

**THE INSTITUTE OF CHARTERED  
ACCOUNTANTS (GHANA)**



**MAY 2006 EXAMINATIONS  
(PROFESSIONAL)**

**FINANCIAL ACCOUNTING PRACTICE  
(Paper 2.1)**

**Attempt ALL Questions**

**TIME ALLOWED: 3 HOURS**

## QUESTION 1

Onua Limited, registered with 100,000,000 ordinary shares of no par value prepares accounts to 31<sup>st</sup> December each year. The balance sheet of the company as at 31<sup>st</sup> December 2005 and 2004 are given below:

	2005 ¢'million	2004 ¢'million
Property, Plant & Equipment	23,000	17,400
Development Expenditure	12,000	7,600
Shares in Wele Limited	20,000	15,000
28 Days Treasury Bills	4,500	-
91 Days Treasury Bills	6,500	20,000
Stocks	9,730	6,580
Debtors	6,590	11,230
Cash in hand	4,800	3,400
Bank	8,700	-
Creditors	(6,540)	(7,950)
Accruals	(2,130)	(1,230)
Taxation	(4,500)	(5,000)
Dividend	(3,500)	(2,400)
Bank overdraft	-	(2,300)
21% Debentures	<u>(10,000)</u>	<u>(15,000)</u>
	<u>69,15</u>	<u>47,330</u>
Stated Capital	28,000	15,000
Capital Surplus	8,900	7,200
Income Surplus	29,250	22,130
Share Deals	<u>3,000</u>	<u>3,000</u>
	<u>69,150</u>	<u>47,330</u>

### Additional Information:

- i) Dividend received on the shares in Wele Limited in 2005 amounted to ¢1,200 million. Investment income outstanding at 31<sup>st</sup> December 2005 amounting to ¢300 million is included in debtors.
- ii) During 2005, motor vehicles costing ¢3,600 million with net book value of ¢2,000 million were sold at a loss of ¢400 million. During the same year, office equipment costing ¢800 million with accumulated depreciation of ¢500 million were sold for ¢450 million. Gains or losses arising on these transactions were accounted for in the profit and loss account.
- iii) Plant, purchased in 1990 for ¢1,800 million were fully depreciated in 2000. The plant which is still in use was revalued and brought into the books at ¢1,700 million after undergoing a major rehabilitation in 2005 at a cost of ¢500 million. The rehabilitation cost was capitalized.
- iv) Onua Limited purchased a modern plant for ¢2,500 million in 2005. The terms of purchase was 60% initial payment and the rest in March 2006.
- v) Depreciation charged on property, plant and equipment for 2005 amounted to ¢2,700 million. Development expenditure written off in 2005 amounted to ¢1,600 million.

- vi) Dividend proposed for 2005 and charged to income surplus was €2,500 million.
- vii) Corporate tax paid to Internal Revenue Service in 2005 totalled €3,600 million.
- viii) Debentures with nominal value of €8,000 million were redeemed at 105 on 30<sup>th</sup> June 2005. The premium on redemption was charged to profit and loss account. Additional 21% debentures were issued on 1<sup>st</sup> July 2005. Interest on 21% debentures for 2005 was paid in full.
- ix) Onua Limited transferred €8,000 million from Income Surplus to Stated Capital in 2005. The company also purchased 20,000,000 of its shares at €120 per share in 2005 and these are being held as treasury shares.

**Required:**

Prepare a cash flow statement for the year ended 31<sup>st</sup> December 2005 in accordance with GNASBS 4 'Cash Flow Statements'.

**(Total: 25 marks)**

**QUESTION 2**

Abe, Akutu and Asaa have been in partnership sharing profits and losses equally. The balance sheet of the firm as at 31<sup>st</sup> December 2004 is as follows:

Abe, Akutu & Asaa  
Balance Sheet as at 31<sup>st</sup> December 2004

	€' 000		€' 000
Capital Accounts:			
Abe	24,000	Sundry Assets	18,600
Akutu	18,000	Furniture & Fittings	12,300
Asaa	20,000	Motor Vehicle	35,600
Life Assurance Policy Fund	12,000	Office Equipment	13,400
20% Loan – Asaa	10,000	Stocks	13,400
Creditors & Accruals	17,200	Trade debtors	10,200
Bank	25,600	Prepayment	7,500
		Cash in hand	3,800
		Life Assurance Policy	12,000
	<u>126,800</u>		<u>126,800</u>

Akutu and Asaa were each entitled to salary of €36 million per annum. Interest on partners' capitals and loans were fixed at 10% and 20% pre annum respectively. No current accounts were opened in the books of the firm.

Asaa retired from the partnership on 30<sup>th</sup> September 2005 to pursue further studies abroad. Considering the financial status of the firm, Asaa agreed to leave his combined



interest in the firm (capital, salary, loan and loan interest) as loan at a rate of 22.5% per annum from that date.

Following Asaa's retirement, assets were revalued resulting in the following:

	¢' 000
Increase in furniture & fittings	3,300
Increase in motor vehicles	2,400
Decrease in office equipment	1,200

Sundry assets in the books relate to unamortized portion of goodwill that arose when Akutu was admitted into the firm 10 years ago. Before Akutu's admission, Abe and Asaa Shared profits and losses in the ratio 3:2 respectively. The goodwill was being amortized over 15 years.

Abe, Akutu and Asaa took a joint survivorship policy for ¢60,000,000 paying annual premium of ¢4,000,000. They decided to terminate the policy on 30<sup>th</sup> September, 2005 and the insurance company paid the surrender value at the end of the third year in the sum of ¢9,000,000.

Abro, an employee receiving annual salary of ¢48,000,000 was admitted into the firm on 1<sup>st</sup> October 2005. Abe, Akutu and Abro agreed to share profits and losses in the ratio 3:2:1 respectively, to receive salaries of ¢42,00,000 each per annum and to receive interest on capital at 15% per annum. Abro contributed a total sum of ¢50,000,000 in respect of capital and his share of goodwill. The goodwill of the partnership was estimated at ¢60,000,000. Abro's contribution towards goodwill was retained as working capital. No goodwill account was raised in the books of the new firm. Abe and Akutu increased their capitals by ¢18,950,000 and ¢8,400,000 respectively on 1<sup>st</sup> October 2005.

The draft profit and loss accounts for the year ended 31<sup>st</sup> December 2005 showed a profit of ¢120,000,000 before charging loan interest and after deducting Abro's salary whilst an employee. The profit of ¢120,000,000 for 2005 resulted in the following:

Increase in bank balance	¢90,000,000
Increase in debtors	¢35,000,000
Decrease in stocks	¢5,000,000

All payments were passed through the bank account. Turnover, cost of sales and operating expenses accrued evenly throughout the year.

Abe, Akutu and Abro decided to maintain current accounts as well as fixed capital accounts in the books of the firm.

No payments were made to partners in respect of their salaries and interest on capitals.

**Required:**

Prepare:

- a. The Profit and Loss and Appropriation Accounts for the year ended 31<sup>st</sup> December, 2005. (8 marks)
- b. The Capital Accounts of the partners. (4 marks)
- c. Current Accounts of the partners. (2 marks)
- d. Balance Sheet of the firm as at 31<sup>st</sup> December, 2005. (6 marks)

**(Total: 20 marks)**

**QUESTION 3**

- (a) The following is a representative formula for sharing of the Common Fund:-

<u>Factor</u>	<u>Weight %</u>
Needs	35.0
Responsive	20.0
Equalisation	30.0
Service Pressure	10.0
Contingency	5
<b>Total</b>	<b><u>100.0</u></b>

**Required:**

- i) State the guiding principle employed in selecting the factors used in the formula. (2 marks)
- ii) Clearly explain each of the selected factors. (5 marks)
- iii) Outline any three (3) sources of data used in allocating the Common Fund. (3 marks)

- b) The financial statements of Big Ten Limited as at 31<sup>st</sup> December 2005 are as follows:

Income Statement for the Year Ended 31<sup>st</sup> December 2005

	<b>€' million</b>
Turnover	36,000
Cost of Sales	<u>27,600</u>
Gross Profit	8,400
Selling, General & Adm. Expenses	(4,200)
Depreciation: Plant & Equipment	(1,800)
Interest charges	<u>(950)</u>
Profit Before Tax	1,450
Corporation Tax	<u>435</u>
Retained Profit	<u><u>1,015</u></u>

Balance Sheet as at 31<sup>st</sup> December, 2005

	¢' million	¢' million
Plant & Equipment		9,600
less: Depreciation		<u>1,800</u>
		7,800
Motor vehicles		<u>3,200</u>
		11,000
Add:		
Stock	3,400	
Debtors	4,100	
Cash	1,200	
Trade Creditors	(3,500)	
Short-Term loan	(2,500)	
		<u>2,700</u>
		<u>13,700</u>

Financed By

Stated Capital	8,685
Retained Profit	<u>1,015</u>
	9,700
12% long-term loan	<u>4,000</u>
	<u>13,700</u>

**Required:**

Compute the under listed ratios and comment appropriately on their usefulness and drawbacks.

- i) Debtors Turnover Rate
- ii) Fixed Charges Coverage Rate
- iii) Cash Turnover Rate
- iv) Times Interest Earned
- v) Stock turnover

(15 marks)

**(Total: 25 marks)**

**QUESTION 4**

Pompom Ltd, a retail business in Tema had a branch shop in Keta for which it maintained ledger accounts. Pompom Ltd supplied the branch shop with goods for resale. Goods sent to the branch are invoiced at cost plus 20%.

The following balances relate to the branch for the year ended 31<sup>st</sup> December 2005.

	€'000
Opening balances (1 <sup>st</sup> January 2005)	
Branch stock	425,250
Branch debtors	182,925
Branch bank	122,850
Transactions during the year:	
Goods transferred from Head Office to Branch (at cost)	870,750
Goods transferred for Branch to Head Office (at cost)	16,200
Cash sales paid into bank	170,100
Credit sales	1,096,200
Goods returned to branch by credit customers	4,050
Cheques received form customers (credit sales)	1,148,175
Discount allowed	10,125
Bad debts written-off	2,025
Cash transferred from branch to Head Office	1,173,825
Rent and rates	14,850
Wages	5,400
General expenses	4,725
Branch stock at 31 <sup>st</sup> December 2005 (at cost)	324,000
Salaries of branch staff	50,625

**Required:**

**Prepare:**

- a) Branch stock account.
- b) Goods sent to branch account
- c) Branch stock adjustment account
- d) Branch profit and Loss account for the year ended 31<sup>st</sup> December 2005.

**(Total: 15 marks)**

### QUESTION 5

- (a) In line with GNASB Standard 8, Accounting for Inventories, outline the disclosure requirements for inventories. (5 marks)
- (b) Outline the criteria to be satisfied before development expenditure can be recognised as an asset in line with GNASB Standard 13, Research and Development Activities. (5 marks)
- (c) Explain why it is necessary to provide for deferred tax and outline the principles of accounting for deferred tax. (5 marks)

**(Total: 15 marks)**