ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA

PRINCIPLES AND PRACTICE OF FINANCIAL ACCOUNTING PAPER FOR MARCH 2021 DIET
QUESTIONS AND MARKING SCHEME

Time Allowed: 3 hours

SECTION A: PART I MULTIPLE-CHOICE QUESTIONS (30 Marks)

ATTEMPT ALL QUESTIONS

Write ONLY the alphabet (A, B, C, D or E) that corresponds to the correct option in each of the following questions/statements

1 The implication of the entity concept to a sole trader is that the

A. Business can sue and be sued separately
B. Private use of business assets reduces owner's capital
C. Owner cannot own private assets
D. Liability of the owner is limited
E. The owner of the business and the business are the same

2 In the final accounts of not-for-profit making organisation, capital expenditures are recorded in

A. Profit or loss account
B. Statement of financial position
C. Subscription account
D. Income and expenditure account
E. Bar account

3. Making an allowance for receivables is an example of which concept?

A. Prudence
B. Accruals
C. Going concern
D. Mater
E. Consistency

Use the following information to answer questions 4 and 5

Peter and Paul are in partnership sharing profits and losses in ratio 2:3. On 1 January, 2019, they admitted Paulina injecting ₦1,200,000 as capital.

The following also took place at that date

(i) Goodwill was valued at ₦4,000,000
(ii) The new profit sharing ratio is to be 3:6:1
(iii) Property is valued upwards by ₦3,500,000

Peter had a balance of ₦4,500,000 credit in his capital account prior to adjusting the accounts. Goodwill is not to be retained in the books.

4. The total amount of goodwill and revaluation surplus to be credited into Paul's capital account is

A. ₦4,500,000
B. ₦3,000,000
C. ₦2,400,000
D. ₦2,100,000
E. ₦1,600,000

5. The balance in Peter's capital account after the adjustment is

A. ₦7,500,000
B. ₦6,800,000
C. ₦6,300,000
D. ₦5,900,000
E. ₦5,600,000

6. Which of the following items is **NOT** correctly classified as an element of financial statement?

I. Cash and cash equivalent - Asset
II. Loan Note - Equity
III. Current income taxation payable - Liability
IV. Retained earnings – Income

A. II
B. I and III
C. IV and II
D. II and IV
E. IV and III

7. Which of the following is **NOT** a financing item in a statement of cash flows?

A. Cash proceeds from issues of shares
B. Cash repayments of amount borrowed
C. Cash payment to owners of equity
D. Cash payment to acquire equity or debt instruments
E. Cash proceeds from issue of loan notes or other long term borrowing

8. Which of the following items is correctly matched in accordance with IASB Conceptual Framework?

S/N	Enhancing Qualitative Characteristics	Fundamental Qualitative Characteristics
A.	Timelines	Relevance
B.	Verifiability	Going concern
C.	Faithful representation	Comparability
D.	Neutrality	Faithful representation
E.	Understandability	Accruals

9. The net profit of Adewale ventures for the year ended 31 December is GH₵1,051,000 and he injected capital of GH₵100,000 into the business during the year. At the end of the year, there was an increase in net assets of the company by GH₵133,000.

The drawings made during the year by Mr. Adewale is

A. GH₵218,000
B. GH₵418,000
C. GH₵1,151,000

D. GH₵1,684,000
E. GH₵1,884,000

10. The following is the extract from the financial statement of TEMA Limited.

	GH¢'000
Inventory	200
Receivables	300
Cash and cash equivalent	100
Trade payables	300
Loan notes (5 years)	300

The current and acid test ratios of the company is

	Current Ratio	Acid Test Ratio
A	1.33:1	0.67:1
B	1:1	0.67:1
C	2:1	1.33:1
D	1:1	1.33:1
E	2:1	0.67:1

11. A financial statements prepared under IFRS, which statement contains the proceeds from sales of non-current assets sold during year?

A. Statement of cash flows
B. Statement of changes in equity
C. Statement of financial position
D. Statement of profit or loss and other comprehensive
E. Value added statement

12. In a Not-for-profit organisation, a debit balance on the subscription account is reported on

A. Receipt and payment account
B. Profit or loss account
C. Income and Expenditure account
D. Statement of financial position
E. Trading Account

13. Agege social club has the following information as at 31/12/18

Subscription in advance as at 1/1/18	-	L$50,000
Subscription collected during the year	-	L$400,000
Subscription in advance as at 31/12/18	-	L$25,000

The amount of subscription that should be recognised as income for the year ended 31/12/2018 is

A. L$475, 000
B. L$450, 000
C. L$425, 000
D. L$400, 000
E. L$375, 000

14. Which of the following is **NOT** an account prepared by a Not-for-profit organisation?

A. Receipts and Payment Account.
B. Statement of Financial position
C. Branch Inventory Account
D. Income and Expenditure Account
E. Bar Trading Account

15. An employee is entitled to 5% commission on the surplus of the club after charging the commission. What is the commission if the surplus was Le 50,400?

A. Le 2,650
B. Le 2,540
C. Le 2,520
D. Le 2,500
E. Le 2,400

16. A capital receipt by a club or an association comprises of the following

A. Entry Fees
B. Government grants
C. Endowments
D. Annual Subscription
E. Legacies

17. The necessary accounting entries required to record the amount of calls on shares not paid by the shareholders are

	DR	CR
A.	Call on shares not paid account	Call on shares account
B.	Call on shares in Arrears account	Call on shares account
C.	Ordinary shares account	Call on shares in arrears account
D.	Call on shares in arrears account	Ordinary shares account
E.	Cash book	Call on shares in arrears account

18. In which ledgers can data relating to discount be found?

A. Cash book
B. Private ledger
C. Sales ledger
D. Norminal ledger
E. Public ledger

19. The necessary accounting entries required to record the amount refunded to the applicants on rejected ordinary shares are

	DR	CR
A.	Cash book	Application and allotment account
B.	Cash book	Ordinary shares account
C.	Application and allotment account	Cash book
D.	Ordinary shares account	Cash book
E.	Cash book	Rejected ordinary shares account

20. Going Concern Concept assumes that an established business entity will operate in perpetuity. This perpetuity concept is .... assumption.

A. Duality
B. Entity
C. Going concern
D. Money measurement
E. Periodicity

21. The entries for payment of joint venture expenses in case of memorandum joint venture methods is

	DR	CR
A.	Goods account	Cash account
B.	Memorandum Joint Venture account	Cash account
C.	Joint Venture account	Cash account
D.	Co-venturer's account	Cash
E.	Joint venture account	Co-venturer's account

22. Which of the following would **NOT** be found in a manufacturing account?

A. Royalties
B. Purchases of raw materials
C. Depreciation of plant and machinery
D. Return inwards
E. Carriage inwards

23. **Use the following information to answer the question below**

Net assets on January 1, 2019	GMD4,250,000
Net assets at December 31, 2019	GMD5,914,583
Drawings for the year ended December 31, 2019	GMD3,152,084

The profit for the period is
A. GMD1,097,916
B. GMD1,487,501
C. GMD4,816,667
D. GMD7,012,499
E. GMD9,066,667

24. Which of the following would be treated as a cash outflow?

A. Bonus issue of shares
B. Decrease in receivables
C. increase in payables
D. Increase in inventory
E. Dividend received

25. In a value-added statement, which of the following is **NOT** distribution of value added

A. Company income tax
B. Hire of plant
C. Interest
D. Company income tax
E. Depreciation

Use the following information to answer questions 26 and 27

Boluwatife sold a tricycle to Adeola on hire purchase bunder the following terms. Initial Deposit ₦50,000, installment of ₦45,000 on monthly basis for a period of ten months. The cash price for the tricycle is ₦400,000

26. The hire purchase price is

A. ₦575,000
B. ₦550,000
C. ₦500,000
D. ₦450,000
E. ₦400,000

27. The monthly interest payable is

A. ₦10,000
B. ₦9,000
C. ₦7,500
D. ₦6,500
E. ₦5,000

28. Which of the following statement is **TRUE**?

I. Foreseeable losses should be written off immediately in the period even if the contract has not commenced
II. All anticipated profits should be recognised immediately in the contract account
III. All cash advances received in respect of contracts should be recognised immediately

A. I and II
B. I and III
C. I, II and III
D. II and III
E. III

29. In a royalty agreement, the following accounts are normally used to record transactions in the books to original landlord and sub-tenant, **EXCEPT**

A. Royalty payable account
B. Landlord account
C. Short working recoverable account
D. Memorandum account
E. Royalties receivable account

30. The cost of goods sold, given the sales figure as GH₵9,000,000 with a mark-up of 25% is

A. GH₵11,250,000
B. GH₵9,000,000
C. GH₵7,200,000
D. GH₵6,750,000
E. GH₵2,250,000

SECTION A: SHORT-ANSWER QUESTIONS (20 MARKS)

ATTEMPT ALL QUESTIONS

Write the correct answer that best completes each of the following questions/statements

1. The net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal is..........................

2. The opening capital of a not-for-profit making organisation is called ...

3. A legal document drawn up to regulate a partnership business is called ....

Use the following information to answer questions 4 and 5

A company's bank statement shows ₦715,000 direct debit and ₦353,000 investment income that are not recorded in the company's cash book. The bank statement did not show a customer's cheque of ₦875,000 entered in the cash book on the last day of the accounting period.

Assuming the cash book shows a credit balance of ₦610,000

4. The balance that appeared in the bank statement is................

5. The bank balance figure that should be reported in the final accounts is ...

6 The costing method not allowed by IAS 2 on Inventory is ....

7. State **TWO** items in the statement of financial position which are potentially affected by construction contracts.

8. State the formulae for accounts receivables collection period (in days).

9. An accounting adjustments made before year end to improve the appearance of the financial statements is called................................

10. State the formula for acid test ratio.

11. The IFRS term for shareholder's fund is ....

12. Dividends payable on preference shares are reported in statement of .... and statement of financial position as current liability

13. Dividends paid on ordinary shares are reported in statements of ....and statements of cash flow.

Use the following information to answer question 14 and 15

Adamu, Bala, Gambo are partners, sharing profit or losses in ratio of 2:3:4. The Capital accounts balances after the partnership was dissolved and all accounts closed were Adamu, L$8 million CR: Bala L$12 million CR and Gambo L$16 million DR.

14. What will be Bala's contribution to the deficiency of Gambo assuming Gambo is insolvent?

15. What will be the difference in your answer if Gambo was not insolvent?

16. Shares issued to existing shareholders at a price lower than the market price is called..............

17. In the statement of financial position, the following assets Goodwill, Patent and Trademarks are called ....

18. If the royalties receivable exceeds the minimum royalties and a credit balance exist on the unexpired shortworking allowable account, show the necessary accounting entries required to record shortworkings recoupable within the time limit.

19. X and Y are in partnership with the agreement that Y is entitled to salary of
₦600,000 per annum together with 5% commission on net profit after charging salary and commission, but before interest on capital. The net profit of the partnership for the year is ₦6,050,000. Calculate the commission due to Y for the year. Provide your answer to the nearest naira.

20. State **TWO** basic methods of invoicing goods to the branches.

SECTION B: ATTEMPT ANY FOUR QUESTIONS IN THIS SECTION (50 MARKS)

QUESTION 1

The following balances were extracted from the books of Dariye, a sole trader on December 31, 2019

	₦
Capital at January 1, 2019	12,500,000
Receivables	4,715,000
Cash in hand	241,400
Payables	3,442,400
Furniture and fittings	4,220,000
Inventory at January 1, 2019	1,846,000
Turnover	49,100,000
Purchases	38,500,000
Motor vehicle at cost	4,500,000
Motor vehicle expenses	2,750,000
Rent	5,620,000
Drawings	2,650,000

The following information as at December 31, is also available

(i) ₦250,000 is owing for motor vehicle expenses
(ii) ₦120,000 has been prepaid for rent
(iii) Inventory at the close of business was valued at ₦1,500,000
(iv) Provision of ₦2,500,000 is to be made for audit fee
(v) Provision is to be made for unrecoverable debts at 1% of total receivables at January 1
(vi) Depreciation is to be provided as follows:
Motor vehicle: 20% on cost
Furniture and fittings: 10% on cost

You are required to
Prepare the business opening trial balance, make the necessary adjustments by journal and the final trial balance using extended trial balance.

(Total $12^1/_2$ Marks)

QUESTION 2

Lockdown Limited is involved in the manufacture of 'Personal Protective Equipment (PPE) used by health workers and its financial statement are as follows:

Statement of Financial Position

	2019	**2018**
Non-current Assets	**GH₵'000**	**GH₵'000**
Property plant & equipment	9,150	7,305
Total non-current assets	9,150	7,305
Current Assets		
Inventories	1,310	1,445
Trade receivable	805	730
Cash and cash equivalent	490	405
	2,605	2,580
Total Assets	**11,755**	**9,885**
Equity and Liabilities		
Equity		
Share capital	1,500	1,000
Share premium	250	100
Retained earnings	7,255	6,385
Revaluation surplus	370	600
	9,375	8,085
Non-current Liabilities		
Loan Notes	1,400	1,000
Current Liabilities		
Trade payables	740	580
Bank overdraft	50	90
Current tax payable	190	130
	980	800
Total equity and liabilities	**11,755**	**9,885**

Lockdown Limited Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019

	GH₵'000
Revenue	21,500
Cost of sales	(18,000)
Gross profit	**3,500**
Distribution costs	(880)
Admin. Expenses	(620)
Finance costs	(210)
Profit before taxation	1,790
Income tax expense	(230)
Profit for the year	1,560
Other comprehensive income:	
Loss on property revaluation	(230)
Total comprehensive income	**1,330**

Additional Information

(i) Property plant and equipment (PPE) with carrying amount of GH₵1,600,000 was sold for GH₵1,400,000. This asset had originally cost GH₵2,250,000.

(ii) Depreciation of property plant & equipment during the year amounted to GH₵1,780,000.

(iii) Dividend paid during the year amounted to GH₵690,000 and are reported in statement of changes in equity.

You are required to

Prepare statement of cash flows of Lockdown Limited for the year ended 31 December, 2019 using indirect method. **(Total 12$^1/_2$ Marks)**

QUESTION 3

The information extracted from the books of Gold Cast Enterprise Limited as at 31 December, 2019 were:

	₦'000
Total Trade Payables Account Balance	219,465
Trade Payables Account Balance	240,595
Total Trade Receivables Account Balance	94,025
Trade Receivables Account Balance	81,480

Examination of the accounting records shows that:

(i) The Sales Day Book (SDB) had been overcast by ₦2,000 on one occasion and ₦1,000 on another.
(ii) The Purchases Day Book (PDB) was under cast by ₦15,000 on one occasion and overcast by ₦9,000 on another.
(iii) Discounts Allowed of ₦200 posted to the Sales Ledger was omitted from the Cash Book (CB).
(iv) Discount received totaling ₦27,145 was posted to the Total Account as ₦22,645.
(v) A balance of ₦1,760 was omitted from the list of Trade Receivables.
(vi) The credit side of Trade Receivable Account was overcast by ₦1,000.
(vii) Bad Debts of ₦2,440 had been written off in the Sales Ledger, but no entry made in the General Ledger.
(viii) A balance of ₦9,405 was omitted from the list of Trade Payables.
(ix) An account of ₦3,465 in the Trade Payables Ledger set off against a contra account in the Sales Ledger, but not recorded in the General Ledger.
(x) Discounts Allowed of ₦400 was entered in the Cash Book, but not posted to the Customer's Account.
(xi) An item of ₦1,860 in the Sales Day Book was posted as ₦780 in the Customer's Account
(xii) Pro-forma invoice on goods worth ₦32,500 posted in the Trade Payable Ledger, but the goods has not be supplied.

You are required to
Show the adjustment necessary to the Trade Payables and Trade Payables balances in the General and subsidiary ledgers. **(Total 12½ Marks)**

QUESTION 4

Write short notes on each of the following financial ratios, give **TWO** examples of each and state the formula to calculate each example.

(a) Profitability Ratios (2½ Marks)
(b) Liquidity Ratios (2½ Marks)
(c) Leverage Ratios (2½ Marks)
(d) Activity Ratios (2½ Marks)
(e) Investibility Ratios (2½ Marks)

(Total 12½ Marks)

QUESTION 5

The following balances were extracted from the book of accounts of Jamie Limited for the year ended 31 March, 2020 with comparative figures for 2019

	31 March, 2020 GMD'000	31 March, 2019 GMD'000
Property, plant and equipment	23,750	23,594
Account receivables	1,870	1,769
Account payables	1,530	1,448
10% Loan notes	11,200	11,080
Ordinary shares of 0.50 each	13,200	13,200
Revenue	35,124	34,604
Material consumed	12,934	12,452
Wages	2,607	2,598
Depreciation for the year	1,115	1,114
Fuel consumed	1,290	1,242
Hire of equipment	141	138
Salaries	4,203	4,198
Auditors remuneration	820	580
Income tax expense	1,420	1,393
Dividend per share	GMD0.08	GMD0.10

You are required to

a. State the stakeholders of the value -added statement (2 Marks)

b. Prepare the value-added statement of Jamie Limited for the year ended 31 March, 2020. ($10^1/_2$ Marks)

(Total $12^1/_2$ Marks)

QUESTION 6

a. Explain the following types of construction contracts

   i. Fixed sum contract

   ii. Variable price contract (4 Marks)

b. Pandemic Limited was involved in a major construction projects during the year ended 30 September 2019. The company enters into three separate construction contracts each with a fixed contract price of ₦10million.

The following information relates to these contracts as at 30 September, 2019.

	Contracts		
	X	**Y**	**Z**
	₦'000	**₦'000**	**₦'000**
Payment on account (including amount receivable)	5,400	4,750	4,000
Cost incurred to date	5,000	5,500	3,200
Estimated cost to complete the contract	3,000	5,500	5,800
Estimated percentage of work completed	60%	50%	35%

You are required to

i. Prepare extracts of statement of profit or loss for each contracts for the year ended 30 September, 2019. (4½ Marks)

ii. Prepare extract of statement of financial position for each contracts as at 30 September 2019. (4 Marks)

(Total 12½ Marks)

SOLUTION TO QUESTIONS

SECTION A: PART 1 MULTIPLE-CHOICE

1. A
2. B
3. A
4. D
5. C
6. D
7. D
8. A
9. BONUS
10. C
11. A
12. D
13. C
14. C
15. E
16. BONUS
17. B
18. A
19. C
20. E
21. B
22. D
23. C
24. D
25. B
26. C
27. A
28. B
29. D
30. C

WORKINGS FOR SOME MCQ

Q4 and 5 Peter and Paul Partnership

	Peter	Paul	Paulina		Peter	Paul	Paulina
	N'000	N'000	N'000		N'000	N'000	N'000
Goodwill	120	240	40	Bal	450	-	-
				Cash	-	-	120
Bal	**630**	**210**	80		300	450	-
	750	450	120		750	450	120

9. [1,051,000 + 100,000 – N733,000] = GH 418,000

10. [C/R = $\frac{600}{300}$ = 2:1 A/T = $\frac{400}{300}$ 1.33:1]

23. Closing net asset = opening net assets +profit-drawings
Profit = 5,914,583+3,152,084-4,250,000 =₦4,816,667

SECTION A: PART II SHORT-ANSWER QUESTIONS (SAQ)

1. Residual value, Scraps or salvage value
2. Accumulated fund
3. Partnership account
4. ₦1847,000 dr or Overdraft
5. ₦972,000 cr
6. LIFO
7. Inventories, receivable, payables
8. $\frac{\text{Receivables}}{\text{Credit Sales}} \times \frac{365}{1}$
9. Window dressing
10. $\frac{\text{Current Assets - Inventory}}{\text{Current Liabilities}}$
11. Equity
12. Profit or loss
13. Changes in equity
14. N9.6 million = (12m/20m x 16m) Rule in Garner v Murray.
15. Gambo's deficit would be settled from the surplus of his private estate.
16. Rights issues
17. Intangible Assets
18. Dr. Short workings Allowable Account; Cr. Landlord Account
19. ₦259,523
20. i. Cost price
    ii. Cost plus mark up

WORKINGS FOR SOME SAQ

Questions 4 and 5

Balance as per cash book		(610,000)
Items in bank statement not in cash book		
Direct debit	(715,000)	
Investment income	353,000	(362,000)
Correct balance in the cash book		**(972,000)**
Customer cheque already posted in cash book		(875,000)
		1,847,000
Amount to be in the bank statement		**(1,847,000)**

Q. 19 ₦6,050,000 – (₦600,000 + 5% of x) = x

₦5,450,000 + 0.05 x = x

₦ 5, 450,000 = 1.05 x

$X = \frac{₦5450,000}{1.05}$

x = (Net profit after changing salary and commission)

= 5,190,478

Commission = ₦5,190,475 x 5%

= ₦259, 523

SECTION B:

QUESTION 1

	OPENING TRIAL BAL		ADJUSTMENTS		FINAL TRIAL BALANCE	
	DR	CR	DR	CR	DR	CR
Capital at Jan 1		12,500,000				12,500,000
Receivables	4,715,000		120,000	47,150	4,787,850	
Cash in hand	241,400				241,400	
Payables		3,442,400		250,000 1,500,000		5,192,400
Fixtures & fittings	4,220,000				4,220,000	
Inventory at Jan 1	1,846,000				1,846,000	
Turnover		49,100,000				49,100,000
Purchases	38,500,000				38,500,000	
Motor vehicle at cost	4,500,000				4,500,000	
Motor expenses	2,750,000		250,000		3,000,000	
Rent	5,620,000			120,000	5,500,000	
Drawings	2,650,000				2,650,000	
Prov for depr – Mv			900,000		900,000	
Acc. Depr – Mv				900,000		900,000
Prov for depr – F&F			422,000		422,000	
Acc. Depr – F & F				422,000		422,000
Audit fee			2,500,000		1,500,000	
Accrued audit fee				2,500,000		1,500,000

Prov for bad debts			47,150		47,150	
Inventory Dec 31			1,500,000		1,500,000	
	65,042,400	65,042,400	5,739,150	5,739,150	69,614,400	69,614,400

(Any 50 ticks @ ¼ = $12^1/_2$ Marks)

QUESTION 2

Lockdown Limited

Statement of Cash flows for the year ended 31 December, 2019

Operating activities	**GH₵'000**	**GH₵'000**
Profit Before Tax		1,790
Adjustment for non-cash item		
Finance cost	210	
Depreciation	1,780	
Loss on disposal of PPE (1,400 - 1,600)	200	2,190
Cashflow from operating activities		3,980
Movement of changes in working capital		
Decrease in inventories	135	
Increase in trade receivable	(75)	
Increase in trade payable	160	220
		4,200
Finance cost paid		(210)
Taxation Paid (130 + 230 - 190)		(170)

Net cash flow from operating activities		**3,820**
<u>Investing activities</u>		
Purchase of PPE by cash (Wk 1)	(5455)	
Proceeds from deposit of PPE (wk2)	1,400	
Net cash flow from investing activities		(4,055)
<u>Financing Activities</u>		
Issues of shares (wk 3)	650	
Issues of loan notes	400	
Dividend paid	(690)	
Net Cash flow from financing activities		360
Increase in cash and cash equivalents for the year		125
Cash and cash equivalents b/f		315
Cash and cash equivalents c/d		440

Analysis of cash and cash equivalents

	2019	**2018**
	GH₵'000	**GH₵'000**
Cash and cash equivalents	490	405
Bank overdraft	(50)	(90)
	440	**315**

(Total 12½ Marks)

Working Notes

WK I **Determination of Purchase of PPE by Cash**	**GH₵'000**	**GH₵'000**
Balance as per 2018		7,305
Depreciation for the year	(1,780)	
Disposal during the year	(1,600)	
Loss on revaluation	(230)	(3,610)
Expected Closing Balance		3,695
Actual Closing Balance		9,150
Addition during the year		5,455

Wk 2 Loss on sale of PPE	
Cost	2,250
Less: Accumulated depreciation	650
Carrying amount	1,600
Less: Sales proceed	1,400
	200

Wk 3	Share Capital		
N'000		N'000	
Additional share capital	1500	Share capital	1,000
Share premium	250	Share premium	100
		Proceed of share capital	650
	1,750		1,750

QUESTION 3

Gold Cast Enterprises Limited

Total Trade Payables Account

	N'000		N'000
Discount Received Undercast	4,500	Balance b/f	219,465
Set Off	3,465	Purchases Daybook Undercast	15,000
Purchases Daybook Overcast	9,000		

Balance c/d	217,500		
	234,465		234,465
		Balance b/d	217,500

Trade Payables Account

	N'000		N'000
Pro-forma Invoice	32,500	Balance b/f	240,595
Balance c/d	217,500	Payable balance omitted	9,405
	250,000		250,000
		Balance b/d	217,500

Total Trade Receivables Account

	N'000		N'000
Balance b/f	94,025	Sales Daybook Overcast	3,000
		Discount allowed omitted	200
		Bad debt written off	2,440
		Set Off	3,465
		Balance c/d	84,920
	94,025		94,025
Balance b/d	84,920		

Trade Receivables Account

	N'000		N'000
Balance b/f	81,480	Discount allowed	400
Receivable balance omitted	1,760		
Credit Sales Undercast	1,080		
Credit side overcast	1,000	Balance c/d	84,920
	85,320		85,320
Balance b/d	84,920		

(Total 12½ Marks)

QUESTION 4

a. Profitability Ratio; These ratios provide an overall evaluation of the performance of the company and its management. This is because the main reason for the existence of the company is to generate returns on owner's investment. Hence, the main questions a shareholder is likely to ask are; is the company making profit? Is the level of profit satisfactory in terms of resources invested? Etc.

i. ROCE – Returns on Capital Employed

$$\frac{\text{Net profit on Ordinary activities before interest \& Tax}}{\text{Capital Employed}} \times 100$$

Where Capital Employed = Shareholders funds plus long term liabilities

ii. Profit Margin;

Net Operating Profit before interest & Taxation x 100

Sales

iii. Assets Turnover;

Sales

Capital Employed

iv. Return on Equity ratio

Net Income
Shareholders' Equity

(2½ Marks)

b. LIQUIDITY RATIO

These ratios measure a company's ability to settle its short term indebtedness as and when due. A company should strike a balance between having too much of its assets tied down in highly liquid assets and not being able to meet its obligations.

i. Current ratio;

Current Assets
Current Liabilities

The ideal ratio for any company is 2:1.

ii. Quick or Acid Test ratio;

Liquid Assets (i.e. Current assets less inventory & prepayment)
Current Liabilities.

The ideal liquid ratio is 1:1

iii. Cash ratio;

Cash and Cash equivalents
Current Liabilities

iv. Operating cash flow ratio;

Measures the number of times a company can pay off current liabilities with the cash generated in a given period.

$$\frac{\text{Operating Cash Flow}}{\text{Current Liabilities}}$$

(2½ Marks)

c. LEVERAGE RATIOS.

These ratios are used to measure the long-term solvency and stability of a company. It measures the amount of capital that comes from debt. It is used to evaluate a company's debt Level.

i. Gearing; $\frac{\text{Fixed Interest loan + Preference share capital}}{\text{Equity.}}$

ii. Debt to Equity ratio;

$$\frac{\text{Total liabilities}}{\text{Shareholders Equity.}}$$

iii. Interest Coverage ratio; (show how easily a company can pay its interest expenses)

a) Fixed Interest Coverage ratio;

$$\frac{\text{Operating Income}}{\text{Interest Expenses}}$$

b) Debt Service Coverage ratio;

$$\frac{\text{Operating Income}}{\text{Total Debt Service}}$$

iv. Proprietary ratio;

$$\frac{\text{Shareholders Fund}}{\text{Total Assets (Tangible).}}$$

(2½ Marks)

d. Activity / Efficiency Ratio;

These ratios measures the efficiency with which the assets of a company are utilized for the purposes of generating income and the ability of the management to keep expenses within predetermined level.

i. Inventory Turnover;

$$\frac{\text{Cost of Sales}}{\text{Average Inventory}}$$

ii. Receivables Turnover;

$$\frac{\text{Credit sales}}{\text{Receivables}}$$

iii. Average Collection Period;

$$\frac{\text{Trade Receivables}}{\text{Credit Sales.}} \text{ x 12 months}$$

iv. Payables Turn over

$$\frac{\text{Credit Purchases}}{\text{Payables}}$$

v. Payables payment Period;

$$\frac{\text{Trade payables}}{\text{Credit Purchase.}} \text{ x 12 months}$$

vi Non- Current Asset Turnover

$$\frac{\text{Sales}}{\text{Non-current Assets}}$$

vii. Total Assets Turnover;

$$\frac{\text{Sales}}{\text{Total assets}}$$

viii. Expenses to sales %;

$$\frac{\text{Individual Expenses}}{\text{Sales}} \times 100$$

(2½ Marks)

e. INVESTIBILITY RATIOS

These ratios measures a company's investment potentials. It is also used to measure a company's growth.

i. Net book value per Ordinary share;

$$\frac{\text{Net book value of ordinary shares}}{\text{No of ordinary shares}}$$

ii. Earnings per share;

$$\frac{\text{Net profit after tax \& preference shares Dividend but before extraordinary item}}{\text{No of shares}}$$

iii. Dividend per share;

$$\frac{\text{Total Dividend}}{\text{No of Ordinary shares}}$$

iv. Price /earnings ratio;

$$\frac{\text{Market Price per ordinary shares}}{\text{Earnings per share}}$$

v. Earnings Yield;

$$\frac{\text{Earnings per share.}}{\text{Market price per share.}}$$

vi. Dividend Yield;

$$\frac{\text{Dividend per share}}{\text{Market price per share}} \times 100$$

vii. Payment Ratio;

Dividend per share.
Earnings per share.

(2½ Marks)
(Total 12½ Marks)

QUESTION 5

a. Stakeholders of value added statement

I. Employee
II. Government
III. Shareholders
IV. Lenders
V. Directors

(2 Marks)

b. Value Added Statement

Revenue		35,124	
Less: Bought in materials (Note)		15,185	
Value Added		19,939	100%
Applied as follows: To pay Employees: Salaries Wages	 4,203 2,067	 6,810	 34.16
To remuneration Income tax		 1,420	 7.12

To provider's of capital Dividend Income loan	 2,112 1,120	 3,233	 16.21
For growth & expansion Depreciation Retained profit	 1,115 7,362	 8,477	 42.51 100

Note: Bought in materials

Materials consumed	12,934
Fuel consumed	1,290
Hire of equipment	141
Auditors remuneration	820
	15,185

(10½ Marks)
(Total 12½ Marks)

QUESTION 6

(a) Explanation of Type of construction contract:

(i) Fixed Sum Contract

Under this type of contract the contractor agreed to a fixed contract price or sum, in some cases subject to cost escalation clauses. For fixed sum contract to be used the following condition must be obtainable:

- Total contract revenue must be reliably estimated.
- Cost of completion can be reliably estimated.

- Percentage of the contract performance completed at the reporting date can be reliably estimated.

(ii) Variable Price Contract

This type of contract contains one or more clauses regarding:

- Price variation that allows adjustment to be base price.
- Work variation for an additional work order from the employer.
- Prologation that takes care of additional costs resulting from delays not caused by the contractor.

(4 Marks)

bi. PANDEMIC LIMITED

STATEMENT OF PROFIT OR LOSS (EXTRACT) FOR EACH CONTRACT

FOR THE YEAR ENDED 30 SEPTEMBER, 2019

		X	Y	Z	Total
	Notes	N'000	N'000	N'000	N'000
Revenue	(w1)	6,000	5,000	3,500	14,500
Expenses	(w2)	(4,800)	(5,500)	(3,150)	(13,450)
Expected loss	(w2)	--	(500)	-	(500)
Gross profit		1,200	(1,000)	350	550

(4½ Marks)

Extract of Statement of Financial Position As At 30 Sept. 2019

		X	Y	Z	Total
	Notes	N'000	N'000	N'000	N'000
Gross amount due from contractor	(w3)	800	--	--	800
Gross amount due to customers	(w4)	--	(250)	(450)	(700)
Trade receivable	(w5)	--	--	--	--

(4 Marks)

Working Notes:

(w1) Revenue

	X	Y	Z
	N'000	N'000	N'000
Revenue (N10m x 60%)	6,000	--	--
Revenue (N10m x 50%)	--	5,000	--
Revenue (N10m x 35%)	--	--	3,500
	6,000	5,000	3,500

(w2) Expenses

	X	Y	Z
	N'000	N'000	N'000

Expenses(60% x (5,000 + 3,000)	4,800	--	--
Expenses (all cost to date)	--	5,500	--
Expected loss (5,000 – 5,500)	--	500	--
Expected expense [9,000 x 35%]	--	--	3,150
	4,800	6,000	3,150

(w3) Amount due to/from Customers

	X	Y	Z
	N'000	N'000	N'000
Contract cost incurred	5,000	5,500	3,200
Recongnised profit or loss	1,200	(1,000)	350
	6,200	4,500	3,550
Less: Progress billing to date	(5,400)	(4,750)	(4,000)
	800	(250)	(450)

(Total 12½ Marks)