

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:

	GH¢
Receivables ledger control account	71,400
Payables ledger control account	56,100

During the year 2022 the following transactions occurred:

	GH¢
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:

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

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

1. Interest should be charged on partners' drawings at 5%. Each of the partners had withdrawn GH¢600,000 from the account.
2. 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
3. Mbisi received GH¢240,000 paid by cheque immediately.
4. Goodwill was valued at GH¢3,000,000 and was to be retained in the books.
5. 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
6. Discount to be received from creditors amounted to GH¢270,000.
7. 20% of the receivables was irrecoverable.
8. 15% of inventory was obsolete.
9. 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.

	GH¢'000	GH¢'000
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	<u>(240,000)</u>
Gross profit	80,000
Expenses	<u>(56,000)</u>
Net profit	<u>24,000</u>

Statement of Financial Position as at 31 December 2022

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

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				5,900
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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				9,450

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
	<u>55,320</u>		<u>55,320</u>

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>
	<u>4,980,000</u>		<u>4,980,000</u>
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>		
	<u>4,480,000</u>		<u>4,480,000</u>

(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>				
	<u>6,118,000</u>	<u>4,407,000</u>	<u>3,534,000</u>		<u>6,118,000</u>	<u>4,407,000</u>	<u>3,534,000</u>

(Marks are evenly spread using ticks = 4 marks)

iii)

Molu, Mabiodun & Co

Adjusted Statement of financial position at December 31, 2022

	GH¢	GH¢
Non-current Assets		
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
Current Assets		
Inventory	850,000	
Receivables	<u>1,000,000</u>	
	<u>1,850,000</u>	
Current liabilities		
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>
Financed by:		
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)

Adjusted Cash Book			
	GH¢		GH¢
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>

(4 marks)

ii)

Bank Reconciliation			
	GH¢		GH¢
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>
Balance per bank statement			<u>10,000</u>

(4 marks)

b)

i) Journal Entries for correction of errors

	Dr. GH¢	Cr. GH¢
(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		

(6 marks)

ii)

Suspense account			
	GH¢		GH¢
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>
	<u>428,000</u>		<u>428,000</u>

(3 marks)

iii) **Statement of corrected Net Profit**

	GH¢	GH¢
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		<u>339,000</u>

(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

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

(Marks are evenly spread using ticks = 10 marks)

b) Statement of Financial Position as at 31 December 2021

		GH¢000
Non-Current Asset		
Property, Plant And Equipment	3	<u>395,717.50</u>
Current Assets		
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>
Current Liabilities		
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)
Total Assets		<u>103,738.50</u>
 Shareholders' Equity		
Share Capital		10,000.00
Retained Earning		<u>93,738.50</u>
		<u>103,738.50</u>

(Marks are evenly spread using ticks = 10 marks)

Workings:

	Land & Building GH¢000	Furniture & Fittings GH¢000	Office Equipment GH¢000	Computer & Access GH¢000	Plant & Machinery GH¢000	Total GH¢000
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 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>
	<u>59,155.00</u>

(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.