

JULY 2024 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. The questions were clear, well typed and the instructions were also clearly stated. There were no issues of ambiguities in the questions and questions were evenly spread over the topics in the syllabus. The marks allocation followed the weight as specified in the syllabus and marks were allocated to all sub-questions.

PERFORMANCE OF CANDIDATES

The performance of candidates was below average. Only a handful of candidates were able to approach all questions and displayed good knowledge in the subject area to obtain above average marks while few candidates were also able to obtain the required pass mark. This sitting (July 2024) recorded a pass rate of 30% compared to a pass rate of 37 % achieved in March 2024 sitting showing a decline in performance of 7%. High performers were seen in few in centres. There were no traces of malpractices such as copying in any of the centres. Some candidates exhibited a sense of preparedness while majority of the candidates were not well prepared and hence their poor performance.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

The strength of most candidates was demonstrated in questions 3b, 4 and 5. The most apparent reasons for some candidates obtaining low marks remains as in previous sittings, i.e. studying only few selected topics, not reading the questions carefully enough, or a lack of structure in the approach to answering questions. There were improper labeling of answers and presentation of answers for some candidates. The overall standard of some answers was disappointing especially questions 1,2 and 3a. Candidates displayed poor understanding of basic accounting principles, the underlying characteristics of financial information, and deducing certain figures from a given information. Others failed to approach the required number of questions thus, making it difficult to achieve the required pass mark. Other weaknesses identified with 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 mis-numbered them.
- A few candidates presented two solutions for a particular question without cancelling one.
- Not giving proper headings to answers as well as indicating the currency signs and units. For example, the company name, the type of account being prepared, the currency sign, units as in thousands ('000') etc.

QUESTION ONE

- a) Discuss the appropriateness of the following statements:
- i) The concept of separate entity is not applicable to a partnership.
 - ii) Closing inventory does not appear in the pre-closing trial balance but appears in the post-closing trial balance.
 - iii) The concept of going concern supposes that the life of a business entity will be more than 15 years.
 - iv) When the allowance for bad debts is based on age analysis, the opening balance of allowance for doubtful debts is not taken into consideration.
 - v) Net realisable value of inventories is equal to selling price.

(10 marks)

- b) Tudum Ltd, a sole proprietorship, recognises depreciation on plant and machinery at 20% per annum on reducing balance basis.

On July 1, 2022 the balances on the plant and machinery and accumulated depreciation accounts were GH¢854,400 and GH¢288,000 respectively. Depreciation is recognised from the month of purchase.

During the year under review, the auditors discovered that repair which cost GH¢ 30,000 and incurred on October 1, 2020 had been capitalised incorrectly. It was decided to correct this mistake while finalising the accounts for the year ended June 30, 2023.

Only one machine was purchased during the year ended June 30, 2023 costing GH¢72,000. The machine was received in the factory on October 1, 2022 and was installed on 1 January, 2023.

Required:

Prepare *Plant and machinery account* and *accumulated depreciation account* for the year ended June 30, 2023.

(10 marks)

(Total: 20 marks)

QUESTION TWO

- a) A hotel prepares its accounts to 30 April annually. The proprietor, Mr Djonky, informs you that he has paid the following amounts during the year to 30 April 2023:

	GH¢'000
Purchases -Wholesaler	7,890
Purchases - Butcher	8,522
Building supplies (repairs)	1,628
Electricity	1,870
Gas	1,132
Wages	2,300

He also informs you that he has received GH¢75,100,000 in cash from guests, of which GH¢8,600,000 relates to deposits paid in advance for holidays which takes effect after 1 May 2023.

You discover on further investigation that purchase invoices for April 2023 from the butcher and wholesaler, amounting to GH¢862,000 and GH¢584,000 respectively, were received on 15 May 2023. The electricity bill for the quarter ended 31 May 2023 totals GH¢440,000 and the cleaners are paid a week in arrears at GH¢84,000 per week. Gas is purchased in advance at GH¢34,000 each and two remain unused at 30 April, 2023.

Required:

- i) Prepare the Statement of Profit or Loss for the year ended 30 April 2023. **(5 marks)**
ii) Prepare the Statement of Financial Position extract as at 30 April 2023. **(3 marks)**
- b) Wallas, Yella and Ally are in partnership. They share profits and losses in the ratio 3:3:2. They agreed to dissolve their partnership on 31 December, 2023 when their Statement of Financial Position was as follows:

	GH¢	GH¢
Non-current assets		
Premises		650,000
Plant and machinery		100,000
Vehicles (3 cars)		<u>75,000</u>
		825,000
Current assets		
Inventory	112,500	
Receivables	87,500	
Cash	<u>50,000</u>	
	250,000	
Current liabilities		
Payables	<u>(25,000)</u>	<u>225,000</u>
		<u>1,050,000</u>
Capital accounts		
Wallas		375,000
Yella		250,000
Ally		<u>250,000</u>
		875,000

Current accounts

Wallas	25,000	
Yella	15,000	
Ally	<u>10,000</u>	<u>50,000</u>
		925,000
Loan - Yella		<u>125,000</u>
		<u>1,050,000</u>

Additional Information:

- i) The various assets were sold for cash as follows:

	GH¢
Premises	750,000
Plant and machinery	62,500
Inventory	9,375

- ii) The vehicles were taken over by the partners at the following agreed values:

	GH¢
Car 1 - Wallas	31,250
Car 2 - Yella	37,500
Car 3 - Ally	18,750

- iii) GH¢83,750 of the receivables are recoverable in settlement.
iv) GH¢22,500 of the payables are to be paid in settlement.
v) Dissolution expenses amounted to GH¢25,000.

Required:

Prepare the following accounts to close off the partnership books:

- i) Realisation account (6 marks)
ii) Cash account (3 marks)
iii) Capital accounts (3 marks)

(Total: 20 marks)

QUESTION THREE

- a) While reconciling the bank statement with the cash/bank book of Abban Ltd for the year ended December 31, 2022, you noted the following:

Description	GH¢
i) Balance per bank statement as at 31 December, 2022	(403,218)
ii) Cheques drawn but not presented till 31 December, 2022	188,892
iii) Interest on overdraft charged by the bank on 2 January, 2023 was recorded in the cash/bank book on 31 December, 2022	59,343
iv) Cheques received on 30 and 31 December, 2022 were not lodged with the bank till 3 January, 2023	125,300
v) A cheque was sent to the bank for collection on 28 December, 2022, and entered in the cash/bank book. However, the bank credited it on 1 January, 2023	98,250
vi) Subscription for a magazine was paid by the bank, as per the direct-debit instructions, on 1 December, 2022. This transaction has not been recorded in the cash/bank book so far	1,572
vii) A stale cheque was replaced with a new cheque on 30 December, 2022 and entered in the cash/bank book without the previous cheque being reversed. Both cheques are included in (ii) above	2,500
viii) A cheque received on 21 December, 2022 was erroneously recorded on the credit side of the cash/bank book	3,750
ix) A cheque issued to a supplier had gone stale as of 2 January, 2023	12,500
x) A cheque for GH¢62,500 drawn by the company to pay for a new item of plant had been mistakenly entered in the cash/bank book as	6,250
xi) A cheque issued by the company has been entered in the credit column of the bank statement	6,600

Required:

Prepare the *bank reconciliation statement* as at 31 December, 2022 and determine the *opening cash balance* as of 1 December, 2022. **(10 marks)**

- b) The sales ledger control account of Frankaa Ltd for the year ended 31 December 2023 has been prepared from the following information:

	GH¢
Debit balance b/d 1 January 2023	38,562
Credit balance b/d 1 January 2023	840
Transactions for the year:	
Credit Sales	343,260
Cheques received from customers	313,860
Cash received from customers	2,130
Sales returns from customers	3,600
Discounts allowed	744
Dishonoured cheques	1,500
Contras purchases ledger	3,192
Irrecoverable debts	1,950

The sales ledger control account balance, which is part of the double entry system, failed to agree with the total receivables of GH¢56,814 as shown by the schedule of receivables.

The following errors were subsequently discovered:

- i) A customer had returned goods to Frankaa Ltd at the selling price of GH¢720. The goods had been bought on credit. No entries had been made to record the return of the goods in the accounts of Frankaa Ltd.
- ii) The discounts allowed column in the cash book had been overcast by GH¢324.
- iii) No contra entry had been made in the receivables account in the sales ledger in respect of purchases by Frankaa Ltd of goods at a list price of GH¢600. Frankaa Ltd received a trade discount of 10% on these goods. This transaction had been correctly dealt with in the Sales Ledger Control Account.
- iv) A credit sale of GH¢1,056 to Josh Ltd was correctly recorded in the sales ledger control account, but no other entry had been made.
- v) A cheque received from a customer for GH¢2,070 correctly processed through the books, had subsequently been dishonoured. No entries have yet been made to record this dishonoured cheque.
- vi) Dogen Ltd, a customer, has recently been declared bankrupt and the debt of GH¢1,050 is to be written off, but no entries have yet been made.

Required:

Prepare a revised sales ledger control account for the year ended 31 December 2023.

(10 marks)

(Total: 20 marks)

QUESTIONN FOUR

The trial balance of Kanawu Ltd as at 31 December 2023 is as follows:

	DR	CR
	GH¢000	GH¢000
Ordinary share capital (GH¢1 shares)		2,940
Cash at bank	69	
Tax (over-provision in 2022)		75
10% loan notes (repayable in 2030)		900
General administrative expenses	138	
Administrative salaries	72	
General distribution expenses	75	
Distribution salaries	30	
Directors' remuneration	105	
Loan notes interest paid	45	
Development costs (incurred during 2023)	90	
Dividend paid	90	
Dividends received		60
Investments	135	
Land and buildings – at cost	12,600	
– accumulated depreciation at 1 January 2023		7,800
Plant and machinery – at cost	600	
– accumulated depreciation at 1 January 2023		225
Retained earnings at 1 January 2023		192
Purchases and sales	1,215	2,760
Profit on disposal of factory		180
Trade receivables and trade payables	48	300
Inventory at 1 January 2023	105	
Bad debts	15	
	15,432	15,432

Additional information:

- i) At 31 December 2023, the cost of inventory was 190,000 while the net realisable value amounted to GH¢165,000.
- ii) Non-current assets are depreciated on a straight-line basis assuming no residual value. The following depreciation rates are to be applied:

Buildings	5%
Plant and machinery	20%

The depreciation charge for the year is to be apportioned as follows:

	Distribution costs	Administrative expenses
Buildings	70%	30%
Plant and machinery	75%	25%

The cost of the land was GH¢9,600,000. There were no purchases or sales of non-current assets during the year.

- iii) Development costs are an intangible asset and are to be amortised (depreciated) over a three-year period. The amortisation (depreciation) charge is to be allocated to cost of sales.

iv) The profit (after tax) on disposal of the factory is considered to be material amount for which separate disclosure is required.

v) Tax on the profits for the year is estimated at GH¢285,000.

vi) Directors' remuneration is to be analysed between distribution costs and administrative expenses as follows:

Distribution	GH¢45,000
Administration	GH¢60,000

Required:

Prepare Kanawu Ltd's Statement of Profit or Loss for the year ended 31 December 2023 and Statement of Financial Position as at 31 December 2023.

(Total: 20 marks)

QUESTION FIVE

The following is a summary of the financial statements of two companies in the retailing business.

Statements of Profit or Loss for the year ended 31 December, 2023

	Papaga Ltd		Bebiga Ltd	
	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Revenue		40,000		40,000
Inventories	6,400		1,600	
Purchases	<u>31,200</u>		<u>30,000</u>	
	37,600		31,600	
Closing inventories	<u>(9,600)</u>		<u>(2,400)</u>	
Cost of sales		<u>28,000</u>		<u>29,200</u>
Gross profit		12,000		10,800
Expenses		<u>(9,480)</u>		<u>(8,496)</u>
Net profit		<u>2,520</u>		<u>2,304</u>

Statements of Financial Position as at 31 December, 2023

	Papaga Ltd		Bebiga Ltd	
	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Non-current assets		26,000		16,000
Current assets:				
Inventories	9,600		2,400	
Trade receivables	3,400		850	
Bank and cash	<u>1,000</u>	<u>14,000</u>	<u>3,950</u>	<u>7,200</u>
		<u>40,000</u>		<u>23,200</u>
Share capital		16,000		16,000
Retained Earnings		<u>20,000</u>		<u>3,200</u>
		36,000		19,200
Trade payable		<u>4,000</u>		<u>4,000</u>
		<u>40,000</u>		<u>23,200</u>

Required:

a) Calculate the following ratios for each company:

- i) Current ratio
- ii) Acid test ratio
- iii) Gross profit margin
- iv) Return on capital employed
- v) Trade payable period
- vi) Receivable collection period

(12 marks)

b) Using the information in (a) above, interpret the results of the ratios under three broad categories of profitability, liquidity and efficiency.

(8 marks)

(Total: 20 marks)

SUGGESTED SOLUTIONS

QUESTION ONE

a) Appropriateness of statements

- i) In accounting, business is considered to be a separate entity from the proprietor and the concept is applicable to all forms of business organisations.
- ii) Closing inventory appears outside the trial balance in pre-closing trial balance but after passing the closing entries when opening inventory and other revenue accounts are closed, only statement of financial position items including closing inventories form part of the post-closing trial balance.
- iii) No specific period has been specified. The concept of going concern supposes that the business is going to continue for the foreseeable future.
- iv) The allowance required to arrive at net receivables (as would appear in the statement of financial position) is calculated by age analysis. However, opening balance has to be considered for making the adjusting entry.
- v) Net realisable value is equal to selling price less the estimated cost of completion and the costs necessary to make the sale.

(2 marks each = 10 marks)

b)

Tudum Ltd

Plant and machinery A/c			
	GH¢		GH¢
Balance b/d	854,400	Repairs wrongly capitalised	30,000
New machine purchased	72,000	Balance c/d	896,400
	926,400		926,400

Accumulated depreciation A/c			
Repairs wrongly capitalised (W1)	9,600	Balance b/d	288,000
		Depreciation for the year (W3)	116,400
Balance c/d	394,800		
	404,400		404,400

Working notes:

	GH¢
1 Repair wrongly capitalised on 1 October 2020	30,000
Less: Depreciation from 1 October 2020 to 30 June 2021 (30,000 × 20% × ⁹ / ₁₂)	<u>4,500</u>
Carrying amount on 1 July 2021	25,500
Less: Depreciation for 01 July 2021 to 30 June 2022	<u>5,100</u>
Carrying amount on 1 July 2022	<u>20,400</u>
Amount of depreciation incorrectly charged by the start of the year (4,500 + 5,100)	9,600
2 Calculation of depreciation for 2022-2023	GH¢
Opening carrying amount before corrections: (854,400 - 288,000)	566,400
Adjustment for prior year - repairs wrongly capitalized (W1)	<u>(20,400)</u>
Opening carrying amount as corrected	<u>546,000</u>
3 Depreciation for the year ended 30 June 2023:	
Depreciation for full year on GH¢546,000 × 0.20	109,200
Depreciation on machine purchase during the year (72,000 × 0.20 × ⁶ / ₁₂)	<u>7,200</u>
	<u>116,400</u>

(Marks are evenly spread using ticks = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Candidate were to discuss the appropriateness of some accounting principles in the part (a), most of the candidates did not have basic understanding of the principles hence were not able to make informed judgement about the appropriateness of the statement. In the part (b), candidates were asked to prepare Plant and Machinery account and its accumulated depreciation account after an error committed has been corrected. Most of the candidates who attempted could not correct the error and for that matter had problem preparing the accounts.

QUESTION TWO

a)

	Statement of Profit or Loss		Extract Statement of Financial Position		
	GH¢(000)	GH¢(000)	Prepaid expense GH¢(000)	Accrued expense GH¢(000)	Deferred income GH¢(000)
Income Per question	75,100				
Less Received in advance	<u>(8,600)</u>	<u>66,500</u>			8,600
Expenses					
Wholesaler					
Per question	7,890				
Add Accrual	<u>584</u>	8,474		584	
Butcher					
Per question	8,522				
Add Accrual	<u>862</u>	9,384		862	
Building supplier					
Per question		1,628			
Electricity					
Per question	1,870				
Add Accrual ($\frac{2}{3} \times 440$)	<u>294</u>	2,164		294	
Gas					
Per question	1,132				
Less Prepayment	<u>(68)</u>	1,064	68		
Wages					
Per question	2,300				
Add Accrual	<u>84</u>	<u>2,384</u>	<u>-</u>	<u>84</u>	<u>-</u>
		<u>(25,098)</u>	<u>68</u>	<u>1,824</u>	<u>8,600</u>
Net Profit		<u>41,402</u>			

Alternative

MR. DJONKY
Statement of Profit or Loss for the year ended 30/4/22

	GH¢(000)	GH¢(000)
Revenue		66,500
<u>Less Cost of Sales</u>		
(8,474 + 9,384)		<u>17,858</u>
Gross Profit		48,642
<u>Less Expenses</u>		
Repairs (Building Supplier)	1,628	
Electricity	2,164	
Gas	1,064	
Wages	<u>2,384</u>	<u>7,240</u>
Net Profit		<u>41,402</u>

Extract of Statement of Finance Position

	GH¢(000)	GH¢(000)
<u>Current Assets</u>		
Cash	68	
<u>Current Liabilities</u>		
Trade Payable (862 + 584)	1,446	
Fees in advance (Deferred Income)	8,600	
Electricity owing	294	
Wage owing	84	
<u>Capital Account</u>		
Net Profit		41,402

Marks allocation:

SPL = 5 marks

SFP = 3 marks

8 marks

b)

**Wallas, Yella & Ally
Realisation accounts**

	GH¢		GH¢
Assets at carrying amount:		Cash - proceeds of sale:	
Premises	650,000	Premises	750,000
Plant and machinery	100,000	Plant	62,500
Vehicles	75,000	Inventory	9,375
Inventory	112,500	Receivables	83,750
Receivables	87,500	Discount received	2,500
Dissolution costs	25,000	Capitals accounts - cars taken over	
		Wallas	31,250
		Yella	37,500
		Ally	18,750
		Share of Loss:	
		Wallas	20,391
		Yella	20,391
		Ally	13,593
	<u>1,050,000</u>		<u>1,050,000</u>

(Marks are evenly spread using ticks = 6 marks)

Cash account

	GH¢		GH¢
Bal b/d	50,000	Payables	22,500
Realisation a/c - proceeds		Dissolution Cost	25,000
Receivables	83,750	Loan - Y	125,000
Premises	750,000	Capital a/c	
Plant and Machinery	62,500	Wallas	348,000
		Yella	207,109
Inventory	9,375	Ally	227,657
	<u>955,625</u>		<u>955,625</u>

(Marks are evenly spread using ticks = 3 marks)

Capital accounts

	Wallas GH¢	Yella GH¢	Ally GH¢		Wallas GH¢	Yella GH¢	Ally GH¢
				B/d	375,000	250,000	250,000
Cars	31,250	37,500	18,750	Current	25,000	15,000	10,000
Share of Loss	20,391	20,391	13,593				
Cash	<u>348,359</u>	<u>207,107</u>	<u>227,657</u>				
	<u>400,000</u>	<u>265,000</u>	<u>260,000</u>		<u>400,000</u>	<u>265,000</u>	<u>260,000</u>

(Marks are evenly spread using ticks = 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

In question two (a), candidates were asked to prepare Statement of Profit or Loss and Statement of Financial Position extract out of incomplete records. The treatment of accrued expenses was a challenge for most candidates in passing the right adjustment. This also affected the treatment of the accrued expenses in the extract of statement of financial position.

In the part (b) of the question, candidates were required to prepare Realisation account, Cash account and Capital account. The loan from one of the partners' treatment was also a challenge, as a result most candidates could not get the right calculation of the loss on realisation. This also affected the capital account and the final cash settlement of the partners.

QUESTION THREE

a) Abban Ltd

Cash book corrections - (Increase)/decrease in overdraft:

Bank balance as per cash book (overdraft) (before above adjustments/corrections - balancing figure)		(390,781)
Bank mark-up wrongly entered in cash book	59,343	
1 st time-barred cheque reversed	2,500	
Error in recording of cheque (62,500 - 6,250)	(56,250)	
Subscription to magazines now entered	(1,572)	
Cheque received wrongly entered in bank book (3,750+3,750)	<u>7,500</u>	<u>11,521</u>
Adjusted balance per bank / cash book (overdraft) to be carried to statement of financial position (from below)		<u>(379,260)</u>

Bank Reconciliation Statement as at 31 December, 2022

Balance overdrawn as per bank statement	(403,218)
(Increase)/decrease in over draft	
Cheques drawn not presented (188,892 - 2,500)	(186,392)
Cheque issued wrongly credited in bank statement (6,600 + 6,600)	(13,200)
Collection received not banked	125,300
Cheque not credited	<u>98,250</u>
Bank statement balance as adjusted	<u>(379,260)</u>

Alternative

Abban Ltd				
Adjusted Cash book				
		GH¢		
Interest Charges	59,343		GH¢	
Bank mark-up wrongly entered	2,500		Bal b/ d	390,781
Cheques recorded wrongly entered in bank book (3750 + 3750)	7,500		Error in recording	56,250
Bal. c/d	<u>379,260</u>		Subscription to Magazine	1,572
	<u>448,600</u>		Bal. b/d	<u>448,600</u>
				379,260

(Marks are evenly spread using ticks = 10 marks)

b)

Sales ledger control account

	GH¢		GH¢
Balance b/d	38,562	Balance b/d	840
Credit sales	343,260	Bank	313,860
Bank (dishonoured)		Cash	2,130
(1,500 + 2,070)	3,570	Sales returns	
		(3,600 + 720)	4,320
		Discounts allowed	
		(744 - 324)	420
		Irrecoverable debts	
		(1,950 + 1,050)	3,000
		Contra purchases ledger	3,192
		Balance c/d	57,630
	385,392		385,392

Workings

Revised schedule of receivables

	GH¢
Original balance	56,814
Sales returns	(720)
Contra (600 × 0.9)	(540)
Sales	1,056
Dishonoured cheque	2,070
Irrecoverable debt	(1,050)
	57,630

(Marks are evenly spread using ticks = 10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

In part (a) candidates were asked to prepare a Bank Reconciliation Statement and determine the opening cash balance. They were to start preparing the Bank Reconciliation Statement to ascertain the Adjusted Cash Book bank balance and were to work backwards to arrive at the opening adjusted cash book balance. The performance scores for this question was below average for most candidates.

In part (b), candidates were to prepare revised sales ledger control account. This question was mostly well answered by candidates who attempted it.

QUESTION FOUR

Kanawu Ltd Statement of Profit or Loss for the year ended 31 December 2023

	GH¢000
Revenue	2,760
Cost of sales (W2)	(1,185)
Gross profit	1,575
Other income	60
	<u>1,635</u>
Distribution costs (W2)	(345)
Administrative expenses (W2)	(360)
Operating profit	930
Profit on disposal of factory	180
Interest costs (W3)	(90)
Profit before tax	840
Income tax expense (W4)	(210)
Profit for the year	<u>810</u>

Kanawu Ltd Statement of Financial Position as at 31 December 2023

	GH¢000	GH¢000
Non-current assets		
Land and buildings (W1)		4,650
Plant and machinery (W1)		255
Property, plant and equipment		4,905
Intangible assets (90 - 30)		60
Investments		135
		<u>5,100</u>
Current assets:		
Inventory	165	
Trade receivables	48	
Cash	69	
		<u>282</u>
Total assets		<u>5,382</u>
Equity and liabilities		
Share capital and reserves		
Share capital		2,940
Retained earnings (W5)		912
Total equity		3,852
Non-current liabilities		
10% loan notes repayable 2030		900

Current liabilities

Trade payables	300	
Taxation payable (75 + 210)	285	
Accrued loan note interest	<u>45</u>	
		<u>630</u>
Total equity and liabilities		<u>5,382</u>

Workings**(W1) Non-current assets**

	Land and buildings GH¢000	Plant and machinery GH¢000
Cost:	12,600	600
Accumulated depreciation:		
At 1 January 2023	7,800	225
Charge for the year		
(5% × (12,600 – 9,600))	150	
(20% × 600)		120
At 31 December 2023	<u>(7,950)</u>	<u>(345)</u>
Carrying amount	<u>4,650</u>	<u>255</u>

(W2) Cost analysis

	Cost of sales GH¢000	Distribution costs GH¢000	Admin expenses GH¢000
Purchases	1,215		
Opening inventory	105		
Closing inventory	(165)		
General administration			138
Administration salaries			72
General distribution		75	
Distribution salaries		30	
Directors' remuneration		45	60
Development costs (1/3 × 90)	30		
Depreciation of buildings:			
Distribution (70% of 150 W1)		105	
Administrative expenses (30% of 150 W1)			45
Depreciation of plant and machinery:			
Distribution (75% of 120 W1)		90	
Administrative expenses (25% of 120 W1)			30
Bad debts			45
	<u>1,185</u>	<u>345</u>	<u>360</u>

(W3) Interest charge

	GHC000
Loan notes interest paid	45
Accrued interest (balance)	45
Charge for the year (10% x 900)	<u>90</u>

(W4) Taxation charge

	GHC000
Over-provision in the previous year	(75)
Tax on current year profits	285
Charge for the year	<u>210</u>

(W5) Retained earnings

	GHC000
Accumulated profits at beginning of the year	192
Profit after tax	810
Dividends paid	<u>(90)</u>
At end of year	<u>912</u>

(Marks are evenly spread using ticks = 20 marks)

EXAMINER'S COMMENTS

In this question, candidates were to prepare Statement of profit and loss and Statement of financial position. Generally, candidates have good knowledge in preparation of Statement of profit and loss and the Statement of financial position. However, most candidates could not treat the taxation correctly. Profit on disposal of asset(factory) which was to be disclosed separately was mostly added to the dividend received. Some candidates did not show full workings in arriving at some of the figures hence losing some marks which resulted in below average score for such candidates. The overall performance was average.

QUESTION FIVE

a) Computation of ratios

Ratio	Formula	Papaga Ltd	Bebiga Ltd
Liquidity			
Current ratio	CA/CL	14,000/4,000 = 3.5:1	7,200/4,000 =1.8:1
Acid test ratio	CA-inventories/CL	14,000-9,600/4,000 1.1:1	7,200-2,400/4,000 = 1.2:1
Profitability			
Gross profit	Gross profit/salesx100	12,000/40,000x100 30%	10,800/40,000x100 27%
ROCE	Net profit/capital employed x 100	2,520/36,000x100 7%	2,304/19,200x100 12%
Efficiency			
Trade receivable collection period	Receivable/credit sales x 365 days	3,400/40,000x365 days 31 days	850/40,000x365 days 8 days
Trade payable period	Payables/credit purchases x 365 days	4,000/31,200x365 days 47 days	4,000/30,000x365 days 49 days

(Marks are spread evenly using ticks = 12 marks)

b) Interpretation of ratios

Liquidity

Liquidity is the ability of an entity to be able to pay for its short term obligations as and when they fall due without any difficulties. Again, this payment should not affect the working capital of the firm and as a result the company continues to operate without any operational difficulties. Applying this understanding to both Papaga Ltd and Bebiga Ltd above suggest that the current assets of Papaga Ltd can pay for its current liabilities about 3.5 times as opposed to 1.8 times of Bebiga Ltds. However, adjusting for inventories the quick ratios of both companies shows 1.1:1 and 1.2:1 respectively for Papaga Ltd and Bebiga Ltd. This suggests that

inventories form a significant part of the current assets of Papaga Ltd and may not be convertible into cash very quickly. The quick ratio indicates that slightly Bebiga Ltd is better off with respect to its liquidity position. At the moment both companies can meet their current short-term obligations but Papaga Ltd may have difficulty going forward with its significant nature of inventories.

Profitability

Every business wants to make the highest profit possible for its shareholders but care needs to be taken that profit is not equal to cash.

Looking at the gross margin of both Papaga Ltd and Bebiga Ltd, the gross margin is 30% and 27% respectively with the same level of sales. Better management of cost of sales may be key to the differences in the margins as depicted by the calculations above. This may also be partly due to the credit policies of both companies. On the face value it may not be fair to say that Papaga Ltd is doing well because it has 3% more than that of Bebiga Ltd's.

Return on capital employed really looks at the efficiency in the utilization of capital in earning or generating profit in percentage terms. The higher this ratio the better management would have better utilize capital invested by shareholders and vice versa. Papaga Ltd from that calculation has return on capital of 7% compared with 12% of Bebiga Ltds. This suggests that Bebiga Ltd's is better using every pesewa invested by its shareholders efficiently and effectively as opposed to Papaga Ltd. Papaga Ltd may need to change this situation as a matter of urgency.

Efficiency

Activity or efficiency ratios assesses how efficient and effective an entity is with respect to its credit policies as well as general operational decision making processes. The receivable collection period indicates the time period it takes for management of an entity to be able to collect its debts from credit customers or debtors. Generally, the shorter time it takes the entity to do that the better since this will enhance the liquidity position of the entity. Looking at the ratios above Bebiga Ltd collect its debts within 8 days as opposed 31days for Papaga Ltd. This suggests that a huge amount of sale of Papaga Ltd is on credit. This cannot be said of Bebiga Ltd as significant amount of its sales appears to be in cash sales and therefore it is not surprising that it is slightly better off with respect to its liquidity position.

Similarly, trade payable period is the time an entity uses to settle its suppliers. A better supplier relationship could allow for a longer period for payment and this is a very good source of finance to the entity. Both companies seem to have relatively the same period of 47 days and 49 days for Papaga Ltd and Bebiga Ltd respectively.

(8 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

In question five (5a), candidates were requested to compute six (6) ratios (current ratio, acid test ratio, gross profit margin, return on capital employed, trade payable period and receivable collection period). This part of the question was fairly answered by majority of candidates who attempted it. It is worthy to note that a handful of candidates were not able to ascertain and determine, return on capital employed as well as acid test ratio.

In respect of part 'b' of the question, candidates were asked to interpret the ratios computed under three broad categories of profitability, liquidity and efficiency. A handful of the candidates were able to answer the question very well and for that matter scored the full marks. Some candidates however, did not state the ratios calculated in their interpretation. The question was generally well answered.

CONCLUSION

Candidates and Lecturers should review past question papers as a guide to future question papers, however candidates need to be aware that future papers, although still following the current specification, may differ in approach and format from the current series. Candidates should always read questions well and understand the requirements before answering the questions

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