

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



**NOVEMBER 2007 EXAMINATIONS
(PROFESSIONAL)**

PART 1

**ACCOUNTING FOUNDATIONS
(Paper 1.1)**

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

SECTION A

QUESTION 1

The balance sheet of Bawuah Ltd as at 30th June, 2007 is as follows:

	GH¢'000	GH¢'000	GH¢'000
Non-current Assets:			
Office furniture and equipment			3,180
Less depreciation			<u>300</u>
			2,880
Current Assets:			
Stocks		960	
Debtors		420	
Bank		285	
Cash in hand		<u>15</u>	
		1,680	
Current liabilities:			
Creditors	720		
Rent	<u>180</u>	<u>900</u>	<u>780</u>
			<u>3,660</u>
Financed By:			
Stated capital			3,000
Income surplus			<u>660</u>
			<u>3,660</u>

Additional information:

An examination of the cash book and the bank statements revealed the following:

- (i) All interest on investment received were credited directly to the bank account. During the period an amount of GH¢12,000 was credited by the bank but no further entries were made by the company in respect of this.
- (ii) Bank charges of GH¢3,000 shown in the bank statement were yet to be recorded in the company's books.
- (iii) A monthly standing order for electricity bill of GH¢14,000 for the month of June, 2007 had not been recorded in the company's book. This figure agreed with the company's electricity consumption for the month.
- (iv) Cheques totalling GH¢400,000 entered in the cash book on 30th June, 2007 were credited by the bank on 3rd July, 2007.
- (v) Cheque issued for office furniture of GH¢160,000 had been incorrectly entered in the business books as GH¢610,000. It is the policy of the company to depreciate all its fixed assets at 20% on cost.

- (vi) A cheque issued in payment for GH¢26,000 for sundry expenses has been recorded as income received in the company's books.
- (vii) Cheques drawn amounting to GH¢135,000 had not been presented to the bank for payment.

Required:

- a) Prepare an adjusted cash book showing the revised balance, which should appear in the balance sheet of Bawuah Ltd as at 30th June, 2007.
- b) Prepare a bank reconciliation statement as at 30th June, 2007.
- c) Prepare an adjusted Income Surplus Account balance for the year ended 30th June, 2007 and a balance sheet.

(20 marks)

QUESTION 2

Sapaku enterprise owned the following motor vehicles as at 1st July, 2006:

Registration No. of Vehicle	Date of acquisition	Cost GH¢'000	Estimated Residual value GH¢'000	Estimated useful life (years)
GK202T	31 st March 2003	170	10	8
GK304V	1 st October 2004	220	20	5
GK400W	1 st July 2005	285	15	7

The firm's financial year ends on 30th June each year. The firm uses the straight line method for depreciation with full year's depreciation charged in the year of acquisition and no depreciation charged in the year of disposal.

During the financial year ended 30th June, 2007 the following occurred:

- (i) On 30th June, 2007, vehicle with registration number GK304V was traded-in and replaced by GK275X.

The trade-in allowance was GH¢55,000. GK275X cost GH¢375,000 and the balance due (after deducting the trade-in allowance) was paid by cheque and partly by a loan of GH¢120,000 from Jolly Bank Ltd. The new vehicle is expected to have a residual value of GH¢15,000 after an estimated useful economic life of 9 years.

- (ii) Separate ledger accounts for each asset are NOT kept.

(a) ***You are required:***

To show the following accounts for the year ended 30th June, 2007:

- (i) Motor vehicles account.
 - (ii) Motor vehicles accumulated depreciation account.
 - (iii) Disposal of motor vehicles account. **(9 marks)**
- (b) Prepare the relevant balance sheet extracts as at 30th June, 2007. **(3 marks)**
 - (c) Distinguish between depreciation and amortisation. **(4 marks)**
 - (d) Identify and discuss **two (2)** other methods of depreciation. **(4marks)**
- (Total: 20 marks)**

QUESTION 3

A fire occurred in the workshop of B Aguodji, a sole trader on 25th June, 2006 where a large part of stock was destroyed. Ghana Fire Service was able to salvage stock valued GH¢90.

An examination of the business records for the period 1st January, 2007 to the date of the fire reveals the following information:

At January 1, 2007:	GH¢
Trade debtors	468
Trade creditors	300
Stock of goods	600
At June 25, 2007:	
Trade debtors	650
Trade creditors	345

During the period 1st January 2007 to 25th June 2007, business transactions included:

	GH¢
Payments to trade creditors	663
Goods bought on credit returned to suppliers	50
Receipts from trade debtors	980
Cash discount allowed	108
Cash discount received	42
Cash sales	400
Cash purchases	200
Goods returned by credit customers	30

The business makes a consistent gross profit margin of 30%. The insurance policy was for GH¢328.

Required:

Prepare a statement showing the value of stock lost in the fire outbreak.

(20 marks)

SECTION B

QUESTION 4

- (a) Explain the following concepts in process costing:
- (i) Expected units *(3 marks)*
 - (ii) Normal loss *(3 marks)*
 - (ii) Scrap *(3 marks)*
 - (iv) Joint products *(3 marks)*
- (b) (i) List **three (3)** examples of holding costs *(4 marks)*
- (ii) List **three (3)** examples of stock-out costs *(4 marks)*
- (Total: 20 marks)**

QUESTION 5

We Care Ltd have been in estate development for many years. It engaged the services of Gyedu Estate Selling Services since the past three years to advertise and sell residential property on its behalf to clients.

The expected sales of the residential properties are as follows:

Month	December 2006	January 2007	February 2007	March 2007	April 2007	May 2007	June 2007
Units sold	15	16	10	18	25	35	30

The average price of a property is GH¢270 and Gyedu Estate Selling Services charges a fee of 5% of the value of each property sold. 3% of this fee is received in the month of sale and the remaining 2%, the ensuing month.

Gyedu Estate Selling Services has a General Manager who is expected to earn GH¢12 a month with ten (10) supporting staff each earning an average of GH¢36 a year. All salaries shall be paid in the month they are incurred.

If more than twenty (20) properties are sold in a given month each supporting staff is expected to be paid in that month bonus of GH¢0.50 for each additional property sold.

Variable costs are incurred at the rate of 1% of the value of each property sold. These expenses are paid in the month of sale.

Fixed overhead of GH¢16 per month are paid by the service company in the month they are incurred.

Gyedu Estate Selling Services is to contract a 20% short term loan of GH¢300 in December 2006. This amount is expected to be credited to the company's bank account in January, 2007.

The principal repayment which is expected to start in March, 2007 will be spread over twelve months. Interest associated with this loan shall be paid in the same period as that of the principal.

Gyedu Estate Selling Services intends to dispose of one of its unserviceable cars which cost GH¢50 at the time of purchase with accumulated depreciation at the time of disposal of GH¢40 for GH¢22 in January, 2007. Proceeds from the sale of this unserviceable car will be collected in March 2007.

Interest in investment of GH¢3 with CBH in respect of 2006 are expected to be received in April, 2007. The cash balance as at January 1, 2007 is expected to be a deficit of GH¢60.

Required:

Prepare a monthly cash budget for the period from January to June 2007. Your budget must clearly indicate each item of your income and expenditure and the opening and closing monthly cash balances.

(20 marks)