibility through community services.
- vii. Management of the enterprise-This is an important user of the financial statements. This category of users is the only that have unrestricted access to all of its informational needs. Different levels of management have different information needs.
- d. Board of Directors. They require information that indicates the following:
- Overall profitability.
 - Efficiency of managers and employees.
 - Liquidity of the enterprise.
 - Solvency and the financial stability.
- e. Middle level management. They require information on matters relating to their areas of responsibility.
- f. General workforce. They require information on their performance levels and productivity. This can often be obtained through variance reports.
- viii. Analyst/advisor.

Members of this group comprise of financial analysts, journalists, credit rating agencies etc. Basically members of this group of users of financial information will require information relating to an issue for which a client needs advice. This information needs of this group thus depends on the needs of the client being advised.

QUESTION 2

**i. TROKY LIMITED
STATEMENT OF ADJUSTED PROFIT FOR THE
YEAR ENDED 31ST DECEMBER, 2009**

	GHS	GHS
Draft Profit per account		7,250
Less :		
Bad debts	700	
Bonuses	625	
Depreciation	<u>3,500</u>	<u>4,825</u>
Adjusted Profit		<u>2,425</u>

Workings:

Income surplus		11,500
Add: Adjusted Profit		<u>2,425</u>
Balance c/d		<u>13,925</u>

**ii. TROKY LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER, 2009**

	COST/ VALUATION	ACCUM. DEPR.	NET BOOK VALUE
	GHS	GHS	GHS
<u>NON- CURRENT ASSETS</u>			
Land and Buildings	22,500	500	22,000
Plant and Equipment	<u>15,000</u>	<u>11,000</u>	<u>4,000</u>
	<u>37,500</u>	<u>11,500</u>	<u>26,000</u>
<u>CURRENT ASSETS</u>			
Inventory		11,750	
Trade Receivables		8,300	
Cash at Bank		<u>3,000</u>	
		23,050	

CURRENT LIABILITIES

Trade Payables	6,250		
Accrued Expenses	<u>1,875</u>	<u>8,125</u>	<u>14,925</u>
NET CURRENT ASSETS			40,925
Less: 8% Debentures			<u>2,500</u>
NET ASSETS			38,425

REPRESENTED BY:

Stated Capital			12,500
Capital Surplus			12,000
Income Surplus			<u>13,925</u>
			<u>38,425</u>

QUESTION 3

SUSUBRIBRI LIMITED
STATEMENT OF CASHFLOW FOR THE YEAR ENDED 31ST DECEMBER, 2009

	GHS		GHS
OPERATING ACTIVITIES			
Operating Profit	17,215		
Add: Interest	900		
Depreciation	2,363		
Profit on sale of assets	(419)		
Increase of Inventory	(3,718)		
Increase of Receivable	(3,231)		
Increase in Creditors	6,795		
Interest paid	(900)		
Tax Paid	<u>(5,200)</u>		
Net Cash flow from Operating Activities			13,085
INVESTING ACTIVITIES			
Acquisition of Tangible Assets	(10,911)		
Sale of Tangible Assets	<u>1,614</u>		
Nets Cash outflow from Investing Activities			(9,297)
FINANCING ACTIVITIES			
Dividend	(8,400)		
Redemption of Debentures	(10,000)		
Issue of Shares	<u>12,000</u>		
Net Cash flow from Financing			<u>6,400</u>
Decrease in Cash and Cash Equivalents			<u>(1,892)</u>

Workings:

Fixed Assets Account			
Balance b/d	40,406	Disposals	1,195
Bank	10,911	Depreciation	2,363
		Balance c/d	<u>47,759</u>
	<u>51,317</u>		<u>51,317</u>
Balance b/d	47,759		

Fixed Assets Disposal Account			
Fixed Assets	1,195	Bank	1,614
Profit on disposal	<u>419</u>		
	<u>1,614</u>		<u>1,614</u>

Taxation			
Cash	5,200	Balance c./d	5,200
Balance c/d	<u>6,000</u>	P& L	<u>6,000</u>
	<u>11,200</u>	Balance b/d	6,000

QUESTION 4

(a) (i)

DEBTORS CONTROL ACCOUNT			
	GHS		GHS
Balance b/d	60,000	Cash	1,250,000
Sales	1,252,900	Discount allowed	2,000
		Bad debts	900
	<u>1,312,900</u>	Balance c/d	<u>60,000</u>
Bal. b/d	1,312,900		<u>1,312,900</u>

ii.

CREDITORS CONTROL ACCOUNT			
	GHS		GHS
Cash	763,000	Balance b/d	180,000
Discount Received	3,500	Purchases	676,500
Balance c/d	<u>90,000</u>		
	<u>856,500</u>	Balance b/d	<u>856,500</u>
			90,000

(b) STATEMENT OF INSURANCE CLAIM

	GHS	GHS
Opening Stock		400,000
Add: Purchases (131,500 +676,500)		<u>808,000</u>
		1,208,000
Less Cost of Sales:		
Sales	1,252,900	
Less Margin	<u>(250,580)</u>	<u>1,002,320</u>
Stock Before Fire		205,680
Less: Undamaged	90,000	
Salvaged	<u>50,000</u>	<u>140,000</u>
Amount claimable		<u>65,680</u>

c. BANK ACCOUNT

	GHS		GHS
Balance b/d	110,000	Creditors	763,000
Debtors	1,250,000	Wages	45,000
		Petty Cash Expense	18,000
		Rent	18,000
		Balance c/d	<u>516,000</u>
	<u>1,360,000</u>		<u>1,360,000</u>
Balance b/d	516,000		

(d) INCOME STATEMENT FOR THE PERIOD ENDING 25TH AUGUST, 2010

	GHS	GHS	GHS
Sales			1,252,900
Less: Cost of Sales			
Opening Stock		400,000	
Add Purchases (131,500+676,500)		<u>808,000</u>	
		1,208,000	
Less Closing Stock			
Undamaged	90,000		
Salvaged	50,000		
Insurance claim	<u>65,680</u>	<u>205,680</u>	<u>1,002,320</u>
Gross Profit			250,580
Add Discount received			<u>3,500</u>
			254,080
Less Expenses			
Discount allowed		2,000	

Wages	45,000	
Petty cash expenses	18,000	
Rent	18,000	
Bad debts	<u>900</u>	<u>83,900</u>
Net Profit		<u>170,180</u>

QUESTION 5

(a) i.

NKWAKWA BRANCH STOCK ACCOUNT

	GHS		GHS
Balance b/d	60,500	Goods Returned to H/O	2,500
Goods sent to Branch	120,500	Cash Sales-Bank	45,000
Goods returned by credit customers	500	Branch Debtors- Sales	150,000
Branch P& L Account	<u>56,500</u>	Balance c/d	<u>40,500</u>
	<u>238,000</u>		<u>238,000</u>
Balance b/d	40,500		

ii. **GOODS SENT TO NKWAKWA BRANCH ACCOUNT**

	GHS		GHS
Goods Returned to H/O	2,500	Branch Stock	120,500
H/O Income Statement	<u>118,000</u>		
	<u>120,500</u>		<u>120,500</u>

iii. **NKWAKWA BRANCH DEBTORS ACCOUNT**

	GHS		GHS
Balance b/d	15,250	Goods returned	500
Branch Stock	150,000	Discount Allowed	1,000
		Bank	125,000
		Bad debts	600
		Balance c/d	<u>38,150</u>
	<u>165,250</u>		<u>165,250</u>
Balance b/d	38,150		

iv. **NKWAKWA BRANCH ACCOUNT**

	GHS		GHS
Balance b/d	20,000	Transfer to H/O Bank	105,000
Branch Stock Sales	45,000	Rent and rates	2,000
Branch Debtors	125,000	Wages	1,200
		General expenses	1,000
		Balance c/d	<u>80,800</u>
	<u>190,000</u>		<u>190,000</u>
Balance b/d	80,800		

(b)

- i. Ordinary shareholders have voting rights while Preference shareholders do not have voting rights.
- ii. Ordinary shareholders do not have a fixed rate of dividends while Preference shareholders have a fixed rate of dividend.
- iii. Ordinary shareholders take major decisions for the company while Preference shareholders do not take major decisions for the company.
- iv. Ordinary shareholders are the real owners of the company while Preference shareholders are not the real owners of the company.
- v. In case of liquidation Preference shareholders receive their money before the ordinary shareholders.