

**APRIL 2022 PROFESSIONAL EXAMINATIONS**  
**FINANCIAL ACCOUNTING (PAPER 1.1)**  
**CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

**STANDARD OF THE PAPER**

The standard of the question paper was good and candidates were asked to answer all five (5) questions. The mark allocations followed the weight as stated in the syllabus and marks were allocated to all sub-questions. 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 April 2022 sitting recorded a pass rate of 35% (refer to Appendices A and B for details) compared to 48% of the November 2021 sitting, indicating a decrease of 13% in performance. High performers were spread across some centres and so were low performers. There were no signs of copying in any centre. Some candidates exhibited a high sense of preparedness while others were not well prepared and therefore performed poorly.

**NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES**

The strengths of most candidates was demonstrated in questions 4, 5 and 3c. The most prevalent reasons for obtaining low marks has not changed from previous sittings, i.e. studying only a few selected topics, not reading the questions carefully enough, and a lack of structure in the approach to answering questions. There were cases of improper labeling and presentation of answers by some candidates. The overall standard of some answers was disappointing, especially for question 2. Some candidates exhibited 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
- Use of pencil instead of blue or black pen
- No workings presented for some questions
- Some candidates making calculation errors in their workings and thus presenting incorrect figures in the solution.
- Some candidates either did not number their answers or miss-numbered them. Others did not correctly list the order in which questions were answered on the cover page.
- A few candidates presented two solutions for a particular question without cancelling one.

## **QUESTION ONE**

- a) The owner of Aspen Enterprise as part of advice to a newly appointed Accountant said that she should focus on the preparation of the year-end Financial Statements and not the preparation of Management Accounts.

**Required:**

Explain to the owner of Aspen Enterprise why Management Accounts is important.

**(10 marks)**

- b) The trial balance of Naana Akyeaa failed to agree. The credit exceeded the debit by GH¢5,760. This was placed in a suspense account. After a review, the following errors were discovered:
- The total of the purchase account was undercast by GH¢2,000
  - Cash sales of GH¢2,470 were recorded by debiting sales with GH¢2,470 and crediting cash with GH¢6,430.
  - Mr Samson, whose debt was the subject of a specific provision for bad debt, paid his debt of GH¢1,080 in full. The only entry made for this transaction was to credit receivables with GH¢1,080.
  - An invoice for rates for GH¢2,250 was found behind the bookkeeper's desk. The invoice had not been accounted for.
  - The total of the sales returns day book was overcast by GH¢1,280.
  - Discounts received of GH¢840 was recorded by crediting receivables and debiting discounts received.
  - A new piece of machinery valued at GH¢24,300 was written off to repairs in error. The depreciation policy of Naana Akyeaa is to depreciate machinery by 10% on straight line basis. The sole trade charges a full year's depreciation in the year of purchase and none in the year of sale.

**Required:**

- i) Prepare journal entries, with the appropriate narratives, necessary to correct the above errors. **(6 marks)**
- ii) Prepare a Suspense Account. **(4 marks)**

**(Total: 20 marks)**

## QUESTION TWO

- a) Nkrumah runs a small business with total annual sales of GH¢50,000. He has been reviewing the outstanding balances on his customers' accounts and has provided the following aged analysis of trade receivables as at 31 March 2020.

<b>Customer</b>	<b>Total</b>	<b>0-1 Month</b>	<b>2-3 Months</b>	<b>4-6 Months</b>	<b>7-12 Months</b>	<b>Over 12 Months</b>
	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>
Adjei	1,870	1,420	450			
Tetteh	4,200					4,200
Abena	930			620	310	
Dzokoto	565	415	150			
Other customers	<u>6,370</u>	<u>6,370</u>				
	<b><u>13,935</u></b>	<b><u>8,205</u></b>	<b><u>600</u></b>	<b><u>620</u></b>	<b><u>310</u></b>	<b><u>4,200</u></b>

Nkrumah's credit policy is payment within 30 days. The provision for bad debt as at 1 April 2019 was GH¢880. Nkrumah's policy for overdue and irrecoverable debts is to:

- Write off as an irrecoverable debt any debt outstanding for over 12 months.
- Create specific provision for any debts outstanding between 4 and 12 months.
- Make no provision for debts up to 1 month old.
- Create a general provision of 4% for all other debts.

**Required:**

- i) Prepare and balance off the following ledger accounts for Nkrumah for the year ended 31 March 2020:
- Tetteh (1 mark)
  - Abena (1 mark)
  - Irrecoverable debts (1 mark)
  - Provision for bad debt (3 marks)
- ii) Prepare the Statement of Profit and Loss extract for irrecoverable debts and provision for bad debt for the year ended 31 March 2020. (2 marks)
- iii) Prepare the Statement of Financial Position extract for receivables as at 31 March 2020. (2 marks)
- b) The admission and retirement of a partner in a firm can only be done if all the existing partners have given consent unless otherwise agreed upon. At the time of admitting or retiring a partner, a new agreement is entered into and the firm is redesigned.

When a partner is admitted or retired in a partnership, some steps (procedures) are followed when accounting for his/her admission or retirement.

**Required:**

- i) Detail the steps required when accounting for admission of a new partner. (6 marks)
- ii) Detail the steps required when accounting for the retirement of a partner. (4 marks)

**(Total: 20 marks)**

### QUESTION THREE

Gyidi Ltd sells goods on credit to most of its customers. In order to control its system of debt collection, the company maintains a sales ledger control account. The following information is available for the year ended 31 December 2020.

	<b>GH¢</b>
Sales Ledger Control Account balance b/d 1 January 2020	88,200 (Debit)
Totals for the year ended 31 December 2020	
Sales	310,400
Sales returns	20,600
Discounts allowed	15,000
Irrecoverable debts	3,500
Cheques received from customers	292,040
Dishonoured cheques	650
Contra purchases ledger	1,050

The schedule of receivables as at 31 December 2020 has also been provided as follows:

	<b>GH¢</b>
Kwaku Ansah	14,200
Adam musah	15,000
Akua Afari	22,800
Naa Shikaa	1,400
Kofi Amosah	<u>8,600</u>
	<b><u>62,000</u></b>

The sales Ledger Control Account balance did not agree with the total from the schedule of receivables. Subsequent investigations revealed the following errors:

- i) Cash received of GH¢600 had been credited to Kwaku Ansah's account as GH¢60.
- ii) The discount allowed column in the cash book had been overstated by GH¢960.
- iii) A sales return of GH¢3,200 from Adam musah was correctly recorded in Adam musah's account but had been omitted from the total in the Sales Returns Journal.
- iv) A credit sale of GH¢4,000 to Kofi Amosah was correctly recorded in the Sales Journal but no entry had been made in Kofi Amosah's account.
- v) A cheque received from Naa Shikaa for GH¢2,430 correctly processed through the books had subsequently been dishonoured. No entries have yet been made to record this dishonoured cheque.
- vi) A credit sale of GH¢5,200 had been made to Kwaku Ansah but no entries have yet been made to record this transaction.
- vii) Cash received of GH¢300 had been debited to Kofi Amosah's account.
- viii) No contra entry had been made in Akua Afari's account in the Sales Ledger in respect of purchases by Gyidi Ltd from Akua Afari for goods with a list price of GH¢750 less an 8% trade discount. This item has been correctly recorded in the Sales Ledger Control Account.

**Required:**

- a) Prepare a revised Sales Ledger Control Account for the year ended 31 December 2020. **(9 marks)**
- b) Prepare a revised schedule of receivables as at 31 December 2020. **(7 marks)**
- c) Explain **TWO (2)** ways in which control accounts can be useful to businesses. **(4 marks)**

**(Total: 20 marks)**

## QUESTION FOUR

The following trial balance was extracted from the books of Nsaa Zolko, a sole trader, on 31 December 2020.

	GH¢	GH¢
Land	251,200	
Equipment	202,220	
Accumulated depreciation on equipment		62,830
Inventory	49,620	
Receivable and Payable	124,200	104,350
Value Added Tax (refund due)	10,320	
Deposit on rented premises (security deposit)	17,900	
Bank and Cash balances	15,640	
Allowance for doubtful debt		11,250
Tax Liability		7,420
Business Rent	30,000	
Sales		804,500
Purchases	390,200	
Returns	8,300	7,500
Discount	4,300	6,240
Distribution and Advertising	8,900	
Power	4,200	
Communication	1,540	
Insurance	22,500	
Wages and Salaries	164,380	
Employers Social Security contribution	16,560	
4% Long term loan		182,500
Long term loan interest	3,520	
Bad debt	2,240	
Drawings	10,580	
Retained Earnings		44,820
Capital		103,710
Suspense		3,200
	<b>1,338,320</b>	<b>1,338,320</b>

### Additional Information:

- The inventory count as at 31 December 2020 showed closing inventory value at GH¢42,390.
- Nsaa Zolko has agreed an annual rent of GH¢40,000 with his landlord.
- Included in insurance above is an amount of GH¢18,000 paid to insure the equipment. The policy year ends 28 February 2021.
- Nsaa Zolko has specific concerns over GH¢5,120 of receivables balance and wishes to set up a specific provision with respect to these balances. The general provision on the remaining receivable balance should be at 5%.
- Depreciation is to be charged as follows:
 

Land	No Provision
Equipment	15% reducing balance method.

 (Depreciation should be calculated to the nearest whole number)
- The suspense account balance above relates to sales of GH¢1,600 which was recorded as purchases in error. The receivables and payables balances are correct.

**Required:**

- a) Prepare a Statements of Profit or Loss for the year ended 31 December 2020. **(10 marks)**  
 b) Prepare a Statement of Financial Position as at 31 December 2020. **(10 marks)**

**(Total: 20 marks)****QUESTION FIVE**

- a) The Statement of Profit or Loss and Statements of Financial Position of two manufacturing companies in the same sector are set out below:

	<b>Kwansah Ltd</b>	<b>Ofori Ltd</b>
	<b>GH¢</b>	<b>GH¢</b>
Revenue	150,000	700,000
Cost of Sales	<u>(60,000)</u>	<u>(210,000)</u>
<b>Gross profit</b>	<b>90,000</b>	<b>490,000</b>
Interest payable	(500)	(12,000)
Distribution cost	(13,000)	(72,000)
Administrative expenses	<u>(15,000)</u>	<u>(35,000)</u>
<b>Profit before tax</b>	<b>61,500</b>	<b>371,000</b>
Income tax expense	<u>(16,605)</u>	<u>(100,170)</u>
<b>Profit for the period</b>	<b><u>44,895</u></b>	<b><u>270,830</u></b>
	<b>Kwansah Ltd</b>	<b>Ofori Ltd</b>
	<b>GH¢</b>	<b>GH¢</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Property	-	500,000
Plant and Equipment	<u>190,000</u>	190,000
	<u>280,000</u>	780,000
<b>Current assets</b>		
Inventories	12,000	26,250
Trade receivables	37,500	105,000
Cash at bank	<u>500</u>	<u>50,000</u>
<b>Total Assets</b>	<b><u>240,000</u></b>	<b><u>933,250</u></b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	156,000	174,750
Retained earnings	<u>51,395</u>	207,395
	<u>390,830</u>	565,580
<b>Non-current liabilities</b>		
Long-term debt	10,000	250,000
<b>Current liabilities</b>		
Trade payables	<u>22,605</u>	<u>117,670</u>
<b>Total equity and liabilities</b>	<b><u>240,000</u></b>	<b><u>933,250</u></b>

**Required:**

Define and calculate the following ratios for each company:

- i) Net profit percentage
- ii) Return on capital employed
- iii) Average receivables collection period
- iv) Average payables period
- v) Inventory turnover

**(15 marks)**

- b) A not-for-profit organisation issues a different set of financial statements than the statements produced by a business organisation (profit making). When it comes to book-keeping for a not-for-profit organisation, many processes remain the same as that of a business organisation. However, differences in terminology apply when managing the books of a not-for-profit organisation.

**Required:**

What terminology will be used for the following:

- i) Profit for the period
- ii) Loss for the period
- iii) Equity reserve

**(5 marks)**

**(Total: 20 marks)**

## SOLUTION TO QUESTIONS

### QUESTION ONE

- a) Importance of management accounts

#### **Relevant Costs Analysis**

Management accounts enable organisations to conduct a relevant cost analysis to determine the existing expenses and give suggestions for future activities. This means organisations ought to analyze different sales channels, products, services, and marketing activities in order to find the most profitable business model.

Once the management accounting team is done with relevant cost analysis, you can make better and more evidence-based decisions.

#### **Audience Targeting**

Management accounts enable organisations to analyze the value of every customer group to detect the most lucrative units: With this special type of audience targeting, one can invest additional time and resources in markets that can bring more profit in the long-term perspective.

#### **Make or Buy Evaluations**

Product production is often the most expensive segment of the business, so it's crucial to be sure which option suits the needs of your company. Generally, there are two solutions – make products on your own or buy them from a third-party provider. In such situations, management accounts help determine the best option to implement

This may seem like a simple decision, but it's extremely sensitive and has the power to make or break your business.

#### **Define Budgets**

Nothing is random when it comes to budgeting. On the contrary, budget-related decisions must comply with your sales history and marketing database. This is where management accounts provide data to analyze former activities and define investments for future actions. Management accounts create financial plans for each department, project, marketing campaign, new product, or any other undertaking.

#### **Controlling**

Controlling is another important aspect of management accounts. Namely, it evaluates the work of all company units and makes conclusions related to the financial performance. That way, you get to learn the reasons for both the loss and the profit generated by departments. In such circumstances, it is much easier for senior executives to reduce operational costs.

For instance, they can cut salaries in underperforming departments or reduce the number of employees. On the other hand, they can also invest in branches that prove to be highly profitable, thus increasing the total profitability of the business.

## Planning

Management accounts has the potential to detect financial patterns and predict future developments. It enables organisations to stay up to date with the latest industry trends, which means one can react in a timely manner and implement strategies that allow it to stay above competitors.

With the planning power of management accounts, one can also create long-term business policies. Doing so, you make sure that the whole team stays on the same track and works uniformly towards achieving business objectives.

**(Any 5 points @ 2 marks each = 10 marks)**

b)

i) Journal entries

	Debit GH¢	Credit GH¢
1 Purchases	2,000	
Suspense		2,000
Being purchases undercast		
2 Cash	6,430	
Cash	2,470	
Sales		2,470
Sales		2,470
Suspense		3,960
Being correction cash sales incorrectly recorded		
<b>OR</b>		
Cash	8,900	
Sales		4,940
Suspense		3,960
Being correction cash sales incorrectly recorded		
3 Bank	1,080	
Suspense		1,080
Being correction of an error of single entry		
allowance for receivables: SFP	1,080	
allowance for receivables: SPL		1,080
4 Rates	2,250	
Accruals		2,250
Being omission of an invoice now corrected		
5 Suspense	1,280	
Sales returns		1,280
Being overcast sales now corrected		
6 Receivables	840	

Payables	840
Discount received	1,680
Being correction of discount received wrongly debited	
7 Non-current assets	24,300
Repairs	24,300
Depreciation per SPL	2,430
Depreciation per SFP	2,430
Being correction of error of principal and depreciation omitted now corrected	

**(6 marks)**

ii)

Suspense Account			
	<b>GH¢</b>		<b>GH¢</b>
Balance per question	5,760	Purchases	2,000
Sales returns	1,280	Sales	3,960
	<hr/>	Bank	<hr/>
	<b><u>7,040</u></b>		<b><u>7,040</u></b>

**(4 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

In Question 1a), candidates were required to explain the importance of Management Accounts. Most candidates did not answer the question well. They answered the question as though they were comparing Financial Accounting and Management Accounting rather than explaining the importance of Management Accounts. Only a handful of candidates did well by presenting the importance of Management Accounts to an organisation.

Candidates had a lot of challenges and difficulties in answering question 1 (b i-ii), candidates were asked to use Journal Entries to correct various errors. Although most candidates attempted the question, some candidates exhibited poor understanding of the basic double entry principles. The Journal entries were poorly dealt with by these candidates. There were instances where candidates opened various ledgers instead of the Journal. Only few candidates were able to deal with the Suspense Account correctly.

## QUESTION TWO

a) In the books of Nkrumah

i)

•	<b>Tetteh</b>		
	<b>GH¢</b>	<b>GH¢</b>	
	Bal b/d	4,200	Irrecoverable debts 4,200 <b>(1 mark)</b>
•	<b>Abena</b>		
	<b>GH¢</b>	<b>GH¢</b>	
	Bal b/d	930	Bal c/d 930 <b>(1 mark)</b>
•	<b>Irrecoverable debt</b>		
	<b>GH¢</b>	<b>GH¢</b>	
	Tetteh	4,200	Profit & Loss 4,200 <b>(1 mark)</b>
•	<b>Provision for Bad Debt</b>		
	<b>GH¢</b>	<b>GH¢</b>	
	Bal c/d	954	Bal b/d 880
		<b>954</b>	Profit & Loss <u>74</u>
			<b>954</b>
			<b>(3 marks)</b>

ii) Statement of Profit and Loss extract:

**Expenses**

Irrecoverable debts	4,200	
Allowance for receivables	74	<b>(2 marks)</b>

iii) Statement of Financial Position extract:

**Current Assets**

Receivables (13,935 – 4,200 – 954)	8,781	<b>(2 marks)</b>
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b)

i) Steps required when accounting for the admission of a new partner

- Measure goodwill of the old partnership
- Recognise goodwill sharing the credit entry to the partners of the old partnership in the old profit sharing ratio.
- Remove the goodwill in the books of the new partnership sharing the debit entry to the partners of the new partnership in the new profit sharing ratio.
- Account for capital introduced by the new partner
- Revalue Assets and Liabilities
- Distribute Accumulated Profit (Reserve)

**(4 points @ 1.5 marks each = 6 marks)**

ii) Steps required when accounting for the retirement of a partner

- Measure goodwill of the old partnership.
- Recognise goodwill sharing the credit entry to the partners of the old partnership in the old profit sharing ratio.
- Remove the goodwill in the books of the new partnership sharing the debit entry to the partners of the new partnership in the new profit sharing ratio.
- Account for capital taken
- Revalue Assets and Liabilities
- Distribute Accumulated Profit (Reserve)

**(4 points @ 1 marks each = 4 marks)**

**(Total: 20 marks)**

#### **EXAMINER'S COMMENTS**

Question 2 ai) was poorly answered. Candidates were asked to prepare and balance off Receivable Ledgers, Irrecoverable Debts and Provision for Bad Debts Ledgers. Most candidates had difficulties posting the correct figures in the various ledgers. The ii) and iii) part of the question was no exception. Candidates could not prepare the Extract of Profit or Loss for Irrecoverable Debts and Provision for Bad Debts, and Extract of Financial Position for Receivables.

In the bi) & bii) part of question 2, candidates were requested to detail steps to follow when accounting for a new Partner and when accounting for retirement of a Partner. This part of the question was fairly answered by some of the candidates. Others did not know how to list the steps for both admission and retirement of a Partner. Instead, they opened Accounts Ledgers for them.

### QUESTION THREE

a)

#### Sales Ledger Control Account

	<b>GH¢</b>		<b>GH¢</b>
Bal b/d	88,200	Discount (15,000-960)	14,040
Sales (310,400 + 5,200)	315,600	Sales returns (20600 + 3200)	23,800
Bank	2,430	Cheques received	292,040
		Irrecoverable debt	3,500
		Purchase contra	1,050
		Bal c/d	71,800
	<b><u>406,230</u></b>		<b><u>406,230</u></b>

(9 marks)

b)

#### Revised Schedule of Receivables

	<b>GH¢</b>
Kwaku Ansah	18,860
Adam Musah	15,000
Akua Afari	22,110
Naa Shikaa	3,830
Kofi Amosah	<u>12,000</u>
	<b><u>71,800</u></b>

#### Alternatively

#### Revised Schedule of Receivables

	<b>GH¢</b>
Bal b/f	62,000
Receipts	(540)
Sales	4,000
Bank	2,430
Sales	5,200
Cash (Error)	(600)
Cash	<u>(690)</u>
	<b><u>*71,800</u></b>

(7 marks)

c) Usefulness of control accounts to businesses

- Control accounts can be used to provide totals of receivables and payables for the preparation of the final accounts. These can be calculated quickly if control accounts are used. It is less time consuming than adding together all the customers' or suppliers' balances from the sales and purchases ledgers.
- Control accounts are often used to calculate sales and purchases when a business has incomplete records and information is missing.

- Control accounts can be used to localize errors. They allow errors to be identified in a relatively small area of ledgers, for example errors in the sales ledger or purchases ledger. This saves time and makes it easier to keep accurate accounts.
- Control accounts can be used to provide an independent check on the sales ledger and purchases ledger. Control accounts are usually completed by a supervisor, whilst the ledger clerks complete the purchases and sales ledger. The balance on the control account, and the total of the balances from the sales and purchases ledger have to be equal. This, therefore, acts as a deterrent against fraud.

(Any 2 points @ 2 marks each = 4 marks)  
(Total: 20 marks)

### **EXAMINER'S COMMENTS**

Question 3a) required Candidates to prepare a Revised Sales Ledger Control Account, This was fairly answered by most Candidates. There were few Candidates who did not get some of the entries correct.

In question 3b), candidates were requested to prepare a Revised Schedule of Receivables. Most Candidates who attempted it had very high marks with few candidates scoring low marks. Question 3c) was also well-answered by majority of candidates except that some candidates used the phrase "to correct errors" instead of "to locate errors" as one of their points on "Usefulness of Control Accounts".

### **QUESTION FOUR**

a) Statement of Profit or Loss for the year ended 31 December, 2020

	<b>GH€</b>	<b>GH€</b>	<b>GH€</b>
Sales			806,100
Sales Returns			(8,300)
Net Sales			797,800
Cost of sales:			
Opening inventory		49,620	
Purchases	388,600		
Purchases returns	(7,500)	381,100	
Less: Closing Inventory		430,720	
		(42,390)	388,330
Gross Profit			409,470
Discount Received			6,240
Decrease in allowance for receivable			176
			<u>415,886</u>
Less Expenses			
Business Rent		40,000	
Depreciation of equipment		20,908	
Business insurance		19,500	

Distribution and advertising	8,900
Power	4,200
Internet	1,540
Wages and salaries	164,380
Employers NIC Costs	16,560
Discount allowed	4,300
Irrecoverable debt	2,240
Interest	7,300
<b>Operating profit</b>	<b>289,828</b>
	<b><u>126,058</u></b>

(Marks are evenly spread = 10 marks)

<b>Statement of Financial Position as at 31 December 2020</b>		
	<b>GHC</b>	<b>GHC</b>
<b>Non-current Assets</b>		
Land	251,200	-
Equipment	202,220	(83,738)
		<b><u>118,482</u></b>
		<b><u>369,682</u></b>
<b>Current Assets</b>		
Inventory		42,390
Receivable	124,200	
Closing Allowance	(11,074)	113,126
Prepayment		3,000
VAT refund		10,320
Deposit		17,900
Cash and Bank	<b><u>15,640</u></b>	<b><u>202,376</u></b>
<b>Total Assets</b>		<b><u>572,058</u></b>
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Capital		103,710
Accumulated profit/loss		44,820
Profit for 2020		<b><u>126,058</u></b>
Accumulated profit/loss		274,588
Drawings	(10,580)	264,008
4% Long term bank loan		182,500
<b>Current Liabilities</b>		
Payables		104,350
Accruals		13,780
NIC Liability		<b><u>7,420</u></b>
<b>Total Equity and Liabilities</b>		<b><u>125,550</u></b>
		<b><u>572,058</u></b>

(Marks are evenly spread = 10 marks)

## EXAMINER'S COMMENTS

In question 4 (a & b), Candidates were asked to prepare a Statement of Profit or Loss and Financial Position respectively. This was the most attempted question and it was well answered by candidates. The only issues were with few adjustments such as Provision for Doubtful Debts, treatment of Insurance Prepayment and Business Rent Arrears which seemed a bit difficult for some candidates to handle. Also, a few candidates could not compute both Net Sales and Net Purchases correctly. This is because treatment for both return inwards and outwards were not dealt with correctly. Some candidates also just provided workings without transferring them unto their Statement of Profit or Loss and Statement of Financial Position and thus lost a lot of marks. However, a few candidates were able to prepare the Statement of Profit or Loss correctly and balance the Statement of Financial Position thus earned high marks.

## QUESTION FIVE

a)

Ratio	Basis	Kwansah Ltd	Ofori Ltd
i) Net profit percentage	<u>Net profit</u> *100% Revenue	$\frac{44,895}{150,000} \times 100\%$ $=29.93\%$	$\frac{270,830}{700,000} \times 100\%$ $=38.69\%$
ii) Return on capital employed	<u>Profit before interest and tax</u> *100% Capital employed	$\frac{62,000}{217,395} \times 100\%$ $=28.52\%$	$\frac{383,000}{815,580} \times 100\%$ $=46.96\%$
iii) Average receivables collection period	<u>Trade receivables</u> *365 Revenue	$\frac{37,500}{150,000} \times 365$ $=92$ days	$\frac{105,000}{700,000} \times 365$ $=55$ days
iv) Average payables period	<u>Trade payables</u> *365 Cost of sales	$\frac{22,605}{60,000} \times 365$	$\frac{117,670}{210,000} \times 365$

		=138 days	=205 days
v) Inventory turnover	<u>Inventory</u> Cost of sales	$\frac{60,000}{12,000}$ =5 times	$\frac{210,000}{26,250}$ =8 times

(Marks are evenly spread = 15 marks)

b)

- i) **Surplus:** It's computed by deducting expenses and losses from the amount of revenue.
- ii) **Deficit:** Expenses in excess of income; an operating loss or a negative Change in Net Assets.
- iii) **Accumulated Funds:** It holds excess money received by a non-profit making organisation. (an unrestricted fund balance set aside to stabilize a non-profit's finance by providing a cushion against unexpected events, losses of income, and large unbudgeted expenses.

(5 marks)

(Total: 20 marks)

#### EXAMINER'S COMMENTS

For question 5a), candidates were requested to compute five ratios (Net Profit Percentage, Return on Capital Employed, Average Receivable Collection Period, Average Payable Period and Inventory Turnover). This part of the question was fairly answered by majority of Candidates who attempted it. It is worthy of noting that some candidates were not able to ascertain the Net Profit before Interest and Tax, Return on Capital Employed and Inventory Turnover. Although some of these ratios were easy to compute, some candidates failed to get the computations accurately. For instance, some candidates had difficulties in computing the Inventory Turnover Ratio. Instead they computed Inventory Turnover Period.

In respect of question 5b), candidates were asked to give the terminology used for (Profit for the period; Loss for the period; and Equity reserve) by Not-for-profit organisations. This question was well-answered by majority of the candidates. Some candidates scored the full marks.

#### CONCLUSION

Candidates and Lecturers should use past question papers as a guide to future question papers, but 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 them.

Candidates are also advised to ensure that they thoroughly study and exhaust the entire syllabus before sitting for the examination.