

**ASSOCIATION OF ACCOUNTANCY BODIES IN WEST AFRICA
ACCOUNTING TECHNICIANS SCHEME, WEST AFRICA
PART I EXAMINATIONS – SEPTEMBER 2021
BASIC ACCOUNTING PROCESSES & SYSTEMS**

Time Allowed: 3 hours

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

ATTEMPT ALL QUESTIONS IN THIS SECTION

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 branch of accounting that involves the accumulation of data to provide information for managerial action is
 - A. Financial accounting
 - B. Performance management
 - C. Financial management
 - D. Forensic accounting
 - E. Cost accounting

2. Which of the following is an example of fundamental quality of accounting information
 - A. Relevance
 - B. Comparability
 - C. Understandability
 - D. Timeliness
 - E. Verifiability

3. The body that is responsible for setting International Financial Reporting Standards (IFRS) is
 - A. International Accounting Standards Committee (IASC)
 - B. International Accounting Standards Board (IASB)
 - C. Financial Reporting Council of Nigeria (FRCN)
 - D. Institute of Chartered Accountants of Nigeria (ICAN)
 - E. American Institute of Public Certified Accountants (AICPA)

4. In the absence of partnership deed, partners are expected to abide by the following rules in line with Partnership Act 1890, **EXCEPT**

- A. Share profits and losses equally
 - B. Receive 5% interest on capital account
 - C. Receive no salary for being an active partner.
 - D. Collect no interest on current account.
 - E. Receive 5% interest on loan granted the business
5. Which of the following is **NOT** an example of company's statutory books
- A. Register of members
 - B. Minute books
 - C. Register of contractors
 - D. Accounting records
 - E. Directors' service contracts
6. The unit of capital in a company is represented by which of the following?
- A. Owners equity
 - B. Capital
 - C. Income
 - D. Assets
 - E. Share
7. The accounting concept that directly defines the profit or loss statement is
- A. Consistency
 - B. Matching
 - C. Prudence
 - D. Materiality
 - E. Periodicity
8. Another name for prudence concept is
- A. Accrual
 - B. Historical cost
 - C. Duality
 - D. Materiality
 - E. Conservatism
9. Accounting concept that assumes incomes as earned and expenses as incurred is

- A. Accrual
 - B. Historical cost
 - C. Duality
 - D. Entity
 - E. Conservatism
- 10 Which of the followings is an example of intangible asset
- A. Furniture and fittings
 - B. Fixtures and fittings
 - C. Franchise
 - D. Freehold property
 - E. Motor vehicle
- 11 Which of the following accounting equations is **NOT** correct
- A. $\text{Assets} = \text{Equity}$
 - B. $\text{Assets} = \text{Liabilities} + \text{Equity}$
 - C. $\text{Equity} = \text{Assets} - \text{Liabilities}$
 - D. $\text{Assets} = \text{Equity} - \text{Liabilities}$
 - E. $\text{Liabilities} = \text{Assets} - \text{Equities}$
- 12 What effect would payment on account to a supplier of inventory from the business bank account have on assets, liabilities and equity respectively?
- | | Assets | Liability | Equity |
|----|---------------|------------------|---------------|
| A. | Decrease | Decrease | No effect |
| B. | Increase | No effect | Increase |
| C. | Decrease | Increase | No effect |
| D. | No effect | Decrease | Decrease |
| E. | Decrease | No effect | Decrease |
- 13 A formal statement of intention made by a potential supplier to supply the goods or services required by a purchaser at specified prices and period of time is
- A. Pro forma invoice
 - B. Sales invoice
 - C. Quotation
 - D. Purchase invoice
 - E. Purchase bills

- 14 Document relating to goods returned by the buyer or refunds to him when the buyer has been overcharged is
- Credit note
 - Del crede note
 - Purchase note
 - Debit note
 - Return note
- 15 Which of the following is **NOT** an example of main source documents that are used for recording in the books of original entry?
- Credit note
 - Return note
 - Remittance advice
 - Debit note
 - Cheque counterfoils
- 16 An allowance given to a trader that bought in large quantity is
- Discount allowed
 - Discount received
 - Cash discount
 - Sales discount
 - Trade discount
- 17 Niyi Adegunle bought motor vehicle worth GH¢5,000,000 on credit from Douglas Achumburg. This transaction will be reflected in the account as follows:
- Dr. Adegunle GH¢5,000,000 Cr. Achumburg GH 5,000,000
 - Dr. Motor GH¢5,000,000 Cr. Adegunle GH ¢5,000,000
vehicle
 - Dr. Achumburg GH¢5,000,000 Cr. Adegunle GH ¢5,000,000
 - Dr. Motor GH¢5,000,000 Cr. Achumburg GH ¢5,000,000
vehicle
 - Dr. Adegunle GH¢5,000,000 Cr. Motor GH ¢5,000,000
vehicle
18. The following transactions pass through the normal subsidiary books rather than being journalised, **EXCEPT**
- Johnie paid ₦200,000 cash into the bank account
 - Abib bought computer equipment worth ₦250,000 on credit from Dosumu
 - Bala received ₦25,000 invoice for carriage of goods from Kofi
 - Gbada bought goods worth ₦230,000 from Nana & Company

- E. Ade deposited ₦250,000 cash in the business Account as a start-up fund

Use the information below to answer Questions 19 to 21

The pay slip of Kofi Mustapha for the month of April 2020 revealed the following:

Basic Salary	GH¢250,000
Income Tax	12.5% of basic salary

Social Security Contribution:

Employer:	15% of basic salary
Employee:	7.5% of basic salary
CTTS deductions	GH¢50,000 per month
Medical bill for April	GH¢15,000
Professional allowance:	GH¢35,000 per month

19. What was the total deductions from Kofi Mustapha's basic pay in April 2020?
- A. GH¢115,000
 - B. GH¢133,750
 - C. GH¢150,000
 - D. GH¢152,500
 - E. GH¢155,000
20. The total amount of social security contributions to the credit of Kofi Mustapha for April 2020 was
- A. GH¢18,750
 - B. GH¢37,500
 - C. GH¢52,500
 - D. GH¢56,250
 - E. GH¢59,000
21. What was the net salary paid to Kofi Mustapha for April 2020?
- A. GH¢100,000
 - B. GH¢132,500
 - C. GH¢135,000
 - D. GH¢150,000
 - E. GH¢170,000

- 22 Which of the following is **NOT** an established control over cash transaction to be enforced by the management of an entity
- A. Cash should be kept in the till all the time
 - B. All payments, except for petty cash transactions, are to be made by cheques
 - C. There should be internal check between receipt and payment of cash
 - D. All transactions are to be checked and approved by authorised officers before payments are made
 - E. Carbonised receipts should be issued for all cash sales and cash received
- 23 Which of the following is an example of capital expenditure
- A. Cost of repairing non-current assets
 - B. Cost incurred in acquiring trading inventories
 - C. Expenses in connection with rent and insurance of office building
 - D. Legal charges on acquired land or buildings
 - E. Directors' remuneration and fees
- 24 Several factors contribute to depreciation of non-current assets, where depreciation is due to wear and tear, such could be classified as
- A. Physical deterioration
 - B. Obsolescence
 - C. Inadequacy
 - D. Depletion
 - E. Time factor
- 25 From the following information, calculate the cash paid to the supplier during the year.

Payable at the beginning of the year GH¢250,000

Payable at close of the year GH¢400,000

Credit purchases for the year GH¢510,000

- A. GH¢340,000
- B. GH¢360,000
- C. GH¢380,000
- D. GH¢520,000

- E. GH¢660,000
- 26 The relevant accounting standard on inventory account is
- A. IAS 1
 - B. IAS 2
 - C. IAS 16
 - D. IFRS 1
 - E. IFRS 2

Use the data below to answer Questions 27 and 28

Charles Barber Limited has the following information at 31/12/2019

	₦
Cost of raw materials	7,650,000
Manufacturing overheads	2,980,000
Productive wages	3,750,000
Work in progress 1/1/2019	1,200,000
Work in progress 31/12/2019	1,900,000
Payment of royalties	1,650,000
Closing inventories of finished goods	2,000,000
Manufactured goods transferred to Sales Dept at cost plus 20%	

27. The prime cost is
- A. ₦ 7,650,000
 - B. ₦11,400,000
 - C. ₦13,050,000
 - D. ₦16,030,000
 - E. 18,030,000
28. The transfer value is
- A. ₦13,050,000
 - B. ₦15,330,000
 - C. ₦15,960,000
 - D. ₦16,030,000
 - E. ₦18,396,000

29. Which of the following is **NOT** true about the accounts of clubs and societies?
- A. A deficit on income and expenditure account reduces accumulated fund
 - B. Income and expenditure account does not contain capital receipts and expenditure.
 - C. The excess of total assets over total liabilities represents accumulated fund
 - D. The closing balance of receipt and payments account is transferred to income and expenditure account.
 - E. A surplus on Income and Expenditure Account increases accumulated fund
30. Factors to consider when deciding on which package to use or buy, **EXCLUDE**
- A. Cost
 - B. Flexibility
 - C. Types of processing
 - D. Timing of processing
 - E. Location of computer centre

SECTION A: PART TWO SHORT-ANSWER QUESTIONS (20 MARKS)

ANSWER ALL QUESTIONS

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

1. The 'true and fair view' of the financial statement of an entity is to be reported by the.
2. A company that restrict the transfers of shares of its owner is known as
3. The type of preference shares that entitles the holders to share in any remaining profits after both preference shareholders and ordinary shareholders have received specified dividends is regarded as.....
4. The following organisations: religious, charitable, social entities and clubs are regarded as..... for the purpose of accounting

5. The accounting principle that recognises income as earned and expenses as incurred is called.....
6. Accounts can be grouped under three main headings of personal, real and
7. An error within the same class of account but affecting different persons is regarded as.....
8. Information stored in a computer-based accounting system which can be arranged into any desired format is called.....
9. Dishonoured cheque/bill is to be found on which side of receivable ledger account?
10. Petty cash account is usually operated on a(an).....system.
11. When a cheque is made payable only to the person named on it, it is said to be
12. A cash dispenser which is designed to enable customers enjoy banking services without coming in contact with the Bank Teller (Cashier) is
13. The payment plan that combines the time and piece rate systems is regarded as.....
14. Any cost with earning potential exhausted within one accounting period is classified as
15. An account in which the net difference in Trial Balance totals is recorded pending the location and correction of the errors causing the difference is called.....
16. The addition of opening inventory and purchases of goods in a year results in
17. The main sources of application software are: computer bureau, computer manufacturers and.....
18. The process of locating and eliminating errors from a program is known as.....

19. Where a customer has instructed his bank to make regular amounts of money at given dates to some other third parties, such instruction is regarded as a(an).....

Details of subscriptions account of Igbalode Youth Club are as follows:

	2019	2018
	L\$	L\$
Cash received from members during the year	643,650	
Subscriptions in arrears	360,000	240,000
Subscriptions in advance	210,000	150,000

20. How much subscription is transferrable to the Income Statement in 2019?

SECTION B: ATTEMPT ANY FOUR QUESTIONS (50 MARKS)

QUESTION 1

Gastos Plastic Moulding Limited presented the following information for the year ended 31 December, 2019:

	GH¢ '000
Purchase of Raw Materials	360,000
Carriage inwards	24,000
Manufacturing wages	180,000
Depreciation of Plant	50,000
Inventory at January 1 2019:	
Raw Materials	100,000
Work in progress	150,000
Finished products	80,000
Return outwards	25,000
Office salary	12,500
Insurance expenses – office	10,000
Factory expenses	25,000
Royalty paid	52,000
Depreciation – Office Equipment	12,500
Factory Fuel and Electricity	10,500
Revenue	950,000

The following additional information are also relevant:

- (i) It is the policy of the company to transfer the finished product to the marketing section at cost plus 15%;
- (ii) Inventory at 31 December, 2019:
- | | |
|-------------------|---------|
| Raw Material | 125,000 |
| Work in progress | 140,000 |
| Finished products | 100,000 |

You are required to prepare:

- i. Statement of manufacturing account (9 Marks)
 - ii. Statement of profit or loss for the year ended 31 December, 2019 (3½ Marks)
- (Total 12½ Marks)**

QUESTION 2

- a. The preparation of a Trial Balance does not prove that transactions have been completely and correctly recorded in the proper accounts. There are errors that do not affect the agreement of the Trial Balance.

List and explain **FOUR** of such errors that may not be revealed by the Trial Balance (4 Marks)

- b. After extracting the Trial Balance of Gbengus Enterprises on 31 December, 2019, It was discovered that the debit side was higher than the credit side by ₦9,270. A review of the ledger revealed the following errors:

- (1) A sum of ₦1,080 on a receivables' account was omitted from the balance of Trade Receivables.
- (2) A computer top bought for ₦8,640 had been debited to repairs.
- (3) The payments side of the cash account had been under cast by ₦5,850
- (4) The total of one page of the sales day book had been carried forward as ₦19,386, instead of the correct amount of ₦22,626.
- (5) A debit note of ₦1,890 received from a customer had

been posted to the wrong side of his account.

- (6) Mr. Lucky whose debts of ₦4,680 to the business had been written off, paid during the year. His personal account was credited but no corresponding entry was made.

You are required to:

- i. Prepare the journal entries to correct the errors (6 Marks)
 - ii. Write up the Suspense account (2½ Marks)
- (Total 12½ Marks)**

QUESTION 3

- a. Explain the following source documents:
 - i. Payment vouchers (2 Marks)
 - ii. Quotation (2 Marks)
 - iii. Delivery note (2 Marks)
- b. An expenditure can be classified into capital or revenue expenditure. State **TWO** distinctive differences between capital and revenue expenditure (2 Marks)
- c. Kofi Mensah, a cocoa merchant in Accra, presents the following information for the month of April, 2020:

	GH¢ '000
Bought a motor vehicle to transport produce to the market	5,000
Renovated the warehouse to pave way for new produce	2,000
Procured more produce into the warehouse	3,500
Acquired additional warehouse	6,700
Legal and agreement fees on the warehouse acquired	1,000
Repair and maintenance of motor vehicle	500
Salaries and wages for the month	1,000
Paid insurance premium on motor vehicle	200
Bought computer equipment for office use	750

You are required to:

Classify the expenditures into capital and revenue (4½ Marks)
(Total 12½ Marks)

QUESTION 4

- a. Depreciation can be regarded as loss in value of assets with several methods of calculation in line with IAS 16.

Briefly explain the following methods of calculating depreciation:

- i. Straight line method (2 Marks)
- ii. Reducing balance method (2 Marks)
- iii. Sum of the year digit method (2 Marks)

- b. On January 1, 2016 Achimbong Limited purchased a motor vehicle for GH¢3,750,000. The motor vehicle has a useful life of five years with a salvage value of GH¢200,000.

You are required to calculate:

The depreciation charge, accumulated depreciation for each of the years and show the net book value as at the end of 2020 accounting period in a tabular form using:

- i. The straight-line method (3 Marks)
- ii. Sum of the year digits method (3½ Marks)

(Total 12½ Marks)

QUESTION 5

- a. Accounting has been described as a language of business and for every language there exist underlying concepts and principles to guide the users.

Explain briefly the concept of “Substance over form”. (1½ Marks)

- b. The table below shows the data relating to three employees of Itakoto Nigeria Limited for the month of December, 2019:

Name of employee	Standard Hour Expected	Actual Hour worked	Rate per hour (₦)
Abimbola	400	425	20,000
Tonade	500	490	25,000
Hadiza	275	250	30,000

Included in the conditions of service of Itakoto Limited for the above named members of staff are the following:

- (i) Rent allowance of 15% of the basic salary
- (ii) Risk allowance equal to 17.5% of the basic salary
- (iii) Social security contributions (employers 15%; employees 7.5%) and
- (iv) Personal income tax liability at the rate of 12.5%.

You are required to prepare Payroll work sheet, showing the basic pay, deductions and net salary of the staff under Rowan incentive plan of remuneration.

(11 Marks)

(Total 12½ Marks)

QUESTION 6

- a. The manner in which accounting data is recorded in a manual based accounting system is different from how it is recorded in the computer based system.

List **TWO** different ways accounting systems are recorded in computer based system relative to manual recording. (4 Marks)

- b. The following information was extracted from the book of a sole trader as at 31 December, 2019:

- Balance per Bank statement ₦50,000 credit
- Cash book balance (bank column) ₦37,000 credit
- The following entries appear in the bank statement not in cash book
 - Bank charges ₦5,000
 - Bank loan interest ₦2,500

Income on investment	₦7,500
Dividend from shares	₦9,000

In addition, a cheque for ₦25,000 issued in favour of a supplier, Majekobaje Enterprises, was dishonoured for insufficiency of funds. Another cheque for ₦15,000 issued to Jamali Limited was unpresented. A cheque for ₦7,000 from Damingo Plc was not credited.

You are required to:

- i. Prepare the Adjusted Cash Book (4½ Marks)
 - ii. Bank Reconciliation Statement (4 Marks)
- (Total 12½ Marks)**

Suggested Solution

MCQ

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

Workings

Q19 Total deduction from Kofi Mustapha's pay

Income Tax (12.5% of 250,000)	31,250	
Social security (7.5% of 250,000)	18,750	
CTTS deduction	50,000	
Medical bill	<u>15,000</u>	
Total deductions	<u>115,000</u>	A

Q20 Social Security contribution of Mustapha in April

Employer's contribution (15% of 250,000)	37,500	
Employee's contribution (7.5% of 250,000)	<u>18,750</u>	
Total contributions	<u>56,250</u>	D

Q21 Net salary paid to Kofi Mustapha in April

Basic Salary	250,000	
Professional allowance	<u>35,000</u>	
Gross pay	285,000	
Deductions:		
Income Tax	31,250	
Social security	18,750	
CTTS deduction	50,000	
Medical bill	<u>15,000</u>	
Total deductions	<u>115,000</u>	
Net Pay	<u>170,000</u>	D

Q25 Calculation of cash paid to supplier

Payable at beginning	250,000	
Credit Purchases	<u>510,000</u>	
	760,000	
Less payable at end	<u>400,000</u>	
Cash paid to supplier	<u>360,000</u>	B

Q27 Prime cost of Production

Raw material cost	7,650,000		
Direct Wages	3,750,000		
Direct Expenses (Royalty)	<u>1,650,000</u>		
Prime cost of production	<u>13,050,000</u>	C	TTS

Q28 Transfer value of good

Prime cost of production (Q27)	13,050,000	
Add: Manufacturing overhead	<u>2,980,000</u>	
	16,030,000	
Add Work in progress at start	1,200,000	
Less work in progress at end	<u>(1,900,000)</u>	
Total cost of production	15,330,000	
Add mark up of 20%	<u>3,066,000</u>	
Transfer value of good	<u>18,396,000</u>	E

SHORT ANSWER QUESTIONS

1. Auditor
2. 1494
3. Participatory Preference shares
4. Not-for-Profit Entities
5. Accrual concepts
6. Nominal
7. Error of Commission
8. Data Base
9. Debit
10. Imprest system
11. Order cheque
12. ATM
13. Bonus scheme
14. Revenue Expenditure
15. Suspense account
16. Cost of good available for sale
17. Software houses
18. Debugging
19. Standing order
20. L\$703,650

Workings

Q20	Subscription Account			
	Balance b/d	240,000	Balance b/d	150,000
	Inc. & Exp. (derive)	703,650	Rec. & Pt a/c	643,650
	Balance c/d	<u>210,000</u>	Balance c/d	<u>360,000</u>
		<u>1,153,650</u>		<u>1,153,650</u>
	Balance b/d	360,000	Balance b/d	210,000

SOLUTION TO ESSAY QUESTIONS

QUESTION 1

Gastos Plastic Moulding Limited

(i) Statement of Manufacturing for the year ended 31 December, 2019

	GH¢'000	GH¢'000	GH¢'000
Direct Material Consumed:			
Opening Inventory	100,000		
Purchases	360,000		
Add Carriage inwards	<u>24,000</u>		
	384,000		
Less Return outwards	<u>25,000</u>		
Net Raw Material Purchased			<u>359,000</u>
Direct Material available for consumption			459,000
Less Closing Inventory			<u>125,000</u>
Direct Material Consumed			334,000
Manufacturing Wages			180,000
Royalty paid			<u>52,000</u>
Prime cost of production			566,000
Factory Overhead:			
Depreciation of Plant	50,000		
Factory Expenses	25,000		
Fuel and Electricity	<u>10,500</u>		<u>85,500</u>
			651,500
Add: Work in progress at start	150,000		
Less: Work in progress at close	<u>140,000</u>		<u>10,000</u>
Cost of production			661,500

Gross Profit on Production (15%) c/d	<u>99,225</u>
Market value of good completed c/d	<u>760,725</u>

$\frac{1}{3}$ mark each for the 24 ticks plus 1 additional mark for good presentation, totalling 9 marks.

(ii) Statement of Profit or Loss for the year ended 31 December, 2019

Revenue	950,000	
Less Cost of Sale:		
Opening Inventory of Finished Goods	80,000	
Market value of good produced b/d	<u>760,725</u>	
	840,725	
Less Closing inventory of finished goods	<u>100,000</u>	<u>740,725</u>
Gross Profit on trading		209,275
Gross Profit on Production b/d		<u>99,225</u>
		308,500
Less Operating Expenses:		
Office Salary	12,500	
Insurance	10,000	
Depreciation – Office Equipment	<u>12,500</u>	<u>35,000</u>
Net Profit		<u>273,500</u>

$\frac{1}{4}$ mark each for the 14 ticks, totalling 3½ marks.

QUESTION 2

- (a) The errors that may not be revealed by the Trial balance are:
- (i) **Error of omission:** This is a complete omission of a transaction From the ledger. Both the debit and the credit entries were completely omitted from the book.
 - (ii) **Error of principle:** When a transaction is posted to the wrong class of account an error of principle has been committed. An example is where a capital expenditure is treated as revenue expenditure.
 - (iii) **Error of commission:** This is an error within the same class of account but affecting different persons. For example, a payment received from Bassy credited to Baggy's account.
 - (iv) **Compensating errors:** An error made in the ledger which, is exactly by sheer coincidence, balanced by another error elsewhere in the ledger is referred to as a compensating error.
 - (v) **Complete reversal of entries:** This involves error in which, for a transaction, the account that ought to be debited is credited and the one to be credited is debited.
 - (vi) **Errors of original entry:** This error is committed where a transaction is incorrectly recorded in a source document or book of original entry and the incorrect amount is eventually posted to the relevant account in the ledger.

State any 4 for 4 marks

(b)

Gbengus Enterprises

Journal entries on 31 December, 2019

		Dr	Cr
		N	N
(1)	Suspense account	1,080	
	To Payable account		1,080
	Being entry in respect of		
	<u>Omitted receivable a/c</u>		
(2)	Computer Equipment	8,640	
	To Repair account		8,640
	Being correction of the		
	purchase of computer		
	equipment posted to repair		
(3)	Suspense account	5,850	
	To Cash account		5,850
	Being the correction of		
	undercast cash payment		
(4)	Suspense account	3,240	
	To Sales account		3,240
	Being correction of wrong		
	amount carried forward to		
	a page of sales day book		
		22	

(5)	Suspense account	3,780	
	To Receivable account		3,780
	Being correction of wrong posting of debit note to a page of Sales day book		

(6)	Cash account	4,680	
	To Suspense account		4,680
	Being entry of recovered		
	debt omitted from cash a/c		

1 mark each for accurate entries and narration of the journal entries

Payable account	1,080	Cash	4,680
Cash account	5,850	Trial balance difference	9,270
Sales account	3,240		
Receivable	<u>3,780</u>		<u> </u>
	<u>13,950</u>		<u>13,950</u>

$\frac{1}{2}$ mark each for the 5 ticks excluding the balance and the total, making $2\frac{1}{2}$ marks

QUESTION 3

(a) **Source documents**

(i) **Payment vouchers**

Payment voucher is an authorising document for payment for a particular expense or service. In an entity every payment must be supported by a payment voucher, which must be checked and authorized by responsible officers. Examples are payment vouchers for salary and wages, and petty cash vouchers.

(ii) **Quotations**

A quotation is a formal statement of intention made by a potential supplier to supply the goods or services required by a purchaser at specified prices and within a special period. It sometimes also contains terms of sale, payment and warranties. Acceptance of quotation by the buyer leads to issue of sales invoice by the supplier to the buyer which binds both parties.

(iii) **Delivery notes**

Delivery note is a document that accompanies the goods dispatched to the customer. Delivery note protects the dispatch driver from harassment on how he comes about the goods and serves as evidence of goods received by the purchaser when it is signed by him.

2 marks each for full explanation of each of the source documents, totalling 6 mark.

(b) **Important distinctions between capital and revenue expenditures are:**

(i) **Differences due to time TTS**

Where benefit derivable from the expenditure is within one accounting year, such expenditure would be regarded as revenue expenditure, otherwise it is a capital expenditure.

(ii) **Differences due to type of account**

An increase in capital expenditure is to be debited to non-current assets in the Statement of financial position, while increase in revenue expenditure charged to the Statement of Profit or loss.

1 mark each, making 2 mark

(c) **Classification of expenses into Capital and Revenue Expenditure**

Capital Expenditure	GH¢ '000
Bought a motor vehicle to transport produce to the market	5,000
Renovated the warehouse to pave way for new produce	2,000
Acquired additional warehouse	6,700
Legal and agreement fees on the warehouse acquired	1,000
Bought computer equipment for office use	750
 Revenue Expenditure	
Procured more produce into the warehouse	3,500
Repair and maintenance of motor vehicle	500
Salaries and wages for the month	1,000
Paid insurance premium on motor vehicle	200

½ mark each making 4½ marks

QUESTION 4

(a) Methods of calculating depreciations

(i) Straight line method

Under this method, an equal amount of depreciation is charged in each accounting period over the useful life of the non-current asset. The depreciation amount is computed by dividing the original cost of the non-current asset less estimated residual (salvage) by the useful life of the asset.

A mathematical formula can be deduced as follows:

$$\text{Annual Depreciation} = \frac{\text{Original cost of Asset} - \text{Salvage value}}{\text{Useful Life of Asset}}$$

(ii) Reducing Balance method

Under this method of depreciation, the book value of a non-current asset at the beginning of the year is multiplied by a fixed percentage to determine the depreciation for the accounting year. This procedure is repeated in subsequent accounting periods so as to reduce the depreciable amount of the non-current asset to its residual value or to zero if it has no residual value.

(iii) Sum of the year digits method

Under this method of depreciation, the number of year of the useful life of the asset is allocated, in a reverse order, as digit for each year. This in essence means that if the estimated useful life is 5 years, 5 will be allocated to the first year, 4 to the second year, 3 to the third year, 2 to the fourth year and 1 to the fifth year. The annual depreciation will then be calculated as the proportion of the cost less scrap value of the asset which the digit for the year bears to the total digits.

2 marks each shall be allocated to each of them, if well explained by the candidate.

(b) (i) Straight line method

$$\begin{aligned}\text{Annual depreciation} &= \frac{\text{Cost} - \text{Scrap value}}{\text{Number of useful live}} \\ &= \frac{\text{₹3,750,000} - \text{₹200,000}}{5 \text{ years}} \\ &= \text{₹710,000}\end{aligned}$$

Year	Balance at start GH₹	Depreciation charged GH₹	Accumulated Depreciation GH₹	Balance at end GH₹
2016	3,750,000	710,000	710,000	3,040,000
2017	3,040,000	710,000	1,420,000	2,330,000
2018	2,330,000	710,000	2,130,000	1,620,000
2019	1,620,000	710,000	2,840,000	910,000
2020	910,000	710,000	3,550,000	200,000

Award $\frac{1}{7}$ mark each for the 21 ticks including the depreciation calculation, making 3 marks

(iv) Sum of the year digits method

$$\begin{aligned}\text{Depreciation value} &= \text{Cost} - \text{Salvage value} \\ &= \text{¢}3,750,000 - \text{¢}200,000 \\ &= \text{¢}3,550,000\end{aligned}$$

Year	Number	Digit	Depreciation	Workings
2016	1	5	1,183,333	$\frac{5}{15} \times \text{¢}3,550,000$
2017	2	4	946,667	$\frac{4}{15} \times \text{¢}3,550,000$
2018	3	3	710,000	$\frac{3}{15} \times \text{¢}3,550,000$
2019	4	2	473,333	$\frac{2}{15} \times \text{¢}3,550,000$
2020	5	1	236,667	$\frac{1}{15} \times \text{¢}3,550,000$

Year	Balance	Depreciation	Accumulated	Balance
	at start	charged	Depreciation	at end
	GH¢	GH¢	GH¢	GH¢
2016	3,750,000	1,183,333	1,183,333	2,566,667
2017	2,566,667	946,667	2,130,000	1,620,000
2018	1,620,000	710,000	2,840,000	910,000
2019	910,000	473,333	3,313,333	436,667
2020	436,667	236,667	3,550,000	200,000

Award $\frac{1}{4}$ mark each for any 14 ticks making $3\frac{1}{2}$ marks

QUESTION 5

(a) Accounting Concept and Principle

Substance over form

Although business transactions are usually governed by legal principles; nevertheless they are accounted for and presented in accordance with their financial substance and reality and not merely by their legal form. In order to be useful information contained in financial statements must be relevant and reliable. This can only be achieved if the substances of transactions are recorded. If this did not happen the financial statements would not represent faithfully the transactions and other events that had occurred.

1½ marks to be awarded for good presentation of this

(b) Itakoto Nigeria Limited

Payroll work sheet for the month of 31 December, 2019

	Abimbola	Tonade	Hadiza	Total
	N'000	N'000	N'000	N'000
Basic Salary	8,500	12,250	7,500	28,250
Rent Allowance	1,275	1,838	1,125	4,238
Risk Allowance	1,488	2,144	1,313	4,945
Bonus (see working) ---		<u>245</u>	<u>682</u>	<u>927</u>
Gross Pay	11,263	16,477	10,620	38,360
Less: Statutory deduction:				
7.5% Social security	<u>638</u>	<u>919</u>	<u>563</u>	<u>2,120</u>
Taxable Pay	10,625	15,558	10,057	36,240
less Income Tax @ 12.5%	<u>1,328</u>	<u>1,945</u>	<u>1,257</u>	<u>4,530</u>
Net Pay	<u>9,297</u>	<u>13,613</u>	<u>8,800</u>	<u>31,710</u>

1/5 mark each for the 35 ticks making 7 marks

Working note:

$$\text{Rowan Bonus scheme} = \frac{\text{Time saved} \times \text{Time taken} \times \text{Hourly rate}}{\text{Time allowed}}$$

Name	Time Allowed	Time taken	Time saved
	(A)	(B)	(A – B)
Abimbola	400	425	Nil
Tonade	500	490	10
Hadiza	275	250	25
Abimbola	<u>Nil</u>	x 425	x N20,000
	400		= Nil
Tonade	<u>10</u>	x 490	x N25,000
	500		= N245,000
Hadiza	<u>25</u>	x 250	x N30,000
	275		= N681,818

4 marks to be allocated to this working

SOLUTION TO QUESTION 6**(a) Recording in computer-based systems**

The distinctive features of recording in computer based system relative to manual based systems include:

- (i) Accounting data are not hand written but entered through the keyboard, optical scanner and other input devices.
- (ii) Accounting data are entered in a data base instead of the books of original entry.
- (iii) Therefore data posted to the ledger accounts in a computer-based system come directly from the database and not from the books of original entry.
- (iv) The information required for the preparation of the Trial Balance is

already contained in the data base; they are automatically extracted by the computer.

2 marks each for any 2 fully discussed making 4 marks

(b) (i) Adjusted Cash Book

	N		N
Income on Investment	7,500	Balance b/d	37,000
Dividend received	9,000	Bank charges	5,000
Dishonoured cheque	25,000	Interest on loan	2,500
Balance c/d	<u>3,000</u>		<u> </u>
	<u><u>44,500</u></u>		<u><u>44,500</u></u>

$\frac{1}{2}$ mark each for the 9 ticks, making 4½ marks

(ii) Bank Reconciliation Statement at 31 December, 2019

	N
Adjusted Cash Book	(3,000)
Add Unpresented cheque	15,000
Less Uncredited lodgement	<u>(7,000)</u>
Balance per Bank Statement	<u><u>5,000</u></u>

1 mark for each of the 4 ticks, making 4 marks