THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

MAY 2008 EXAMINATIONS
(PROFESSIONAL)

PART 1

ACCOUNTING FOUNDATIONS
(Paper 1.4)

Attempt ANY Five (5) Questions

TIME ALLOWED: 3 HOURS

SECTION A

QUESTION 1

At the end of the financial year, the trial balance of Agogo Enterprise failed to balance and the difference was entered in a suspense account.

The following errors were subsequently discovered in the books:

(i) The sales day book had been over cast by GH¢1,500

(ii) Goods bought on credit from A. Abudu, a supplier, for GH¢75 has been posted to his account as GH¢750.

(iii) The sales on credit of obsolete items of office equipment at their book value of GH¢4,500 has been recorded in the sales day book.

(iv) Discount allowed of GH¢30 has been correctly entered in the cash book but has not been posted to the account of B. Badu, the customer.

(v) A new equipment costing GH¢20,000 had been posted to the debit of the repairs and maintenance account. It is the policy of the enterprise to depreciate all its equipment at 20% on cost.

(vi) Telephone bills, treated as having been paid in advance in the previous accounting period amounting to GH¢6,700 had not been brought down as a balance on the telephone expenses account at the start of the accounting period. Instead it was included in the prepayments account.

(vii) GH¢900 owed to E. Emmanuel, a supplier, had been overlooked when drafting up a schedule of sundry creditors ledger for inclusion in the trial balance.

(viii) J. Gyedu, a customer, returned goods valued at GH¢150. This had been entered in the sales returns book and posted to the debit side of the customer's personal account.

(ix) Draft financial statements prepared before effecting the relevant adjustments in (i – viii) showed a profit of GH¢2,000.

As a result of posting these errors to the suspense account, the balance on the suspense account was reduced to zero,

You are required to prepare:

(a) The appropriate journal entries to correct the errors. (***9 marks)***

(b) The suspense account identified above. (***6 marks***)

(c) Describe **three (3)** types of errors that will not affect the agreement of the Trial Balance. (***5 marks***)

(**Total: 20 marks**)

QUESTION 2

Bargo and Gargo are in partnership sharing profits and losses in the ratio of 2:1 respectively. They employed an accounts clerk to maintain their financial records. The accounts clerk has prepared the draft accounts for the year ended 31st December 2007. He has, however, not dealt with adjustments for accrued expenses, bad and doubtful debts, depreciation and appropriation of profits or losses for the year under review.

Following the preparation of the income statement, the accounts clerk prepared the balance sheet shown below.

BARGO AND GARGO
DRAFT BALANCE SHEET AS AT 31 DECEMBER 2007
(BEFORE ADJUSTMENTS)

	GH¢	GH¢
Fixed Assets:		
Equipment at cost	525,000	
Accumulated depreciation as at 01/01/07	255,000	270,000
Current Assets:	126,000	
Stock	450,000	
Trade debtors	20,000	
Bank	596,000	
Current Liabilities:		
Trade creditors	240,000	
Bank overdraft	6,000	
	246,000	
Net Current Assets		350,000
Net Assets		620,000
Financed by:		
Capital:	200,000	
Bargo	100,000	300,000
Gargo		
Partner’s Current Accounts		
Bargo	80,000	
Gargo	40,000	120,000
Profit per draft accounts		200,000
		620,000

Additional information:

(i) Interest on capital accounts balance of 5% as per partnership agreement is yet to be effected. The partners maintain fixed capital accounts.

(ii) Rent of GH¢8,000 for six months to 31st march 2008 was paid in December 2007.

(iii) The last invoice received for telephone usage covers the four months period to 31st December 2007. The invoice was for GH¢20,000 and has not been incorporated in the accounts.

(iv) Included in the stock is an item which cost GH¢15,000. Due to changes in technology, this item could only be disposed of for GH¢12,000.

(v) The partnership has agreed to make a provision of GH¢43,000 for doubtful debts.

(vi) Depreciation is to be provided at the rate of 25% per annum on reducing balance basis.

Required:

(a) Calculate balance at 31st December 2007 for each of the following:

- (i) Prepaid expenses
- (ii) Accrued expenses
- (iii) Accumulated depreciation

(b) Prepare adjusted profit and loss appropriation account for the year ended 31st December 2007 including the distribution of profit to the partners.

(c) Prepare the partners' current accounts after effecting the necessary adjustments.

(d) Show the adjusted balance sheet as at 31st December 2007.

(**20 marks**)

QUESTION 3

The following is the trial balance of ALIMA LTD as at 31 December 2007

	GH¢000	GH¢000
Sales		2,000
Bank	160	
Debtors	320	
Creditors		340
Stock as at 01/01/07	280	
Income surplus as at 01/01.07		103
Building at cost	850	
Office equipment at cost	260	
Provision for doubtful debts		10
Preference dividend	30	
Salaries	400	
Electricity and water	100	
Sundry expenses	50	

Provision for depreciation:		
Building		85
Office equipment		72
Director's remuneration	150	
Stated capital		800
Purchases		
	810	
	3,410	3,410

Notes at 31st December 2007:

(i) Stock, GH¢290,000

(ii) The stated capital consist of,

	GH¢000
400,000 ordinary shares of no par value	400
400,000 10% preference shares fully paid	400
	800

(iii) The directors proposed an ordinary dividend of 5 Ghana pesewas per share.

(iv) Depreciation on cost: Building, 2% and office equipment 20%

(v) Water bills outstanding amount to GH¢20,000

(vi) Provision for doubtful debts was agreed at 5% of debtors.

You are required to prepare:

(a) The profit and loss account for the year ended 31st December 2007.

(b) Income surplus account for the year ending 31st December 2007.

(c) The balance sheet as at 31st December 2007.

(**20 marks**)

SECTION B

QUESTION 4

(a) Briefly explain the following inventory terms:

- (i) Inventory control
- (ii) Lead time
- (iii) Safety stock
- (iv) Re-order level (***8 marks***)

(b) The information below relates to the records of Opanka Ltd.

Maximum usage:	150 units per day
Minimum usage:	80 units per day
Average usage:	120 units per day
Economic Ordering Quantity (EOQ):	4000 units
Lead time:	Minimum 24 days
	Maximum 28 days

Required:

Using the above information, calculate the following:

- (i) Maximum stock level
- (ii) Re-order stock level
- (iii) Minimum stock level (***12 marks***)

(**Total: 20 marks**)

QUESTION 5

(a) Briefly differentiate between Marginal Costing and Absorption Costing. (***4 marks***)

(b) Production and sales information for AB Company Ltd are given below:

	Year 1	Year2
Production (units)	80,000	90,000
Sales (units)	80,000	85,000

The company has a single product for which the financial data, based on an activity level of 80,000 units per annum, are as follows:

i. Direct material per unit GH¢2.50

ii. Direct Labour per unit GH¢3.00

iii. Total Production Overhead is 200% of Direct Labour Cost

iv. Administrative overheads are fixed and amount to GH¢100,000 per annum.

v. 25% of the production overheads are fixed.

vi. Selling price per unit is GH¢18.00.

Required:

From the above information, prepare Operating Statements on Marginal Costing and Absorption Costing Principles. Show all workings.

(***16 marks***)

(Total: 20 marks)