

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



**MAY 2010 EXAMINATIONS  
(PROFESSIONAL)**

**PART 1**

**FINANCIAL ACCOUNTING FUNDAMENTALS  
(Paper 1.1)**

**Attempt ALL Questions**

**TIME ALLOWED:**

<b>Reading &amp; Planning</b>	<b>-</b>	<b>15 Minutes</b>
<b>Working</b>	<b>-</b>	<b>3 Hours</b>

## QUESTION 1

- a) Outline **four (4)** advantages and **three (3)** disadvantages of Accounting Standards. (7 marks)
- b) Outline the components of Financial Statements with reference to IAS I "Presentation of financial statements". (5 marks)
- c) List **five (5)** sources of finance for companies. (5 marks)
- d) Give **three (3)** factors that govern the formulation of accounting policies. (3 marks)

(Total: 20 marks)

## QUESTION 2

Adzewodzie has prepared the following statement of financial position for his business as at 30<sup>th</sup> September 2008.

	GH¢	GH¢	GH¢
Non-Current Assets:			
Freehold land and building			7,000
Plant and machinery			5,920
Investment			<u>2,800</u>
			15,720
Current Assets:			
Inventory		7,200	
Trade Receivable	9,680		
Less: Provision for doubtful debts	<u>1,120</u>	8,560	
Bank		2,880	
Cash hand		<u>160</u>	
		18,800	
Current Liabilities:			
Trade Payables		(7,520)	<u>11,280</u>
Total Assets less current Liabilities			27,000
Less: 10% Medium term Loan			<u>(4,000)</u>
			<u>23,000</u>
Financed By:			
Capital as at 1 October 2007			15,000
Profit for the year			<u>8,000</u>
			<u>23,000</u>

On investigation you find that

- (i) The Freehold Land and Building and the Plant and Machinery are to be written down to GH¢6,000 and GH¢5,500 respectively.

- (ii) The receivables include GH¢480 specific bad debts. In addition the provision for doubtful debt is to be increased to GH¢1,280.
- (iii) The closing inventory sheets were undercast by GH¢2,840
- (iv) Adzewodzie has taken GH¢400 as personal drawings from his cash sales but no record has been made of this in his books.
- (v) No provision has been made for the half year interest due on the loan at 30<sup>th</sup> September 2008.
- (vi) The bank statement showed entries for bank charges of GH¢112 and dividends credited of GH¢150 but these were omitted from the cash book. Payments to Adzewodzie of GH¢200 by standing order had not been recorded in his books. This represents personal drawings in the form of transfers from his business bank account to his private bank account.
- (vii) Provision is to be made of GH¢110 for electricity consumed while insurance paid in advance amounted to GH¢52 but no adjustment had been made in the books.

***You are required to:***

- (a) Prepare a statement showing the necessary adjustments to the profit as stated in the statement of financial position.
- (b) Prepare a corrected statement of financial position as at 30<sup>th</sup> September, 2008.

**20 marks**

**QUESTION 3**

Nii, Nene and Nana were in partnership sharing profit in the ratio 3: 2: 1 respectively.

A summary of the statement of financial position of the partnership as at 30<sup>th</sup> September, 2009 is as follows:

	GH¢		GH¢
<u>Capital Accounts</u>		<u>Non-Current Assets</u>	
Nii	15,000	Plant & Machinery	10,000
Nene	9,000	Motor Vehicles	3,600
Nana	6,000	Furniture	7,400
<u>Current Account</u>		<u>Current Assets</u>	
Nii	7,200	Inventory	10,200
Nene	5,400	Trade Receivables	13,500
Nana	3,900	Bank	14,000
		Petty Cash	4,300
Loan Account – Nene	6,000		
Trade payables	<u>10,500</u>		
	<u>63,000</u>		<u>63,000</u>

Due to a disagreement between Nii and Nene, the partners decided to dissolve the partnership. The following decisions were taken in relation to the dissolution.

- (i) The cash balance should be paid into the bank.
- (ii) The trade receivables realized GH¢12,600.
- (iii) The trade payables were settled for GH¢9,900, the difference was granted as cash discount.
- (iv) Nii was to take over the motor vehicle at GH¢3,780.
- (v) The inventory was sold for GH¢12,200.
- (vi) The plant and machinery was disposed of at GH¢20,000.
- (vii) The furniture was sold for GH¢12,900
- (viii) Nene's loan was transferred to his capital account.
- (ix) Partners' current account balances were transferred to capital accounts.

***You are required to prepare:***

- (a) The Realisation Account.
- (b) The Bank Account.
- (c) The Partners' Capital Accounts in a columnar form showing the final settlement among the partners.

**20 marks**

#### QUESTION 4

- a) Define Joint Venture and give **two (2)** of its advantages.

*(4 marks)*

- b) Dee and Cee entered into a Joint Venture to trade in electronic machines. They agreed to share Joint Venture profit as follows: Dee 3/5 and Cee 2/5. On 1/3/2009 Dee sent a GH¢10,000 cheque to Cee to start the business.

They managed to dispose of all the goods they bought by 31/03/2009 by which date their cash transaction had been as below:

	Dee	Cee
	GH¢	GH¢
Sales	3,500	2,600
Traveling expenses	360	450
Advertising	90	91
Market tools	70	95
Wages of casual worker	50	10
Sundry expenses	70	30
Purchases	1,650	1,150

Settlement between the co-ventures then took place by cheque.

**Required:**

- (i) Memorandum Joint Venture Account
- (ii) Joint Venture with Dee account in Cee's ledger
- (iii) Joint Venture with Cee's account in Dee's ledger.

*(16 marks)*

**(Total: 20 marks)**

#### QUESTION 5

Tom Tom enterprise, a retailer has not been keeping proper books of accounts. The following information was extracted from the available records for the year ended 31<sup>st</sup> December 2009.



As at 31 December	2008 GH¢	2009 GH¢
Office equipment	40,000	-
Office furniture	12,000	-
Inventory	10,000	18,000
Trade receivables	12,000	45,000
Rent prepayment	400	600
Electricity accruals	800	1,500
Cash in hand/bank	20,000	-
Trade payables	10,000	35,000
10% loan	18,000	18,000

Below is the cash book for the year ended 31 December 2009.

Cash Book

	GH¢		GH¢
Bal b/d	20,000	Rent	850
Cash received from customers	50,000	Electricity	1,500
		Lightings	2,000
		General expenses	1,800
		Advertising	4,300
		Office furniture	10,000
		Loan interest	900
		Suppliers	15,000
		Balance c/d	<u>33,650</u>
	<u>70,000</u>		<u>70,000</u>

Additional information:

- i. Office furniture should be depreciated at the rate of 10% and office equipment at 15% all on cost.
- ii. Goods returned by customers amounted to GH¢1,000.
- iii. Discount allowed and received amounted to GH¢500 and GH¢200 respectively.

***You are required to prepare:***

- (a) Sales Ledger and Purchases Ledger Control Accounts. (4 marks)
- (b) Statement of Affairs as at 31/12/2008. (2 marks)
- (c) Income statement for the period ending 31/12/2009. (7 marks)
- (d) Statement of financial position as at 31/12/2009. (7 marks)

**(Total: 20 marks)**