

**MARCH 2023 PROFESSIONAL EXAMINATIONS  
FINANCIAL ACCOUNTING (PAPER 1.1)  
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

**EXAMINER'S GENERAL COMMENTS**

The objective of the paper was to test candidates' basic understanding of the subject. While few candidates exhibited high levels of competence, majority showed poor knowledge of the fundamentals of the subject.

**STANDARD OF THE PAPER**

The standard of the question paper was good and similar to previously administered ones. Candidates were required to answer all the five (5) questions. The mark allocations adhered to the weights stated in the syllabus and marks were allocated to all sub-questions. There were no ambiguities in the paper. The questions were clear and well-typed and the instructions were also clearly stated.

**PERFORMANCE OF CANDIDATES**

The performance of candidates was average compared to the previous sitting. Only few had good marks while an average number of candidates obtained pass marks. This sitting (March 2023) recorded a pass rate of 48.70% compared to 28.87% achieved at the December 2022 sitting. High performers were spread across few centres, while low performers were spread across most of the centres. There were no signs of copying in any centre. Some of the candidates exhibited a high sense of preparedness while majority of the candidates were not well prepared and therefore performed poorly.

**NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES**

The strength of most candidates was demonstrated in questions 2 ai), 2 bi), 3 a), 4 a) and 5 b). The most prevalent reasons for low marks remains as in previous sittings, i.e. studying only a few selected topics; not reading the questions carefully enough; or a lack of structure in the approach to answering questions. There were cases of improper labeling and presentation of answers for some candidates. The overall standard of some answers was disappointing especially those for questions 1 b) (i&ii), 1 d), 2 bii) and 3 bi) biii). Some candidates showed a poor understanding of bookkeeping across several questions. A handful of candidates did not attempt the required number of questions, thus making the achievement of an overall pass 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 within workings and thus presenting an incorrect figure in the solution.
- Some candidates either did not number their answers or misnumbered them. Others did not list the correct 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 Conceptual Framework for Financial Reporting is a set of principles which underpin the foundation of financial accounting. The Conceptual Framework sets out the going concern concept as one of the important underlying assumption for the preparation of financial statements.

**Required:**

Explain what is meant by '*the assumption that an entity is operating under the going concern concept*'. Support your answer with a suitable example. (3 marks)

- b) A trader who trades in Machines commences business on 1 Jan 2021 and buys 200 machines, each costing GH¢50,000. During the year, he sells 150 machines at GH¢60,000 each.

**Required:**

How should the remaining machines be valued at the end of the year if:

- i) He is forced to close down his business at the end of the year and the remaining machines will realised only GH¢30,000 each in a forced sale. (2 marks)
- ii) He intends to continue the business into the next year. (2 marks)
- c) One of the fundamental qualitative characteristics of useful financial information in the Conceptual Framework for Financial Reporting is '*faithful representation*'

**Required:**

Explain what is meant by '*faithful representation*'. (3 marks)

- d) Davidco is a trader who commenced business on January 1, 2021. He introduced capital of GH¢50,000. He bought Vehicle worth GH¢30,000 out of the capital introduced. The following transaction took place in the month of January (Jan) 2021:

Jan 5: Davidco bought goods on credit from the following:

| Supplier | Price    | Trade Discount |
|----------|----------|----------------|
| Tradco   | GH¢2,500 | 10%            |
| Vamco    | GH¢8,000 | 10%            |

Jan 8: Davidco Sold goods on credit to the following:

| Supplier | Price    | Trade Discount |
|----------|----------|----------------|
| Markcom  | GH¢5,000 | 20%            |
| Kathrine | GH¢2,000 | 5%             |

Jan 12: Davidco returned defected goods worth GH¢200 to Tradco.

Jan 15: Davidco paid all amount outstanding to Tradco and Vamco less cash discount of 5%.

Jan 22: Kathrine returned spoiled goods worth GH¢300.

Jan 24: Davidco received payment from Markcom and Kathrine of all outstanding debt less cash discount of 5%

**Required:**

Prepare the following:

- i) Sales day book
- ii) Purchase day book
- iii) Cash book
- iv) Purchase returns
- v) Sales returns

(10 marks)

(Total: 20 marks)

**QUESTION TWO**

- a) The following were extracted from the books of Pele Ltd by the close of December 2021:

|                                    | <b>GH¢</b> |
|------------------------------------|------------|
| Receivables ledger control account | 71,400     |
| Payables ledger control account    | 56,100     |

During the year 2022 the following transactions occurred:

|   | <b>GH¢</b> |
|---|------------|
| Cash received from customers  | 47,700     |
| Cash paid to suppliers  | 48,750     |
| Sales on credit   | 72,300     |
| Purchases on credit   | 54,750     |
| Sales returns   | 2,850      |
| Purchase returns  | 1,050      |
| Discounts received from suppliers                                     | 600        |
| Settlement discount claimed by customer who was not expected to do so | 450        |
| Bad debts written off   | 4,050      |
| Customer and supplier accounts settled by contra                      | 3,150      |

At 1 January 2022, the start of Pele Ltd's financial year, the balance on the allowance for doubtful debts account was GH¢9,450. At 31 December 2022, the company's management decided that the revised balance should be 10% of the year end accounts receivable.

**Required:**

- i) Prepare the receivables ledger control account and payables ledger control account for the year ended December 2022 and hence determine the balances at 31 December 2022. (7 marks)
- ii) Prepare the *allowance for doubtful debts account* and *bad debt expense account* showing the necessary entries in respect of the financial year ended 31 December 2022. (3 marks)

- b) Molu, Mbisi and Mabiiodun have been in practice under the name Moba Partners for many years sharing profits and losses in the ratio of 4:3:3. Mbisi decided to retire on 31 December, 2022 due to her relocation to Spain. The Statement of Financial Position as at 31 December, 2022 was as shown below:

| <b>Moba Partners</b>   |                |                     |
|--|----------------|---------------------|
| <b>Statement of Financial Position as at December 31, 2022</b> |                |                     |
|  | <b>GH¢'000</b> | <b>GH¢'000</b>      |
| <b>Non-current assets</b>                                      |                |                     |
| Freehold land and building                                     |                | 5,400               |
| Plant and machinery  |                | 1,800               |
| Office equipment   |                | 450                 |
| Motor vehicles   |                | <u>1,050</u>        |
|  |                | 8,700               |
| <b>Current assets</b>  |                |                     |
| Inventory  | 1,000          |                     |
| Receivables  | 1,250          |                     |
| Bank balances  | <u>230</u>     |                     |
|  | <u>2,480</u>   |                     |
| <b>Current liabilities</b>                                     |                |                     |
| Payables   | 1,580          |                     |
| Bank overdraft   | <u>300</u>     |                     |
|  | <u>1,880</u>   |                     |
|  |                | <u>600</u>          |
|  |                | <u><b>9,300</b></u> |
| <b>Financed by:</b>  |                |                     |
| <b>Capital accounts</b>  |                |                     |
| Molu   |                | 4,200               |
| Mbisi  |                | 3,000               |
| Mabiiodun  |                | <u>2,100</u>        |
|  |                | <u><b>9,300</b></u> |

The partners noted that the account did not reflect the following:

- Interest should be charged on partners' drawings at 5%. Each of the partners had withdrawn GH¢600,000 from the account.
- Interest on partner's capital account to be credited at 6%. Partners account for the purpose of the interest calculation is to be taken as follows:
  - Molu GH¢2,100,000
  - Mbisi GH¢1,050,000
  - Mabiiodun GH¢1,500,000
- Mbisi received GH¢240,000 paid by cheque immediately.
- Goodwill was valued at GH¢3,000,000 and was to be retained in the books.
- Other assets and liabilities were valued as follows:
  - Freehold land and buildings GH¢6,000,000
  - Plant and machinery GH¢2,400,000
  - Office equipment GH¢350,000
  - Motor vehicles GH¢1,560,000
- Discount to be received from creditors amounted to GH¢270,000.
- 20% of the receivables was irrecoverable.
- 15% of inventory was obsolete.
- The balance due to Mbisi is to be kept in the firm as a loan.

**Required:**

Prepare the following accounts for the partnership:

- i) The revaluation account. (2 marks)
- ii) The partners' capital accounts. (4 marks)
- iii) The adjusted statement of financial position. (4 marks)

(Total: 20 marks)

**QUESTION THREE**

- a) Markson's & co. cash book balance and bank statement balance at 31 March 2021 does not agree. The following information has been given to you as a student of accounting to help the company reconcile the difference:
1. The balance per the bank statement is GH¢10,000 while that of the cash book is GH¢3,300.
  2. A cheque of GH¢6,000 issued to a supplier on 30 March 2021 was still in the supplier's possession.
  3. Insurance paid by the bank is GH¢400. This is yet to be recorded in the cash book.
  4. An outgoing cheque of GH¢2,000 was recorded twice in the cash book. It is accurately recorded in the bank statement.
  5. Payment of a GH¢1,000 cheque is recorded twice in the bank statement.
  6. The bank statement recorded an amount of GH¢1,200 as dividends received from Kankam Ltd. There is no such transaction in the cash book.
  7. A cheque of GH¢1,000 received from a customer was deposited at the bank on 29 March 2021, but this amount has not yet reflected in the bank statement.
  8. Bank charges in the bank statement amounted to GH¢100.

**Required:**

- i) Prepare an adjusted cash book to record transactions omitted. (4 marks)
  - ii) Prepare a bank reconciliation statement to agree the bank statement balance with the balance arrived at in i) above. (4 marks)
- b) The trial balance of Askat Enterprises as at 31 December 2021 failed to agree. A suspense account was opened for the difference. Draft final accounts were prepared that revealed a net profit of GH¢80,000 for the year ended 31 December 2021. The following errors were subsequently discovered:
1. The purchases day book total of GH¢160,000 had been posted to the ledger as GH¢320,000.
  2. The sales account has been understated by GH¢240,000.
  3. Discounts received of GH¢14,000 had been debited to discounts allowed account.
  4. An accrued salaries and wages of GH¢12,000 was omitted.
  5. Loose tools bought for GH¢8,000 had been debited to purchases account.
  6. Purchases of inventory for GH¢140,000 had not been posted to the ledger.
  7. Bad debts of GH¢19,000 written off in the trade receivables account had not been treated in the expense account.
  8. The proprietor had withdrawn goods worth GH¢6,000 for personal use. No entries had been made in the books.

**Required:**

Prepare for Askat Enterprise:

- i) The journal entries to correct the errors. (6 marks)
- ii) The suspense account and show the difference in the books. (3 marks)
- iii) A statement to show the correct net profit for the year. (3 marks)

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

Vemso Oil Ltd has been in business for the past ten years. The following trial balance was extracted from the books of Vemso Oil Ltd for the year ended 2021.

|  | <b>GH¢'000</b> | <b>GH¢'000</b> |
|--|----------------|----------------|
| Bank   | 46,200         |                |
| Trade Payable                                      |                | 25,000         |
| Petty Cash   | 4,000          |                |
| Directors Current Account                          |                | 320,000        |
| Computer and Accessories                           | 8,370          |                |
| Computer and Accessories: Accumulated Depreciation |                | 3,348          |
| Furniture and Fittings                             | 10,255         |                |
| Furniture and Fittings: Accumulated Depreciation   |                | 2,050          |
| Land and Building                                  | 214,000        |                |
| Land and Building: Accumulated Depreciation        |                | 8,560          |
| Office Equipment                                   | 12,250         |                |
| Office Equipment: Accumulated Depreciation         |                | 2,450          |
| Plant and Machinery                                | 239,400        |                |
| Plant and Machinery: Accumulated Depreciation      |                | 47,880         |
| Inventory  | 1,900          |                |
| Staff Loan   | 5,088          |                |
| Payroll Liabilities                                |                | 550            |
| Taxation   | 3,003          |                |
| Retained Earnings                                  | 49,282         |                |
| Share Capital                                      |                | 10,000         |
| Sales  |                | 574,145        |
| Purchases  | 355,000        |                |
| Bank Service Charges                               | 1,300          |                |
| Business promotion                                 | 1,500          |                |
| Communication                                      | 1,900          |                |
| Insurance  | 1,660          |                |
| Licenses and Permits                               | 6,650          |                |
| Medical expenses                                   | 155            |                |
| Printing and Stationery                            | 300            |                |
| Professional Fees: Legal Fees                      | 500            |                |
| Repairs: Equipment Repairs                         | 2,600          |                |
| Salaries   | 23,050         |                |
| Electricity  | 780            |                |
| Water  | 280            |                |
| Vehicle Running Expense                            | 4,560          |                |

993,983

993,983

**Additional information:**

- i) Closing inventory as at December 2021 amounts to GH¢48,500,000
- ii) The following assets were bought during the year 2021. However, this transaction was not recorded in the above trial balance:

|                          |               |
|--------------------------|---------------|
| Computer and Accessories | GH¢8,000,000  |
| Fixtures and Fittings    | GH¢5,000,000  |
| Plant and Machinery      | GH¢25,000,000 |

The following are the rates of depreciation being used by the company, however depreciation for 2021 is yet to be charged.

|                          |     |
|--------------------------|-----|
| Land and Building        | 1%  |
| Computer and Accessories | 20% |
| Furniture and Fittings   | 10% |
| Plant and Machinery      | 20% |
| Office Equipment         | 20% |

- iii) Electricity stated in the trial balance include January 2022 electricity bill whiles that of water represent six months' payment for the year 2021.
- iv) Staff bonus amounting to GH¢15,000,000 was agreed on 31 December, 2021 for staff. However, it was paid after the year end.

**Required:**

- a) Prepare the Statement of Profit or Loss for the year ended 31 December 2021. (10 marks)
- b) Prepare the Statement of Financial Position as at 31 December 2021. (10 marks)

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

- a) Distinguish between *capital expenditure* and *revenue expenditure*. (5 marks)
- b) Banky is the owner of a business supplying goods to other traders. He has just received the financial statement for his business for the year ended 31 December 2022 from his accountant. Below are the summarised financial statements:

**Statement of Profit or Loss for the year ended 31 December 2022**

|               | GH¢           |
|---------------|---------------|
| Sales         | 320,000       |
| Cost of sales | (240,000)     |
| Gross profit  | 80,000        |
| Expenses      | (56,000)      |
| Net profit    | <u>24,000</u> |

**Statement of Financial Position as at 31 December 2022**

|                                      | <b>GH¢</b>      | <b>GH¢</b>            |
|--------------------------------------|-----------------|-----------------------|
| <b>Non-current assets (net)</b>      |                 | 112,000               |
| <b>Current assets</b>                |                 |                       |
| Inventory                            | 41,600          |                       |
| Receivables                          | 12,000          |                       |
| Cash                                 | <u>80</u>       | <u>53,680</u>         |
| <b>Total assets</b>                  |                 | <b><u>165,680</u></b> |
| <b>Current liabilities</b>           |                 |                       |
| Payables                             | 4,800           |                       |
| Bank                                 | <u>2,000</u>    | 6,800                 |
| <b>Capital</b>                       |                 |                       |
| Balance b/d                          | 160,000         |                       |
| Net profit                           | 14,880          |                       |
| Drawings                             | <u>(16,000)</u> | <u>158,880</u>        |
| <b>Total capital and liabilities</b> |                 | <b><u>165,680</u></b> |

**Note:** Inventory on 1 January 2022 was valued at GH¢38,400.

Banky has also obtained comparative information about a competitor for the year ended 31 December 2022.

|                            |         |
|----------------------------|---------|
| Net profit margin          | 6%      |
| Return on capital employed | 10.50%  |
| Current ratio              | 4.2 : 1 |
| Liquid (acid test) ratio   | 0.3 : 1 |
| Rate of inventory turnover | 4 times |

**Required:**

- i) Calculate for Banky each of the following ratios for the year ended 31 December 2022 (where appropriate, calculations should be approximated to two decimal places):
  - Net profit margin. **(2 marks)**
  - Return on capital employed (using the closing year end value for capital employed) **(2 marks)**
  - Current ratio. **(2 marks)**
  - Liquid (acid test) ratio. **(2 marks)**
  - Rate of inventory turnover. **(2 marks)**
- ii) Based on the ratios calculated in i) above, and all other information provided, assess the performance (profitability) of Banky's business. **(5 marks)**

**(Total: 20 marks)**



## SUGGESTED SOLUTION

### QUESTION ONE

- a) The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations. Example inventory is valued at lower of cost or net realisable value

The main significance of the going concern concept is that the assets should not be valued at their 'break-up' value (the amount they would sell for if they were sold off piecemeal and the business were broken up).

(3 marks)

- b) Machines

|                   | Quantity | Price (GH¢) | Value (GH¢) |
|-------------------|----------|-------------|-------------|
| Purchase          | 200      | 50,000      | 10,000,000  |
| Sales             | 150      | 60,000      | 9,000,000   |
| Closing Inventory | 50       |             |             |

- i) If business is forced to close down, the machines will be valued at

| Quantity | Price (GH¢) | Value (GH¢) |           |
|----------|-------------|-------------|-----------|
| 50       | 30,000      | 1,500,000   | (2 marks) |

- ii) If business continues, the machines will be valued at

| Quantity | Price (GH¢) | Value (GH¢) |           |
|----------|-------------|-------------|-----------|
| 50       | 50,000      | 2,500,000   | (2 marks) |

- c) **Faithful representation**

- The information gives full details of its effect on the financial statements and is only recognised if its financial effects are certain.
- Financial reports represents economic phenomena in words and numbers. To be useful, financial information must not only represent only relevant phenomena but must faithfully represent the phenomena that it purports to represent.
- To be faithful financial information must be complete, neutral and free from error. A complete reports must include all information necessary for the user to understand, neutral is without bias and finally free from error means there should be no errors or omissions in the report.

(3 marks)

- d)

- i) Sales Day Book

| Date  | Details  | L.F | Invoice no. | Trade discount (GH¢) | Amount (GH¢) |
|-------|----------|-----|-------------|----------------------|--------------|
| Jan 8 | Markcom  |     |             | 1,000                | 4,000        |
| Jan 8 | Kathrine |     |             | 100                  | 1,900        |

|     |             |  |  |  |              |
|-----|-------------|--|--|--|--------------|
|     |             |  |  |  |              |
| Jan | Total sales |  |  |  | <b>5,900</b> |

ii) Purchases Day Book

| Date  | Details         | L.F | Invoice no. | Trade discount (GH¢) | Amount (GH¢) |
|-------|-----------------|-----|-------------|----------------------|--------------|
| Jan 5 | Tradco          |     |             | 250                  | 2,250        |
| Jan 8 | Vamco           |     |             | 800                  | 7,200        |
|       |                 |     |             |                      |              |
| Jan   | Total purchases |     |             |                      | <b>9,450</b> |

iii) Cash Book

|                        | GH¢                  |                            | GH¢                  |
|------------------------|----------------------|----------------------------|----------------------|
| Capital                | 50,000               | Vehicle                    | 30,000               |
| Sales (5,900-300) *.95 | 5,320                | Purchases (9,450-200) *.95 | 8,787.50             |
|                        |                      | Bal c/d                    | 16,532.50            |
|                        | <b><u>55,320</u></b> |                            | <b><u>55,320</u></b> |
|                        |                      |                            |                      |

iv) Purchases returns

| Date   | Details | Debit Note No. | Amount (GH¢) |
|--------|---------|----------------|--------------|
| Jan 12 | Tradco  |                | 200          |
|        |         |                |              |

v) Sales returns

| Date   | Details  | Credit Note No. | Amount (GH¢) |
|--------|----------|-----------------|--------------|
| Jan 12 | Kathrine |                 | 300          |
|        |          |                 |              |

(10 marks)

(Total: 20 marks)

### EXAMINER'S COMMENTS

For sub-question a), candidates were asked to explain what is meant by the assumption that an entity is operating under the going concern concept with suitable example. Most candidates failed to secure the full marks because they have not understood the concepts very well.

For question 1 b), candidates were given data on Inventory and were asked to compute the closing inventory, if i) the business is forced to close down and ii) the business intends to continue into next year. Most candidates did not attempt this question, either they did not understand the question or were not well prepared. The handful that attempted scored less than two marks on average out of the total of 4 marks allocated.

Also in sub-question 1 c), candidates were to explain what is meant by 'faithful representation.' Candidates did not answer what faithful representation meant as a

fundamental qualitative characteristic of useful financial information. The expression used by most candidates did not warrant the full mark.

Question 1 d) required candidates to prepare Sales day book, Purchase day book, Cash book, Purchase returns and Sales returns. Most candidates failed to answer the question on books of prime entry, since it was not part of the mainstream questions which are asked frequently. Some were using the Ledger accounts instead of Day book. Only a handful of candidates obtained the full marks.

## QUESTION TWO

### a) Control accounts

i)

| Receivables ledger control a/c |                |                                       |                |
|--------------------------------|----------------|---------------------------------------|----------------|
|                                | GH¢            |                                       | GH¢            |
| 01/01/2022 Bal b/f             | 71,400         | Cash received                         | 47,700         |
| Sales on credit                | 72,300         | Sales returns                         | 2,850          |
|                                |                | Revenue adjustment for discount taken | 450            |
|                                |                | Bad debts written off                 | 4,050          |
|                                |                | Contra with suppliers                 | 3,150          |
|                                |                | Bal c/f                               | 85,500         |
|                                | <u>143,700</u> |                                       | <u>143,700</u> |

| Payables ledger control a/c |                |                    |                |
|-----------------------------|----------------|--------------------|----------------|
|                             | GH¢            |                    | GH¢            |
| Cash paid                   | 48,750         | 01/01/2022 Bal b/f | 56,100         |
| Purchase returns            | 1,050          | Purchases          | 54,750         |
| Discounts received          | 600            |                    |                |
| Contra with customers       | 3,150          |                    |                |
| Bal c/f                     | <u>57,300</u>  |                    | -              |
|                             | <u>110,850</u> |                    | <u>110,850</u> |

(Marks are evenly spread using ticks = 7 marks)

ii)

| Allowance for doubtful debts a/c |              |                    |              |
|----------------------------------|--------------|--------------------|--------------|
|                                  | GH¢          |                    | GH¢          |
| Write-back                       | 900          | 01/01/2022 Bal b/f | 9,450        |
| 31/12/2022 Bal c/f               | <u>8,550</u> |                    |              |
|                                  | <u>6,300</u> |                    | <u>6,300</u> |

| Bad debt expense a/c  |              |                     |              |
|-----------------------|--------------|---------------------|--------------|
|                       | GH¢          |                     | GH¢          |
| Bad debts written off | 4,050        | Write-back          | 900          |
|                       |              | Charge for the year | 3,150        |
|                       | <u>4,050</u> |                     | <u>4,050</u> |

(Marks are evenly spread using ticks = 3 marks)

b)

i)

**Revaluation Account**

|                   | GH¢                     |                          | GH¢                     |
|-------------------|-------------------------|--------------------------|-------------------------|
| Office equipment  | 100,000                 | Freehold land & Building | 600,000                 |
| Receivables       | 250,000                 | Machinery                | 600,000                 |
| Inventory         | 150,000                 | Motor vehicles           | 510,000                 |
| Balance c/d       | 4,480,000               | Goodwill                 | 3,000,000               |
|                   |                         | Payables                 | <u>270,000</u>          |
|                   | <b><u>4,980,000</u></b> |                          | <b><u>4,980,000</u></b> |
| Capital accounts: |                         | Balance b/d              | 4,480,000               |
| Molu 4/10         | 1,792,000               |                          |                         |
| Mbisi 3/10        | 1,344,000               |                          |                         |
| Mabiodun 3/10     | <u>1,344,000</u>        |                          |                         |
|                   | <b><u>4,480,000</u></b> |                          | <b><u>4,480,000</u></b> |

(Marks are evenly spread using ticks = 2 marks)

ii)

**Partners' capital Account**

|                | Molu                    | Mbisi                   | Mabiodun                |             | Molu                    | Mbisi                   | Mabiodun                |
|----------------|-------------------------|-------------------------|-------------------------|-------------|-------------------------|-------------------------|-------------------------|
|                | GH¢                     | GH¢                     | GH¢                     | GH¢         | GH¢                     | GH¢                     | GH¢                     |
| Int on drawg   | 30,000                  | 30,000                  | 30,000                  | Bal b/d     | 4,200,000               | 3,000,000               | 2,100,000               |
| Bank           | -                       | 240,000                 | -                       | Revalu. a/c | 1,792,000               | 1,344,000               | 1,344,000               |
| P or L App a/c | 75,600                  | 56,700                  | 56,700                  | Int on Cap. | 126,000                 | 63,000                  | 90,000                  |
| Bal c/d        | <u>6,012,400</u>        | <u>4,080,300</u>        | <u>3,447,300</u>        |             |                         |                         |                         |
|                | <b><u>6,118,000</u></b> | <b><u>4,407,000</u></b> | <b><u>3,534,000</u></b> |             | <b><u>6,118,000</u></b> | <b><u>4,407,000</u></b> | <b><u>3,534,000</u></b> |

(Marks are evenly spread using ticks = 4 marks)

iii)

**Molu, Mabiodun & Co**

**Adjusted Statement of financial position at December 31, 2022**

|                            | GH¢                     | GH¢              |
|----------------------------|-------------------------|------------------|
| <b>Non-current Assets</b>  |                         |                  |
| Freehold land and Building |                         | 6,000,000        |
| Machinery                  |                         | 2,400,000        |
| Office equipment           |                         | 350,000          |
| Motor vehicles             |                         | <u>1,560,000</u> |
|                            |                         | 10,310,000       |
| Goodwill                   |                         | 3,000,000        |
| <b>Current Assets</b>      |                         |                  |
| Inventory                  | 850,000                 |                  |
| Receivables                | <u>1,000,000</u>        |                  |
|                            | <b><u>1,850,000</u></b> |                  |
| <b>Current liabilities</b> |                         |                  |
| Payables                   | 1,310,000               |                  |

|  |                  |                    |
|--|------------------|--------------------|
| Bank overdraft                         | <u>310,000</u>   |                    |
|  | <u>1,620,000</u> | 230,000            |
| Non-current liabilities – Loan (Mbisi) |                  | <u>(4,080,300)</u> |
|  |                  | <u>9,459,700</u>   |
| <b>Financed by:</b>                    |                  |                    |
| Capital accounts                       |                  |                    |
| Molu                                   |                  | 6,012,400          |
| Mabiodun                               |                  | <u>3,447,300</u>   |
|  |                  | <u>9,459,700</u>   |

(Marks are evenly spread using ticks = 4 marks)

(Total: 20 marks)

### EXAMINER'S COMMENTS

In question 2a, candidates were asked to prepare a Receivables and Payables Ledger control account as well as allowance for doubtful debts and bad debt expense account. This was a popular question for candidates. Most candidates exhibited a fair knowledge of the control accounts, and provision for doubtful debt and bad debt. With respect to question 2b, candidates' knowledge on partnership accounting was tested. The question had some complications with respect to the retirement and settlement of a partner. Candidates' performance was unsatisfactory. Also, they could not separate items of revaluation account from the partners' capital accounts. Some candidates failed to prepare adjusted statement of financial position after the retirement and settlement of a partner, which was part of the requirements.

### QUESTION THREE

|    |                           |              |                |                  |
|----|---------------------------|--------------|----------------|------------------|
| i) | <b>Adjusted Cash Book</b> |              |                |                  |
|    |                           | <b>GH¢</b>   |                | <b>GH¢</b>       |
|    | Bal b/d                   | 3,300        | Insurance paid | 400              |
|    | Dividend                  | 1,200        | Bank charges   | 100              |
|    | Reversal of duplicate     | <u>2,000</u> | Bal c/d        | <u>6,000</u>     |
|    |                           | <u>6,500</u> |                | <u>6,500</u>     |
|    |                           |              |                | <b>(4 marks)</b> |

|     |                                   |            |  |                  |
|-----|-----------------------------------|------------|--|------------------|
| ii) | <b>Bank Reconciliation</b>        |            |  |                  |
|     |                                   | <b>GH¢</b> |  | <b>GH¢</b>       |
|     | Balance per adjusted cash book    |            |  | 6,000            |
|     | Unpresented cheques               |            |  | <u>6,000</u>     |
|     |                                   |            |  | 12000            |
|     | Less: Uncredited cheque           | 1,000      |  |                  |
|     | Duplicate cheque                  | 1,000      |  | <u>(2,000)</u>   |
|     | <b>Balance per bank statement</b> |            |  | <u>10,000</u>    |
|     |                                   |            |  | <b>(4 marks)</b> |

b)

i) Journal Entries for correction of errors

|   |            |            |
|---|------------|------------|
|   | <b>Dr.</b> | <b>Cr.</b> |
|   | <b>GH¢</b> | <b>GH¢</b> |
| (i) Suspense account  | 160,000    |            |
| Purchases account   |            | 160,000    |
| Being correction of overstated purchases  |            |            |
| (ii) Suspense account   | 240,000    |            |
| Sales account   |            | 240,000    |
| Being correction of undercast sales account   |            |            |
| (iii) (a) Suspense account  | 14,000     |            |
| Discount allowed account  |            | 14,000     |
| Being reversal of wrong debit to discount   |            |            |
| Allowed discount  |            |            |
| (b) Suspense account  | 14,000     |            |
| Discount received account   |            | 14,000     |
| Being amount to reinstate discount received wrongly debited to discount allowed account |            |            |
| (iv) Salaries & Wages   | 12,000     |            |
| Accrued Salaries Wages account  |            | 12,000     |
| Being treatments of accrued salaries & wages omitted from books                         |            |            |

|  |         |                  |
|--|---------|------------------|
| (v) Loose tools account  | 8,000   |                  |
| Purchases account  |         | 8,000            |
| Loose tools wrongly debited to purchases account                               |         |                  |
| (vi) Purchases account   | 140,000 |                  |
| Suspense account   |         | 140,000          |
| Being inventory bought not recorded in the ledger                              |         |                  |
| (vii) Bad debts account  | 19,000  |                  |
| Suspense account   |         | 19,000           |
| Being bad debts written off from trade receivables not recorded as expense     |         |                  |
| (viii) Drawings account  | 6,000   |                  |
| Purchases account  |         | 6,000            |
| Being cost of goods withdrawn by the proprietor, but not recorded in the books |         |                  |
|  |         | <b>(6 marks)</b> |

|                   |                       |                     |                       |                  |
|-------------------|-----------------------|---------------------|-----------------------|------------------|
| ii)               | Suspense account      |                     |                       |                  |
|                   | <b>GH¢</b>            |                     | <b>GH¢</b>            |                  |
| Purchases         | 160,000               | Difference in books | 269,000               |                  |
| Sales             | 240,000               | Purchases           | 140,000               |                  |
| Discount allowed  | 14,000                | Bad debts           | 19,000                |                  |
| Discount received | <u>14,000</u>         |                     | <u>-</u>              |                  |
|                   | <b><u>428,000</u></b> |                     | <b><u>428,000</u></b> |                  |
|                   |                       |                     |                       | <b>(3 marks)</b> |

iii) **Statement of corrected Net Profit**

|  |            |                       |
|--|------------|-----------------------|
|  | <b>GH¢</b> | <b>GH¢</b>            |
| Net profit as per draft account                |            | 80,000                |
| Overcast purchases                             | 160,000    |                       |
| Undercast sales                                | 240,000    |                       |
| Discount received recorded as discount allowed | 14,000     |                       |
| Discount received                              | 14,000     |                       |
| Loose tools treated as purchases               | 8,000      | <u>436,000</u>        |
|  |            | 516,000               |
| Less: Salaries & Wages                         | 12,000     |                       |
| Purchases omitted                              | 140,000    |                       |
| Bad debts                                      | 19,000     |                       |
| Inventory withdrawn                            | 6,000      |                       |
|  |            | <u>177,000</u>        |
| Actual net profit for the year                 |            | <b><u>339,000</u></b> |

**(3 marks)**

**(Total: 20 marks)**



## EXAMINER'S COMMENTS

With regard to question 3 ai&ii), candidates were asked to prepare Adjusted Cash Book and Bank Reconciliation Statements respectively. Majority of the candidates scored fairly high marks. The question was one of the most popular questions.

In question 3 bi), candidates were tested on correction of errors using journals. Most candidates used journal entries to correct the errors but could not identify the correct account to debit and credit. This is because they lacked knowledge in identifying the type of error committed and how to correct it. Also, a few candidates instead of using a journal, opened a ledger to correct the errors. Other candidates recorded credit entries before debit entries. They therefore, did not follow the convention which requires debit entries to be recorded before credit entries.

In question 3 bii), candidates were asked to prepare a Suspense account. Some candidates were able to get the journal entries correct but could not present items in the Suspense account. With regards to 3 biii), candidates were required to prepare a Statement of corrected Net Profit. This part of the question was poorly answered by most candidates.

## QUESTION FOUR

a) Statement of Profit or Loss for the year ended 31 December 2021

|                              | <b>GH¢000</b>           |
|------------------------------|-------------------------|
| Turnover                     | 574,145.00              |
| Cost Of Sales                | <u>(308,400.00)</u>     |
| Gross Profit                 | <u>265,745.00</u>       |
| <b>Selling Gen And Admin</b> |                         |
| Financial Cost               | 1,300.00                |
| Auditors Remuneration        | -                       |
| Depreciation                 | 62,269.50               |
| Other Cost                   | <u>59,155.00</u>        |
|                              | <u>122,724.50</u>       |
| <b>Net Operating Profit</b>  | <b>143,020.50</b>       |
| Profit for the year          | 143,020.50              |
| Profit at Beginning of Year  | <u>(49,282.00)</u>      |
| <b>Retained Earnings</b>     | <u><b>93,738.50</b></u> |

(Marks are evenly spread using ticks = 10 marks)

b) Statement of Financial Position as at 31 December 2021

|                               |   | <b>GH¢000</b>            |
|-------------------------------|---|--------------------------|
| <b>Non-Current Asset</b>      |   |                          |
| Property, Plant And Equipment | 3 | <u>395,717.50</u>        |
| <b>Current Assets</b>         |   |                          |
| Inventories                   |   | 48,500.00                |
| Other Receivable              | 4 | 5,148.00                 |
| Taxation                      |   | 3,003.00                 |
| Cash And Bank Balance         | 5 | <u>12,200.00</u>         |
|                               |   | <u>68,851.00</u>         |
| <b>Current Liabilities</b>    |   |                          |
| Accounts Payable & Accruals   | 6 | 40,830.00                |
| Directors Current Account     |   | <u>320,000.00</u>        |
|                               |   | <u>360,830.00</u>        |
| Net Current Asset             |   | (291,979.00)             |
| <b>Total Assets</b>           |   | <u><b>103,738.50</b></u> |
| <b>Shareholders' Equity</b>   |   |                          |
| Share Capital                 |   | 10,000.00                |
| Retained Earning              |   | <u>93,738.50</u>         |
|                               |   | <u><b>103,738.50</b></u> |

(Marks are evenly spread using ticks = 10 marks)

**Workings:**

|                        | <b>Land &amp;<br/>Building<br/>GH¢000</b> | <b>Furniture<br/>&amp; Fittings<br/>GH¢000</b> | <b>Office<br/>Equipment<br/>GH¢000</b> | <b>Computer<br/>&amp; Access<br/>GH¢000</b> | <b>Plant &amp;<br/>Machinery<br/>GH¢000</b> | <b>Total<br/>GH¢000</b> |
|------------------------|---|--|--|---|---|-------------------------|
| Cost                   |   |  |  |   |   |                         |
| At 1/1/2021            | 214,000.0                                 | 10,255.0                                       | 12,250.0                               | 8,370.0                                     | 239,400.0                                   | 484,275.0               |
| Additions              | -   | 5,000.0  | -                                      | 8,000.0                                     | 25,000.0                                    | 38,000.0                |
| At 31/12/2021          | 214,000.0                                 | 15,255.0                                       | 12,250.0                               | 16,370.0                                    | 264,400.0                                   | 522,275.0               |
| Depreciation           |   |  |  |   |   |                         |
| At 1/1/2021            | 8,560.0                                   | 2,050.0  | 2,450.0                                | 3,348.0                                     | 47,880.0                                    | 64,288.0                |
| Charge for the<br>Year | 2,140.0                                   | 1,525.5  | 2,450.0                                | 3,274.0                                     | 52,880.0                                    | 62,269.5                |

|               |          |         |         |         |           |           |
|---------------|----------|---------|---------|---------|-----------|-----------|
| At 31/12/2021 | 10,700.0 | 3,575.5 | 4,900.0 | 6,622.0 | 100,760.0 | 126,557.5 |
|---------------|----------|---------|---------|---------|-----------|-----------|

**Net Book Value**

|               |           |          |         |         |           |           |
|---------------|-----------|----------|---------|---------|-----------|-----------|
| At 31/12/2021 | 203,300.0 | 11,679.5 | 7,350.0 | 9,748.0 | 163,640.0 | 395,717.5 |
|---------------|-----------|----------|---------|---------|-----------|-----------|

|               |           |         |         |         |           |           |
|---------------|-----------|---------|---------|---------|-----------|-----------|
| At 31/12/2020 | 203,300.0 | 6,679.5 | 7,350.0 | 1,748.0 | 138,640.0 | 357,717.5 |
|---------------|-----------|---------|---------|---------|-----------|-----------|

**GH¢000**

**Note 4 Other Receivables**

|            |                 |
|------------|-----------------|
| Staff Loan | 5,088.00        |
| Others     | <u>60.00</u>    |
|            | <u>5,148.00</u> |

**Note 5 Cash And Bank Balance**

|              |                  |
|--------------|------------------|
| Cash On Hand | 4,000.00         |
| Cash At Bank | <u>8,200.00</u>  |
|              | <u>12,200.00</u> |

**Note 6 Account Payables**

|                |                  |
|----------------|------------------|
| Trade Payables | 25,000.00        |
| Payroll Liab   | 550.00           |
| Other Payables | <u>15,280.00</u> |
|                | <u>40,830.00</u> |

|                   |                    |
|-------------------|--------------------|
| Cost Of Sales     |                    |
| Opening Inventory | 1,900.00           |
| Purchases         | <u>355,000.00</u>  |
|                   | 356,900.00         |
| Closing Inventory | <u>(48,500.00)</u> |
|                   | <u>308,400.00</u>  |

**Other Cost**

|                      |           |
|----------------------|-----------|
| Salaries             | 23,050.00 |
| Business Promotion   | 1,500.00  |
| Communication        | 1,900.00  |
| Insurance            | 1,660.00  |
| Licenses And Permits | 6,650.00  |

|                            |                         |
|----------------------------|-------------------------|
| Medical Expenses           | 155.00                  |
| Printing And Stationery    | 300.00                  |
| Legal Fees                 | 500.00                  |
| Repairs: Equipment Repairs | 2,600.00                |
| Utilities                  | 1,280.00                |
| Vehicle Running Expenses   | 4,560.00                |
| Bonus                      | <u>15,000.00</u>        |
|                            | <b><u>59,155.00</u></b> |

(Total: 20 marks)

### EXAMINER'S COMMENTS

In question 4, candidates were tested on the preparation of both Statement of Profit or Loss and Statement of Financial Position respectively. Most candidates displayed good knowledge of the preparation and presentation of the components of the various statements. Candidates however lacked knowledge in adjustments, particularly electricity and water. Also, candidates were not able to correctly treat items in the Trial Balance, such as taxation, staff loan and retained earnings which were debit balances in the Trial Balance. Most candidates failed to prepare a schedule of Non-Current Assets to aid in the computation of accumulated depreciation for various assets. They showed only the depreciation charge for the year instead of the accumulated depreciation figure in the Statement of Financial Position.

### QUESTION FIVE

a) Distinction between Capital expenditure and Revenue expenditure

#### **Capital expenditure:**

It is expenditure which results in the acquisition of non-current assets or an improvement in their earning capacity.

- Capital expenditure is not charged as an expense in the statement of profit or loss at one go but rather a depreciation or amortization charge will usually be made to write off the capital expenditure gradually over time.
- Capital expenditure on non-current assets is the recognition of a non-current asset (e.g. vehicles, land and building) in the statement of financial position of the business.

#### **Revenue expenditure:**

Is expenditure which is incurred for either:

- For the purpose of the trade/service of the business. This includes selling & distribution expenses, administration expenses and finance charges.
- To maintain the existing earning capacity on non-current assets (such as repair expenses)

- To ensure smooth running of the day to day activities of the company/business.  
(2.5 marks each = 5 marks)

b)

i) Computed ratios

|  |           |
|--|-----------|
| Net Profit As A Percentage Of Sales (14,880/324,000) | = 4.65%   |
| Return On Capital Employed (24,000/158,880)          | = 15.11%  |
| Current Ratio (53,680/6,800)                         | = 7.89:1  |
| Liquid (Acid Test) Ratio (12,080/6,800)              | = 1.78:1  |
| Rate Of Inventory Turnover (240,000/41,600)          | = 6 times |

(2 marks each = 10 marks)

- ii) The net profit as a percentage of sales is lower than the competitor, this may be because the cost of the goods is higher for Banky, or he is not marking his purchases up as much as his competitor. It could also be caused by his expenses being higher than his competitor. Banky's ROCE is better than his competitor at 15.11% compared to 10.50%, this means that he is making more profit per cedi on investment in the company.

The current ratio of 7.89:1 is extremely high, the current ratio of his competitor is also on the high side as the generally accepted ratio should be around 2:1, in Banky's case this is probably caused by high inventory holding. The acid test ratio at 1.78:1 is also a little high as here the generally accepted ratio is 1:1, however the ratio of his competitor of 0.3:1 is very low and may not be making the best use of resources.

Banky's inventory-turnover is higher than his competitor which means that he is selling it more frequently than his competitor. This is a better performance than that of his competitor, since he is selling his inventory more frequently than them. This means that he makes a profit on every item he sells this contributes to the profitability to a greater extent than his competitor.

(5 marks)

(Total: 20 marks)

### EXAMINER'S COMMENTS

Question 5 a), candidates were asked to distinguish between capital expenditure and revenue expenditure. Although one of the most attempted questions, most candidates performed abysmally.

With regard to 5 bi), candidates were required to compute five ratios (Net profit margin, Return on capital employed, Current ratio, Liquid (acid test ratio) ratio and Rate of turnover). In question 5 bii) candidates were to assess profitability performance of the business. Apart from Net profit margin, which most of the

candidates computed wrongly, this was a well answered question. Most candidates scored high marks for the question, compared to the other questions.

## **CONCLUSION**

Candidates and Lecturers should use past question papers as a guide to future question papers. Candidates however 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 and practice a lot of questions before sitting for the examination.