THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

NOVEMBER 2006 EXAMINATIONS
(PROFESSIONAL)

PART 1

ACCOUNTING FOUNDATIONS
(Paper 1.1)

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

SECTION A

QUESTION 1

Adongo, Boateng and Coffie started a partnership on 1st January 2004. The business of the partnership includes the sale of stationery and text books. The partnership is governed by an agreement drafted by the partners. Below are excerpts of some of the provisions of the agreement:

(i) The partners are to share profit and losses in the ratio of 3:2:1.

(ii) Partners' capital is to attract interest at 15% per annum.

(iii) Drawings of capital by partners are to attract interest at the rate of 20% per annum.

The trial balance of the partnership as at 31/12/2005 after the preparation of the partnership profit and loss account is given below:

Adongo, Boateng and Coffie Partnership
Trial balance as at 31/12/2005

	Dr ¢'000	Cr ¢'000
Partners' capital a/c:		
Adongo		1,250,000
Boteng		1,125,000
Coffie		1,000,000
Buildings	2,500,000	
Furniture and fittings	187,500	
Motor vehicles	812,500	
Stock 31/12/2005	437,500	
Debtors	337,500	
Creditors		225,000
Bank	262,500	
Net profit for the year		425,000
10% Loan – Coffie		250,000
Current accounts:		
Adongo		200,000
Boateng	50,000	
Coffie		112,500
	4,587,500	4,587,500

The following entries have not been made in the books.

a) Coffie is the Administrative Manager of the partnership and is entitled to annual salary of ¢37,500,000.

b) Boateng paid an amount of ¢18,750,000 for general expenses from his personal resources on behalf of the partnership.

c) During the year, each of the partners made drawings totaling:

	¢ million
Adongo	75
Boateng	50
Coffie	37.5

Additionally, Adongo took goods valued at ¢87,500,000 for his personal use. All of these have not yet been reflected in the accounts.

The interest on the loan has not yet been accounted for. The loan will be repaid in 2008.

It is the policy of the partnership to deduct interest on loan as well as expenses made by a partner on behalf of the firm before ascertaining distributable profit.

You are required to prepare the following accounts for the partnership.

i) Profit and loss appropriation account for the year ended 31/12/2005.

ii) Partners' current account.

iii) The balance sheet of the partnership as at 31/12/2005.

(***20 Marks)***

QUESTION 2

(a) Akwasi Donkor is engaged in retailing business but seems to take a different approach to this trade according to the information available.

Ratio	Retail Business
Current ratio	2:1
Quick assets (acid test) ratio	1.7:1
Debtor turnover	63 days
Creditors turnover	50 days
Stocks turnover	52 days

Required:

Explain briefly how each ratio is calculated.

(***5 Marks)***

(b) The trial balance of Bawa Ltd as at 31 December 2005 was as follows:

	¢000	¢000
Stated capital		80,000
Income surplus 01/101/05		20,000
Plant and machinery @ cost	155,000	
Plant and machinery accumulated depreciation		50,000
Trade debtors	30,000	
Trade creditors		5,000
Stock 01/01/05	10,000	
Bank	3,400	
Turnover		150,000
Printing and stationery	10,000	
General provision for doubtful debts 01/01/05		2,000
10% Bank loan repayment in 2010		18,000
Purchases	60,000	
Selling and distribution expenses	40,000	
Administration expenses	15,000	
Interest on loan	1,600	
	325,000	325,000

The following final adjustments are required:

(i) Stock at 31st December 2005 was valued at ¢12,000,000.

(ii) Selling and distribution expenses owing amounted to ¢4,000,000.

(iii) Audit fee was agreed at ¢5,000,000.

(iv) Administrative expenses of ¢6,000,000 were prepaid.

(v) Depreciation is to be provided for plant and machinery at 10% based on reducing balance method.

(vi) The directors declared a dividend of ¢1,450,000.

(vii) Bawa Ltd produces solely for the export market and attracts corporate tax at the rate of 8%.

(viii) The accountant and the sales ledger clerk met on 31st December 2005. The sales ledger clerk reported that:

In his opinion the following debts were bad:

	¢000
Madina Ltd	2,000

Hatso Ltd	1,500

He considered the following debts as doubtful:

Teshie Ltd	1,600
Nungua Ltd	900
Achimota Ltd	2,500

The management board agreed to the comments of the sales ledger clerk as above and decided that they should write off the bad debts, make a specific provision for all doubtful debts and make a general provision of 5% as at 31st December 2005.

You are required to prepare for Internal use:

a. The trading, profit and loss account and income surplus account for the year ended 31st December 2005. (***10 Marks)***

b. The balance sheet as at 31st December 2005. (***5 Marks)***

(Total: 20 Marks)

QUESTION 3

(a) The treasurer of the Achimota Keep Fit Club has been presenting the receipts and payments account for the past years. However, at the annual general meeting this year, a member proposed that an income and expenditure account be prepared in addition. This proposal was agreed and you were appointed as the accountant to use the information provided by the treasurer to prepare the income and expenditure account.

The most recent receipts and payments account provided by the treasurer is set out below:

RECEIPTS AND PAYMENTS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	¢000	¢000
Receipts:		
Annual subscription		63,600
Bar sales		15,000
Tickets for annual dinner dance		900
		79,500
Payments:		
Wages for maintenance of club house	52,500	
Bar supplies	11,250	
General expenses	9,000	
Telephone expenses	1,350	
Rent	2,100	

Postage and stationery	1,800	78,000
		1,500
Bank balance at 01/01/05		6,450
Bank balance at 31/12/05		7,950

The treasurer provided the following additional information:

(i) The subscription received are as follows:

	¢000
Annual subscriptions received	57,750
Admission fees	2,250
Subscription received in advance for year ended 31st December 2006	3,600
	63,600

Admission fees are to be apportioned over six (6) years.

(ii) The Club decided to organize its first annual dinner dance in March 2006. Some members have paid deposits for the dinner dance, which amounted to ¢900,000, but the treasurer has said that, unless more members agree to attend he will cancel the dinner dance and return the deposits.

(iii) Other assets and liabilities of the Club were estimated as follows:

	31st December 2004 ¢000	31st December 2005 ¢000
Employees SSF deductions due to SSNIT	750	750
Creditors for bar supplies	1,125	1,500
Rent paid in advance	300	450
Bar stock	2,700	2,250
Equipment – at valuation	13,500	12,000

(a) You are required to prepare:

i. The bar trading account for the year ended 31st December 2005.

ii. The income and expenditure account for the year ended 31st December 2005.

(***15 Marks)***

(b) Mention five (5) potential user groups of financial statements and briefly explain the information needs of each.

(***5 Marks)***

(**Total: 20 Marks**)

SECTION B

QUESTION 4

(a) Adam Ltd has a factory with two production processes. Normal loss in each process is 10% and scrapped unit sells for ¢500 each from process A and ¢3,000 each from process B.

Relevant information for costing purposes relating to the 1st quarter of 2006 are as follows:

Direct materials added:	Process A	Process B
Units	2,000	1,250
Cost	¢8,100,000	¢1,900,000
Direct labour	¢4,000,000	¢10,000,000
Production overhead	150% of direct labour cost	120% of direct labour cost
Output to process B		
Transfer to process B:	1,750 units	
Finished goods		2,800 units
Actual production overhead		¢17,800,000

You are required to prepare:

i. Process A Accounts.

ii. Process B Account

iii. Abnormal loss or gain account.

iv. Production Overhead account.

(***16 Marks)***

(b) Briefly explain four (4) characteristics of job costing.

(***4 marks***)

(**Total: 20 Marks**)

QUESTION 5

(a) Baby Cola Company Ltd manufactures and sells variety of soft drinks in Ghana. The management intends to engage you as the company's Cost Accountant. Briefly describe the role you will play if engaged.

(2 Marks)

(b) Dimmie Ltd, a manufacturer of a standard product is now enjoying some monopolistic powers within the industry. Its current normal operating level is 70% which represents an output of 6300 units but the marketing manager believes that a realistic forecast for the next budget period would be an activity level of 90%. The net profit as a percentage of sales is 20%

	Level of Activity		
	60%	70%	80%
	¢000	¢000	¢000
Direct material	56,700	66,150	75,600
Direct wages	24,300	28,350	32,400
Production overheads	56,400	61,800	67,200
Administrative overheads	47,250	47,250	47,250
Selling and distribution expenses	63,450	66,150	68,850
Total cost	248,100	269,700	291,300

As the Cost Accountant of the firm, you are required to prepare a budget based on a level of Activity of 90%, which should show clearly the contribution and the net profit that could be expected.

(12 marks)

(c) Harden Enterprise has been buying and selling Koobi at a price of ¢60,000 each. During the month of September 2006, the following transactions took place. Opening stock of 60 items of Koobi were acquired in August at ¢30,000 each.

Date 2006	Number of items Purchased	Purchase cost per item ¢	Number of items Sold
05/09	120	31,000	150
10/09	300	33,000	250
29/09	210	29,000	180

From the information given above, you are required to:

Prepare stock records for the transactions based on the following stock valuation methods:

i. FIFO

ii. LIFO

(6 Marks)

(Total: 20 Marks)