

**NOVEMBER 2021 PROFESSIONAL EXAMINATION  
FINANCIAL ACCOUNTING (PAPER 1.1)  
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME**

**STANDARD OF THE PAPER**

The standard of the question paper was good, and candidates were asked to answer all the questions. 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, except that one question (question 2) was a bit loaded. The questions were clear, well-typed and the instructions were also clearly stated. The questions were evenly spread over the topics in the syllabus.

**PERFORMANCE OF CANDIDATES**

The performance of candidates was mixed. While others had good marks, others had low marks. This sitting (November 2021) recorded a pass rate of 49.64% compared to 47.74% of May 2021 sitting. High performers were spread across some centres, and so were low performers. Some candidates exhibited a high sense of preparedness, while others were not well prepared and therefore performed poorly.

**NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES**

The strength of most candidates was demonstrated in questions 3, 4 and 5a. The most prevalent reasons for some candidates obtaining low marks remain 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 inappropriate solutions from 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, thus making the achievement of an overall passing mark a challenge. The other areas of weakness around presentation are as follows:

- Poor and untidy handwriting
- No workings were presented for some questions.
- Some candidates make calculation errors within workings, thus presenting incorrect figures 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

- a) Those charged with governance describe the role of persons entrusted with an entity's supervision, control, and direction, thus ordinarily accountable for ensuring that the entity achieves its objectives.

**Required:**

Explain **FOUR (4)** duties and responsibilities of those charged with governance.

**(10 marks)**

- b) On 1 January 2020, the following was extracted from the books of Gaga:

|                                      | <b>GH¢</b> |
|--------------------------------------|------------|
| Motor vehicles at cost               | 150,800    |
| Accumulated depreciation on vehicles | 95,700     |

During the year, the following occurred:

- On 1 February 2020, Motor Vehicle C was traded in against a motor vehicle D.
- Motor Vehicle C was purchased on 1 September 2016 for GH¢ 80,000.
- Gaga wrote a cheque of GH¢ 40,000 for Motor Vehicle D. On the date of purchase, the list price of Motor Vehicle D was GH¢ 71,400.
- Motor Vehicles are depreciated at 20% per annum on a straight line basis from the month of purchases to the month of sale.

**Required:**

Prepare the following account for the year ended 31 December 2020.

- i) Motor Vehicle at cost.
- ii) Motor Vehicle accumulated depreciation.
- iii) Disposal account for Motor Vehicle C.

**(10 marks)**

**(Total: 20 marks)**

## QUESTION TWO

- a) Ansong is a sole proprietor whose accounting year is 1 November to 31 October. Ansong rents factory space at the cost of GH¢10,000 per quarter, payable in advance. Payments for rent were made on 1 January, 1 April, 1 July and 1 October during the year 2020.

**Required:**

- i) Show the ledger entries to record the above transactions for the year ended 31 October 2020. **(4 marks)**  
 ii) Prepare an extract for the Statement of Profit or Loss and Statement of Financial Position. **(1 mark)**

- b) Agyei, Bobo and Dago have been in partnership for some years, sharing profits and losses in the ratio 3:2:1 respectively. The partnership statement of financial position as at 30 June 2020 was as follows:

|                                      | GH¢             | GH¢                   |
|--------------------------------------|-----------------|-----------------------|
| Assets                               |                 |                       |
| Non-current assets                   |                 |                       |
| Premises                             |                 | 80,000                |
| Office equipment                     |                 | 58,400                |
| Motor vehicles                       |                 | <u>45,000</u>         |
|                                      |                 | 183,400               |
| Current assets                       |                 |                       |
| Inventory                            | 28,600          |                       |
| Trade receivables                    | 25,800          |                       |
| Bank                                 | <u>5,650</u>    |                       |
|                                      |                 | <u>60,050</u>         |
| <b>Total assets</b>                  |                 | <b><u>243,450</u></b> |
| Capital accounts                     |                 |                       |
| Agyei                                | 95,000          |                       |
| Bobo                                 | 60,000          |                       |
| Dago                                 | <u>50,000</u>   |                       |
|                                      |                 | 205,000               |
| Current accounts                     |                 |                       |
| Agyei                                | 15,200          |                       |
| Bobo                                 | 7,040           |                       |
| Dago                                 | <u>(10,200)</u> |                       |
|                                      |                 | 12,040                |
| Current liabilities                  |                 |                       |
| Trade payables                       |                 | <u>26,410</u>         |
| <b>Total capital and liabilities</b> |                 | <b><u>243,450</u></b> |

The partners have agreed that the following should take effect on 1 July 2020 upon the retirement of Dago.

- Goodwill is to be valued at GH¢60,000 and will not remain in the books of the account.
- Premises are to be revalued to GH¢116,325.
- Dago is to take inventory costing GH¢8,400 and a Motor Vehicle with a net book value of GH¢20,500 as part settlement of his capital.

- A specific allowance for receivables is to be made for GH¢5,300 owed by an individual customer. In addition, a general allowance for receivables is to be made at 5% of the remaining trade receivables.
- Agyei and Bobo will continue in partnership, sharing profits and losses in the ratio 3:2.
- Dago will transfer GH¢12,000 to a loan account to be repaid in full in 2025. No loan interest will be charged on this amount.
- The remaining balance from combining both Dago's capital account and current account will be paid from the business bank account.

**Required:**

- i) Prepare the partners' capital accounts on 1 July 2020 to show the retirement of Dago. **(7 marks)**
- ii) Prepare the partnership statement of financial position as at 1 July 2020. **(8 marks)**

**(Total: 20 marks)**

### QUESTION THREE

The following information relates to the receivables and payables of Daakye, a sole trader, for the year ended 31 December 2020.

Extract from the books as at 1 January 2020 is stated below:

|                                     | <b>GH¢</b> |
|-------------------------------------|------------|
| Receivables' ledger debit balances  | 400,000 Dr |
| Receivables' ledger credit balances | 40,000 Cr  |
| Payables' ledger credit balances    | 360,000 Cr |
| Payables' ledger debit balances     | 160,000 Dr |

Transactions for the year ended 31 December 2020:

|   | <b>GH¢</b> |
|---|------------|
| Sales on credit   | 2,800,000  |
| Sales returns (all credit)  | 160,000    |
| Purchases on credit   | 1,800,000  |
| Purchases returns (all on credit)   | 80,000     |
| Amounts received from customers   | 2,400,000  |
| Discount allowed to customers   | 40,000     |
| Discount received from suppliers  | 60,000     |
| Bad debt written off  | 120,000    |
| Interest charged by a supplier for late payment of accounts   | 12,000     |
| Discount received but subsequently disallowed   | 6,000      |
| Payments to suppliers   | 1,500,000  |
| Dishonoured cheque received from a customer (included in the amounts received from customers above) | 25,000     |
| Contra entry between receivable and payable balances  | 9,780      |

#### **Additional Information:**

- A customer's balance of GH¢6,990 was omitted from the debit balances list as of 1 January 2020.
- As at 31 December 2020, the total of the credit balances in the receivable ledger was GH¢60,000
- The total of the debit balances in the payable ledger as at 31 December 2020 was GH¢24,000

#### **Required:**

- a) Prepare the Receivable and Payable Control Accounts for Daakye for the year ended 31 December 2020. **(18 marks)**
- b) Explain **TWO (2)** reasons for preparing control accounts. **(2 marks)**

**(Total: 20 marks)**

## QUESTION FOUR

The following trial balance was extracted from the books of Sintim, a sole trader, on 30 June 2019.

|   | GH¢                     | GH¢                     |
|---|-------------------------|-------------------------|
| Land                                      | 349,000                 |                         |
| Delivery vans                             | 129,480                 |                         |
| Accumulated depreciation on Delivery vans |                         | 34,820                  |
| Inventory as at 1/07/2018                 | 35,900                  |                         |
| Receivables and Payables                  | 205,480                 | 285,900                 |
| Bank                                      |                         | 19,710                  |
| VAT liability                             |                         | 4,550                   |
| Purchases and Sales                       | 551,960                 | 821,700                 |
| Purchases returns and sales returns       | 42,820                  | 18,800                  |
| Discounts allowed and received            | 3,940                   | 5,560                   |
| Rent expenses                             | 43,900                  |                         |
| Carriage outwards                         | 6,240                   |                         |
| Power, light and heat                     | 6,280                   |                         |
| Telephone, internet and media             | 11,020                  |                         |
| Insurance                                 | 29,000                  |                         |
| Rates and water                           | 15,080                  |                         |
| Wages and salaries                        | 143,900                 |                         |
| Allowance for receivables 1/07/2018       |                         | 10,960                  |
| Irrecoverable debts                       | 11,960                  |                         |
| Drawings                                  | 19,350                  |                         |
| Accumulated profits                       |                         | 104,640                 |
| Capital                                   |                         | 300,270                 |
| Suspense accounts                         | 1,600                   | -                       |
|   | <b><u>1,606,910</u></b> | <b><u>1,606,910</u></b> |

The following information, which has not been accounted for above, is also necessary:

- i) The inventory count on 30 June 2019 showed closing inventory valued at GH¢ 34,380.
- ii) A review of receivables as at 30 June 2019 showed that a further GH¢ 2,300 was to be written off as an irrecoverable debt. Therefore, it was decided that the closing allowance for receivables was 10% of the outstanding receivables balance as at 30 June 2019.
- iii) On 30 June 2019, Sintim received a cheque of GH¢1,680 in relation to an irrecoverable debt previously written off.
- iv) A supplier of Sintim has charged an interest of GH¢1,490 on a payable balance that has been outstanding for over 200 days.
- v) GH¢16,000 of insurance in the trial balance above relates to 1 January 2019 to 31 December 2019.
- vi) Allowance to be made for depreciation is as follows: Land Not depreciated.  
Delivery van 10% straight line basis.
- vii) Upon investigation, it was revealed that the balance in the suspense account relates to a cash receipt from a customer of GH¢ 800 that was credited to the bank account in error.

### Required:

- a) Prepare the statement of Profit or Loss for the year ended 30 June 2019. (12 marks)
  - b) Prepare the statement of Financial Position as at that date. (8 marks)
- (Total: 20 marks)**

## QUESTION FIVE

The following summary information relates to two businesses Danyi and Napo. Both businesses traded in the same market sector for the year ended 31 December 2020.

Statement of Profit or Loss Accounts for the year ended 31 December 2020

|               | <b>Danyi</b><br><b>GH¢</b> | <b>Napo</b><br><b>GH¢</b> |
|---------------|----------------------------|---------------------------|
| Sales         | 800,000                    | 800,000                   |
| Cost of sales | <u>(400,000)</u>           | <u>(360,000)</u>          |
| Gross Profit  | 400,000                    | 440,000                   |
| Expenses      | <u>(250,000)</u>           | <u>(220,000)</u>          |
| Net Profit    | <u><b>150,000</b></u>      | <u><b>220,000</b></u>     |

Statement of Financial Position as at 31 December 2020

|                            | <b>Danyi</b>   |                       | <b>Napo</b>    |                       |
|----------------------------|----------------|-----------------------|----------------|-----------------------|
|                            | <b>GH¢</b>     | <b>GH¢</b>            | <b>GH¢</b>     | <b>GH¢</b>            |
| <b>Fixed Assets</b>        |                | 490,000               |                | 700,000               |
| <b>Current Assets</b>      |                |                       |                |                       |
| Inventor                   | 50,000         |                       | 100,000        |                       |
| Receivable                 | 80,000         |                       | 160,000        |                       |
| Cash at bank               | <u>170,000</u> |                       | <u>-</u>       |                       |
|                            | 300,000        |                       | 260,000        |                       |
| <b>Current Liabilities</b> |                |                       |                |                       |
| Payables                   | 90,000         |                       | 140,000        |                       |
| Bank overdraft             | <u>-</u>       |                       | <u>120,000</u> |                       |
|                            |                | 210,000               |                | -                     |
|                            |                | <u><b>700,000</b></u> |                | <u><b>700,000</b></u> |
| <b>Financed by:</b>        |                |                       |                |                       |
| Opening capital            |                | 575,000               |                | 555,000               |
| Net profit                 |                | <u>150,000</u>        |                | <u>220,000</u>        |
|                            |                | 725,000               |                | 775,000               |
| Drawings                   |                | <u>(25,000)</u>       |                | <u>(75,000)</u>       |
| Closing capital            |                | <u><b>700,000</b></u> |                | <u><b>700,000</b></u> |

### Additional information:

Inventory as at 1 January 2020:      Danyi GH¢30,000  
    Napo GH¢80,000

### Required:

- a) Calculate the following ratios for Danyi and Napo:
- |  |                 |
|--|-----------------|
| i) Gross profit margin                                     | <b>(1 mark)</b> |
| ii) Net profit margin                                      | <b>(1 mark)</b> |
| iii) Return on capital employed (based on closing capital) | <b>(1 mark)</b> |
| iv) Current ratio  | <b>(1 mark)</b> |
| v) Liquid (acid test) ratio                                | <b>(1 mark)</b> |
| vi) Inventory turnover                                     | <b>(1 mark)</b> |

- b) Use the ratios calculated in a) to assess:
- i) The liquidity of both businesses; **(4 marks)**
  - ii) The profitability of both businesses. **(4 marks)**
- c) Advise management of both Danyi and Napo on the actions they should now take to improve liquidity and profitability. **(6 marks)**

**(Total: 20 marks)**



## SOLUTION TO QUESTIONS

### QUESTION ONE

- a) Duties and responsibilities of those charged with governance
- Compliance with accounting standards is important if the financial statements are to represent the activities of the entity fairly. If accounting standards are not complied with, then it may be that the financial statements are misleading. Investors then stand to lose money if they have made decisions based on misleading financial information.
  - It is also important that employers have a code of ethics so that employees, in a situation where they feel they may have to act unethically, have somewhere to go for help. For example, some companies have a business code of ethics so that guidance is there for employees to know how they are expected to act and ask for assistance in an ethical dilemma.
  - Accountants responsible for the preparation of financial information must ensure that the information they prepare is technically correct, reports the substance of the transaction and is adequately disclosed. The danger is that senior managers are put under pressure to present figures that inflate profit or assets or understate liabilities. This puts the accountant in a difficult position. On one hand, they wish to prepare accurate information, and on the other hand, there is a possibility they might lose their job if they do not comply with their manager's wishes.
  - In this case, ethics starts with the individual preparing the information. They have a difficult decision to make; whether to keep quiet or take the matter further. If they keep quiet, they will certainly be aware that they are not complying with the ethics of the accounting body they belong to. If they speak out, they may be bullied at work into changing the information or sacked. Many accounting bodies have ethical 'help lines' where individuals can ring for advice.

(4 points @ 2.5 marks each = 10 marks)

b)

i) Motor Vehicle at Cost

| Date       | Details            | GH¢                   | Date       | Details     | GH¢                   |
|------------|--------------------|-----------------------|------------|-------------|-----------------------|
| 01/01/2020 | Balance b/d        | 150,800               | 01/02/2020 | Disposal    | 80,000                |
| 01/02/2020 | Cheque additions   | 40,000                |            |             |                       |
| 01/02/2020 | Trade-in additions | <u>31,400</u>         | 31/12/2020 | Balance c/d | <u>142,200</u>        |
|            |                    | <b><u>222,200</u></b> |            |             | <b><u>222,200</u></b> |
| 01/01/2021 | Balance b/d        | 142,200               |            |             |                       |

ii) Motor Vehicle accumulated depreciation

| Date       | Details     | GH¢                   | Date       | Details     | GH¢                   |
|------------|-------------|-----------------------|------------|-------------|-----------------------|
| 01/02/2020 | Disposal    | 54,668                | 01/02/2020 | Balance b/d | 95,700                |
| 31/12/2020 | Balance c/d | <u>69,616</u>         | 31/12/2020 | P/L         | <u>28,584</u>         |
|            |             | <b><u>124,284</u></b> |            |             | <b><u>124,284</u></b> |
|            |             |                       | 01/01/2021 | Balance b/d | 69,616                |

iii) Disposal account for Motor Vehicle C

| Date       | Details | GH¢                  | Date       | Details  | GH¢                  |
|------------|---------|----------------------|------------|----------|----------------------|
| 01/02/2020 | Cost    | 80,000               | 01/02/2020 | Acc. Dep | 54,668               |
|            | P/L     | <u>6,068</u>         | 01/02/2020 | Trade in | <u>31,400</u>        |
|            |         | <b><u>86,068</u></b> |            |          | <b><u>86,068</u></b> |

Motor Vehicle C Depreciation Calculation

| Year | Cost   | Dep rate | Period | Amount |
|------|--------|----------|--------|--------|
| 2016 | 80,000 | 20%      | 4/12   | 5,334  |
| 2017 | 80,000 | 20%      | 1      | 16,000 |
| 2018 | 80,000 | 20%      | 1      | 16,000 |
| 2019 | 80,000 | 20%      | 1      | 16,000 |
| 2020 | 80,000 | 20%      | 1/12   | 1,334  |

Motor Vehicle C Depreciation Calculation

|                           |        |     |       |                      |
|---------------------------|--------|-----|-------|----------------------|
| Continuing                | 70,800 | 20% | 1     | 14,280               |
| Disposed of Motor Vehicle | 80,000 | 20% | 1/12  | 1,334                |
| Addition                  | 71,400 | 20% | 11/12 | <u>13,090</u>        |
|                           |        |     |       | <b><u>28,704</u></b> |

(10 marks)

(Total: 20 marks)

**EXAMINER'S COMMENTS**

Question 1 a) was fairly answered by majority of candidates who attempted it. Although most candidates had some challenges with identifying the specific governance issues regarding the duties and responsibilities of those charged with governance, a handful of candidates did well in coming out with the specific governance issues.

Candidates had a lot of challenges and difficulties in answering questions 1 b) (i-iii) Majority of candidates could not open the ledgers required. The few candidates who could also open the ledgers wrongly entered the appropriate entries. The basic double-entry principles were lacking, evidenced by some of them scoring very low marks.

## QUESTION TWO

a)

| Rent       |      |                      |
|------------|------|----------------------|
| 01/01/2020 | Bank | 10,000               |
| 01/04/2020 | Bank | 10,000               |
| 01/07/2020 | Bank | 10,000               |
| 01/10/2020 | Bank | <u>3,333</u>         |
|            |      | <b><u>33,333</u></b> |
| Bank       |      |                      |
| 01/01/2020 | Rent | 10,000               |
| 01/04/2020 | Rent | 10,000               |
| 01/07/2020 | Rent | 10,000               |
| 01/10/2020 | Rent | <u>10,000</u>        |
|            |      | <b><u>40,000</u></b> |

| Prepayment |      |       |
|------------|------|-------|
| 01/10/2020 | Rent | 6,667 |

(4 marks)

ii) Extract of Profit or Loss

Rent expense                      GH¢33,333

Extract of Statement of Financial Position

Current asset:

Prepayment (rent)                      GH¢6,667

(1 mark)

b)

| Partners' Capital Accounts |                       |                      |                      |             |                       |                      |                      |
|----------------------------|-----------------------|----------------------|----------------------|-------------|-----------------------|----------------------|----------------------|
|                            | Agyei                 | Bobo                 | Dago                 |             | Agyei                 | Bobo                 | Dago                 |
|                            | GH¢                   | GH¢                  | GH¢                  |             | GH¢                   | GH¢                  | GH¢                  |
| Goodwill                   | 36,000                | 24,000               |                      | Balance b/d | 95,000                | 60,000               | 50,000               |
| Motor vehicle              |                       |                      | 20,500               | Goodwill    | 30,000                | 20,000               | 10,000               |
| Inventory                  |                       |                      | 8,400                | Revaluation | <u>15,000</u>         | <u>10,000</u>        | <u>5,000</u>         |
| Loan                       |                       |                      | 12,000               |             |                       |                      |                      |
| Current a/c                |                       |                      | 10,200               |             |                       |                      |                      |
| Bank                       |                       |                      | 13,900               |             |                       |                      |                      |
| Balance c/d                | <u>104,000</u>        | <u>66,000</u>        | -                    |             |                       |                      |                      |
|                            | <b><u>140,000</u></b> | <b><u>90,000</u></b> | <b><u>65,000</u></b> |             | <b><u>140,000</u></b> | <b><u>90,000</u></b> | <b><u>65,000</u></b> |
|                            |                       |                      |                      | Balance b/d | 104,000               | 66,000               |                      |

### Workings:

1. Revaluation surplus calculation:

GH¢ (116,325 - 80,000) - GHS (5,300 + (25,800 - 5,300) × 5%) = GH¢30,000

Agyei                                      30,000 × 3/6 = 15,000

Bobo                                        30,000 × 2/6 = 10,000

Dago  $30,000 \times 1/6 = 5,000$

2. Goodwill in old ratio:

Agyei  $60,000 \times 3/6 = 30,000$

Bobo  $60,000 \times 2/6 = 20,000$

Dago  $60,000 \times 1/6 = 10,000$

3. Goodwill in new ratio:

Agyei  $60,000 \times 3/5 = 36,000$

Bobo  $60,000 \times 2/5 = 24,000$

(7 marks evenly spread with ticks)

ii) Statement of financial position for Agyei and Bobo at 1 July 2020

|                                      | GH¢     | GH¢                   |
|--------------------------------------|---------|-----------------------|
| Assets                               |         |                       |
| Non-current assets                   |         |                       |
| Premises                             |         | 116,325               |
| Office equipment                     |         | 58,400                |
| Motor vehicle (45,000 – 20,500)      |         | <u>24,500</u>         |
|                                      |         | 199,225               |
| Current assets                       |         |                       |
| Inventory (28,600 – 8,400)           | 20,200  |                       |
| Trade receivables (25,800 – 6,325)   | 19,475  | <u>39,675</u>         |
| Total assets                         |         | <u><b>238,900</b></u> |
| Capital accounts                     |         |                       |
| Agyei                                | 104,000 |                       |
| Bobo                                 | 66,000  | 170,000               |
| Current accounts                     |         |                       |
| Agyei                                | 15,200  |                       |
| Bobo                                 | 7,040   | 22,240                |
| Non-current liabilities              |         |                       |
| Loan account                         |         | 12,000                |
| Current liabilities                  |         |                       |
| Bank overdraft (13,900 – 5,650)      | 8,250   |                       |
| Trade payables                       | 26,410  | <u>34,660</u>         |
| <b>Total capital and liabilities</b> |         | <u><b>238,900</b></u> |

(8 marks evenly spread with ticks)

(Total: 20 marks)

## EXAMINER'S COMMENTS

Question 2 a) was poorly answered. Most candidates had difficulties with the opening and closing balances of the rent ledger. The ii) part of the question was no exception. As a result, candidates could not prepare the Extract of Profit or Loss and Financial Position.

The b) part of the question regarding the Partnership Capital Account was fairly answered by most candidates. It is, however, important to state that majority of the candidates failed to correctly compute the revaluation surplus as workings for all the three partners, Agyei, Bobo and Dago. The Statement of Financial Position for Agyei and Bobo as at the 1 July 2020 was also fairly answered. Candidates who attempted to prepare the Statement of Financial Position had a lot of the entries correct. However, majority of candidates failed to balance the Statement of Financial Position for Agyei and Bobo.

## QUESTION THREE

a)

| Receivables Control Accounts |                    |                         |            |                         |                         |
|------------------------------|--------------------|-------------------------|------------|-------------------------|-------------------------|
| Date                         | Details            | GH¢                     | Date       | Details                 | GH¢                     |
| 01/01/2020                   | Balance b/d        | 400,000                 | 01/01/2020 | Balance b/d             | 40,000                  |
|                              | Sales              | 2,800,000               |            | Sales returns           | 160,000                 |
|                              | Dishonoured cheque | 25,000                  |            | Receipts from customers | 2,400,000               |
|                              | Balance omitted    | 6,990                   |            | Discount allowed        | 40,000                  |
|                              |                    |                         |            | Irrecoverable debt      | 120,000                 |
|                              |                    |                         |            | Contra                  | 9,780                   |
| 31/12/2020                   | Balance c/d        | <u>60,000</u>           | 31/12/2020 | Balance c/d             | <u>522,210</u>          |
|                              |                    | <b><u>3,291,990</u></b> |            |                         | <b><u>3,291,990</u></b> |
| 01/01/2021                   | Balance b/d        | 522,210                 | 01/01/2021 | Balance b/d             | 60,000                  |

| Payable Control Accounts |                       |                         |            |                     |                         |
|--------------------------|-----------------------|-------------------------|------------|---------------------|-------------------------|
| Date                     | Details               | GH¢                     | Date       | Details             | GH¢                     |
| 01/01/2020               | Balance b/d           | 160,000                 | 01/01/2020 | Balance b/d         | 360,000                 |
|                          | Purchases             |                         |            | Purchases           | 1,800,000               |
|                          | returns               | 80,000                  |            | Interest            | 12,000                  |
|                          | Discount received     | 60,000                  |            | Discount disallowed | 6,000                   |
|                          | Payments to suppliers | 1,500,000               |            |                     |                         |
|                          | Contra                | 9,780                   |            |                     |                         |
| 31/12/2020               | Balance c/d           | <u>392,220</u>          | 31/12/2020 | Balance c/d         | <u>24,000</u>           |
|                          |                       | <b><u>2,202,000</u></b> |            |                     | <b><u>2,202,000</u></b> |

01/01/2021 Balance b/d 24,000 | 01/01/2021 Balance b/d 392,220

**(18 marks evenly spread)**

b) Businesses prepare control accounts for the following reasons:

- First, the purpose of the control account is to keep the nominal ledger free of details yet have the correct balance for receivables and payables for the trial balance, which forms part of the financial statements.
- Control accounts are a means of proving the accuracy of the ledger accounts of receivables and payables. As a result, this is a control mechanism to ensure the accuracy of the receivables and payables ledgers. This control assists in the location of the error.
- Control accounts can also act as an internal check, i.e. the person posting entries to the control account acts as a check on a different person who posts amounts from the daybooks to the personal ledgers.

**(Any 2 points @ 1 mark each = 2 marks)**

**(Total: 20 marks)**

### EXAMINER'S COMMENTS

Question three a) where candidates were asked to prepare Receivable and Payable Control Accounts was obviously the bonus question. All candidates who attempted it had very high marks, with some of the candidates scoring all the eighteen (18) marks. A few candidates struggled to record the entries correctly and thus had very low marks. Question three b) aspect was also fairly answered by the majority of candidates.

### QUESTION FOUR

a) Statement of Profit or Loss for the year ended 30 June 2019

|                        | GH¢             | GH¢             | GH¢              |
|------------------------|-----------------|-----------------|------------------|
| Sales                  |                 |                 | 821,700          |
| Sales returns          |                 |                 | <u>42,820</u>    |
| Net Sales              |                 |                 | 778,880          |
| Cost of sales          |                 |                 |                  |
| Opening Inventory      |                 | 35,900          |                  |
| Purchases              | 551,960         |                 |                  |
| Purchases returns      | <u>(18,800)</u> | <u>533,160</u>  |                  |
|                        |                 | 569,060         |                  |
| Less Closing Inventory |                 | <u>(34,380)</u> | <u>(534,680)</u> |
| Gross Profit           |                 |                 | 244,200          |
| Discount received      |                 |                 | 5,560            |
| Less Expenses:         |                 |                 |                  |

|                               |         |                        |
|-------------------------------|---------|------------------------|
| Rent expenses                 | 43,900  |                        |
| Depreciation on delivery van  | 12,948  |                        |
| Insurance                     | 21,000  |                        |
| Rates and Water charges       | 15,080  |                        |
| Wages and salaries            | 143,900 |                        |
| Carriage outwards             | 6,240   |                        |
| Discount allowed              | 3,940   |                        |
| Interest charge               | 1,490   |                        |
| Telephone, internet and media | 11,020  |                        |
| Increase in receivables       | 9,358   |                        |
| Irrecoverable debts           | 14,260  |                        |
| Irrecoverable debt recovered  | (1,680) |                        |
| Power, light and heat         | 6,280   | <u>(287,736)</u>       |
| <b>Operating loss</b>         |         | <b><u>(37,976)</u></b> |

(Marks are evenly spread using ticks = 12 marks)

b) Statement of Financial Position as at 30 June 2019

| <b>Non-current Assets</b>     | <b>GH¢</b> | <b>GH¢</b>      | <b>GH¢</b>            |
|-------------------------------|------------|-----------------|-----------------------|
| Land                          | 349,000    |                 | 349,000               |
| Delivery van                  | 129,480    | (47,768)        | 81,712                |
| <b>Current Assets</b>         |            |                 |                       |
| Inventory                     |            | 34,380          |                       |
| Receivables                   | 203,180    |                 |                       |
| Closing allowance             | (20,318)   | 182,862         |                       |
| Prepayments                   |            | 8,000           | <u>225,242</u>        |
|                               |            |                 | <b><u>655,954</u></b> |
| <b>Equity and Liabilities</b> |            |                 |                       |
| Capital                       |            |                 | 300,270               |
| Accumulated Profit/ loss b/f  |            | 104,640         |                       |
| Loss during the year          |            | <u>(37,976)</u> |                       |
| Accumulated profit            |            |                 | 66,664                |
| Drawings                      |            |                 | (19,350)              |
| <b>Current Liabilities</b>    |            |                 |                       |
| Payables                      |            | 287,390         |                       |
| Bank overdraft                |            | 16,430          |                       |
| Vat Liability                 |            | <u>4,550</u>    | <u>308,370</u>        |
|                               |            |                 | <b><u>655,954</u></b> |

(Marks are evenly spread using ticks = 8 marks)

(Total: 20 marks)

## WORKINGS

### 1. Receivables

|                               |                 |
|-------------------------------|-----------------|
| Receivable as per TB          | 205,480         |
| Additional irrecoverable debt | 2,300           |
| Restated receivables          | 203,180         |
| Allowance for irrecoverable   | 10%             |
| Closing Allowance             | 20,318          |
| Opening Allowance             | <u>(10,960)</u> |
|                               | <u>9,358</u>    |

|                              |               |
|------------------------------|---------------|
| Irrecoverable debt as per TB | 11,960        |
| Additional irrecoverable     | <u>2,300</u>  |
| Restated debts recovered     | <u>14,260</u> |

### 2. Bank

|                               |                 |
|-------------------------------|-----------------|
| Bank as per TB                | (19,710)        |
| Irrecoverable debts recovered | <u>1,680</u>    |
|                               | (18,030)        |
| Suspense a/c                  | <u>1,600</u>    |
|                               | <u>(16,430)</u> |

### 3. Payables

|                  |                |
|------------------|----------------|
| Payable          | 285,900        |
| Interest Charges | <u>1,490</u>   |
|                  | <u>287,390</u> |

### 4. Insurance

|                     |               |
|---------------------|---------------|
| Insurance as per TB | 29,000        |
| Prepayment          | <u>-8,000</u> |
|                     | <u>21,000</u> |

## EXAMINER'S COMMENTS

Question four was a bit difficult for most candidates. Due to time constraints most candidates attempted it as their last question and, as a result, could not earn the needed marks. Also, candidates had issues identifying the sales and purchases returns in the trial balance and therefore had difficulties treating these figures in the Statement of Profit or Loss. Some candidates also just provided workings without transferring their answers (figures) to the Statement of Profit or Loss and Statement of Financial Position and thus lost a lot of marks. However, some candidates were able to correctly prepare both the Statement of Profit and Loss and Statement of Financial Position, thus earning the maximum marks.



### QUESTION FIVE

a)

i) Gross profit margin:

|   | <u>Danyi</u>                                | <u>Napo</u>                                 |
|---|---|---|
| $\frac{\text{Gross profit}}{\text{sales}} \times 100$ | $\frac{400,000}{800,000} \times 100 = 50\%$ | $\frac{440,000}{800,000} \times 100 = 55\%$ |

**(1 mark)**

ii) Net profit margin:

|   |  |  |
|---|--|--|
| $\frac{\text{Net profit}}{\text{sales}} \times 100$ | $\frac{150,000}{800,000} \times 100 = 18.75\%$ | $\frac{220,000}{800,000} \times 100 = 27.50\%$ |
|---|--|--|

**(1 mark)**

iii) (ROCE:

|  |  |  |
|--|--|--|
| $\frac{\text{Profit}}{\text{Capital employed}} \times 100$ | $\frac{150,000}{700,000} \times 100 = 21.43\%$ | $\frac{220,000}{700,000} \times 100 = 31.43\%$ |
|--|--|--|

**(1 mark)**

iv) Current ratio:

|  |                                    |                                   |
|--|------------------------------------|-----------------------------------|
| $\frac{\text{Current assets}}{\text{Current liabilities}}$ | $\frac{300,000}{90,000} = 3.3 : 1$ | $\frac{260,000}{260,000} = 1 : 1$ |
|--|------------------------------------|-----------------------------------|

**(1 mark)**

v) Liquid ratio:

|  |                                    |                                      |
|--|------------------------------------|--------------------------------------|
| $\frac{\text{Current assets} - \text{stocks}}{\text{Current liabilities}}$ | $\frac{250,000}{90,000} = 2.8 : 1$ | $\frac{160,000}{260,000} = 0.62 : 1$ |
|--|------------------------------------|--------------------------------------|

**(1 mark)**

vi) Stock turnover:

|   |   |  |
|---|---|--|
| $\frac{\text{Cost of sales}}{(\text{Average}) \text{ Stocks held}}$ | $\frac{400,000}{40,000} = 10 \text{ times}$ | $\frac{360,000}{90,000} = 4 \text{ times}$ |
|---|---|--|

**(1 mark)**

b)

i) Liquidity:

- The stock turnover of Napo is low, and stock levels are twice those of Danyi.
- The current ratio of Danyi is high with probable idle funds, Napo's ratio is low with poor credit control.
- The liquid ratio of Danyi is high with substantial cash available, Napo's ratio is again low with an overdraft and substantial debts uncollected.

**(2 points @ 2 mark each = 4 marks)**

ii) Profitability:

- The gross profit margin of Napo is greater than Danyi, possibly due to a higher markup.
- The net profit margin of Napo is greater than Danyi as expenses have been maintained at a lower level for the same turnover for both businesses.
- Return on capital employed is acceptable for both businesses but particularly high for Napo.

**(2 points @ 2 marks each = 4 marks)**

c)

Advise to management of Danyi:

- Danyi should seek to reduce its expenses.
- Danyi should consider investing some of its cash which is at present 'idle'.
- Danyi's stock level has increased from GH¢30,000 to GH¢50,000 in one year and should therefore be reviewed.

**(3 points @ 1 mark each = 3 marks)**

Advise to management of Napo:

- Napo should seek to reduce its inventory level and improve its stock turnover.
- Napo should institute better credit control to reduce its debtors to fund the elimination of bank overdraft.
- Napo should seek to improve its current ratio and liquid ratio.

**(3 points @ 1 mark each = 3 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

Question five a) was fairly answered by most candidates who attempted it. However, it is worth noting that some candidates could not ascertain and determine the gross profit margin, net profit margin, return on capital employed, current ratio, liquidity ratio and stock turnover ratio. Although some of these ratios were easy to compute some candidates failed to get the computations accurately. For instance, some candidates had difficulties in calculating the stock turnover ratio. Instead, they were computing the stock turnover period.

Regarding questions b) and c), some candidates had challenges in relation to their comments in explaining the ratios they had computed. For example, some were not able to match the profitability ratios calculated in line with the gross profit, which should directly be linked to the cost of sales. This net profit margin should also be linked to expenses and the return on capital employed. It should also be linked to how efficiently the company can employ its assets to generate the needed revenue.

The liquidity ratios also lacked the simple relationship between how companies can raise the needed cash to pay for their debts as and when they fall due. And again, where inventory is not part of the current assets, how companies can put in place the necessary measures to manage its receivables by putting in place a robust credit control collection measure to collect their debts to boost their cash flow. This analysis

was not evident in most of the scripts. Lastly, the advice to management regarding the actions they could take in improving profitability and liquidity lacked a lot of proper analysis.

Despite the above, some candidates explained and made good recommendations, which earned them good marks.

## **CONCLUSION**

Candidates and Lecturers should use past question papers as a guide to future question papers. However, 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 should always read questions well and understand the requirements before answering the questions.

Candidates are also advised to go through the syllabus very well before sitting for the examination.