SOLUTION - ACCOUNTING FOUNDATION MAY 2009

QUESTION 1

a) Progressive Future Leaders Club
Income and Expenditure Account
for the year ended 31/12/07

	GH¢	GH¢
Income		
Subscriptions	456,000	
Profit on sale of Club T-shirts	5,600	
Profit on excursions	5,000	
Admission fees	159,000	
Bank interest	2,100	627,700
Less/expenses:		
Rent & Rates	38,920	
Depreciation Expenses:		
Office furniture	11,000	
Equipment	52,000	
Postage & Communication	11,845	
Honoraria for guests speakers	180,800	
Utility expenses	26,960	
General expenses	21,430	
Traveling & transport expenses	35,940	
Stationery expenses	21,960	
Hire of generator	5,680	406,535
Surplus of Income over expenditure		221,165

b) Progressive Future Leaders Club
Balance Sheet as at 31/12/07

	Cost GH¢	Dep. GH¢	Net Book value GH¢
Non-current assets:			
Equipment	283,600	52,000	231,600
Office furniture	138,000	11,000	127,000
	421,600	63,000	358,600
Current assets:			
Subscriptions in arrears		18,000	
Rents prepaid		12,500	
Bank		48,570	
		79,070	
Less			
Current Liabilities:			
Subscription prepaid		33,000	
Rates outstanding		17,600	
Hire of generator accrued		5,680	
		56,280	
Net current assets			22,790
			381,390

Financed By:	
Accumulated fund	160,225
Surplus of income over expenditure	221,165
	381,390

Workings

(1) Opening Statement of Affairs

	GH¢	GH¢
Assets:		
Subscriptions in arrears	22,000	
Rents prepaid	17,800	
Office furniture & fittings	138,000	
Bank	21,025	198,825
Less liabilities:		
Subscription prepaid	26,000	
Rates outstanding	12,600	38,600
Accumulated fund		160,225

(2) Subscription Account

	GH¢		GH¢
Balance b/d	22,000	Balance b/d	26,000
Income & Expenditure a/c	456,000	Bank	467,000
Balance c/d	33,000	Balance c/d	18,000
	511,000		511,000
Balance b/d	18,000	Balance b/d	33,000

(3) Rents & Rates Account

	GH¢		GH¢
Balance b/d	17,800	Balance b/d	12,600
Bank	28,620	Income & expenditure a/c	38,920
Balance c/d	17,600	Balance c/d	12,500
	64,020		64,020
Balance b/d	17,500	Balance b/d	17,600

(4)

Depreciation Expenses:

	GH¢
Office furniture:	
Opening Net Book Value	138,000
Closing Net Book Value	127,000
	11,000

Equipment:

Cost	283,600
Less Residual value	23,600
Depreciation amount	260,000
Depreciation expense	= 20% of 260,000
	= 52,000

(5) Profit on sale of Club T-Shirts

	GH¢
Proceeds on sale of T-Shirts	16,875
Cost of printing T-Shirts	11,275
	5,600

(6) Profit on Excursions

	GH¢
Excursion fees	15,000
Excursion expenses	10,000
	5,000

QUESTION 2

Realisation Account

	GH¢		GH¢
Premises	4,500	Bank Premises	6,500
Equipment	1,800	Equipment	1,500
Vehicles	1,500	Vehicle	1,000
Stock	1,900	Stock	1,640
Debtors	1,400	Debtors	1,360
Dissolution Expenses	300	Capital account taken over – D	1,000
Sharing of profit:		Capital account taken over – C	500
D	840		
C	840		
E	420		
	13,500		13,500

Bank Account

	GH¢		GH¢
Balance b/d	1,200	Dissolution expenses	300
Realisation a/c: Premises	6,500	Creditors	2,000
Equipment	1,500	Capital account: D	3,210
Stock	1,640	C	4,260
Vehicle	1,000	E	3,430
Debtors	1,360		
	13,200		13,200

Capital Account

	D	C	E		D	C	E
	GH¢	GH¢	GH¢		GH¢	GH¢	GH¢
Asset taken over	1,000	500	-	Balance b/d	3,200	2,800	1,600
Bank	3,210	4,260	3,430	Current a/c	170	1,120	1,410
				Profit on realisation	840	840	420
	4,210	4,760	3,430		4,210	4,760	3,430

Workings

Premises Account

	GH¢		GH¢
Balance b/d	5,000	Accumulated depreciation	500
		Realisation account	4,500
	5,000		5,000

Equipment Account

	GH¢		GH¢
Balance b/d	2,000	Accumulated depreciation	200
		Realisation account	1,800
	2,000		2,000

Vehicle

	GH¢		GH¢
Balance b/d	2,000	Accumulated depreciation	500
		Realisation account	1,500
	2,000		2,000

Stock Account

	GH¢		GH¢
Balance b/d	1,900	Realisation account	1,900

Debtors Account

	GH¢		GH¢
Balance b/d	1,400	Realisation account	1,400

Creditors Account

	GH¢		GH¢
Bank	2,000	Balance account	2,000

QUESTION 3

(a) Cash flow statement is a financial statement on how the entity generates and uses cash and cash equivalents within a particular period.

(b) i. Cash comprises cash on hand and demand deposit.

ii. Cash equivalents: are short term highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. For example proceeds from short term investment with maturity time of three or less months.

iii. Operating activities: are the principal revenue producing activities of the entity and other activities that are not investing or financing activities. eg. cash receipts from the sale of goods and rendering of services. And cash payments to and on behalf of employees.

iv. Investing activities: are the acquisition and disposal of long term assets and other investments not included in cash equivalents. eg. cash payments to acquire properties as plant and equipment. And cash proceeds from sales of plant and equipment.

v. Financing activities: are activities that result in changes in the size and composition of the contributed equity and borrowing of entity. eg. cash proceeds from issuing of shares or other equity instruments. Also cash repayments of loans.

(c) Objectives of cashflow statements

i. To ascertain the amount of cash and cash equivalents generated during the year.

ii. To explain how the cash and cash equivalents generated have been applied.

iii. To assist in cash forecasting and planning.

QUESTION 4

(a) AIDOO LTD – PROCESS 2 COSTS

(i) Production cost per equivalent unit:

	Process 1 Costs	Materials add	Conversion costs
Equivalent unit:			
Transfers to finished goods (units)	2,925	2,925	2,925
Add closing work-in-progress (equivalent units)	420	357	189
	3,345	3,282	3,114
Costs (GH¢)	66,096	13,431	26,862
Cost per unit (GH¢)	19.76	4.09	8.63

∴ Total cost equivalent per unit = 19.76 + 4.09 + 8.63

= GH¢32.48

(ii) Value of transfer to finished goods

= GH¢32.48 x 2,925 = GH¢95,004

(iii) Closing work-in-progress:

	GH¢
Process 1 cost = 420 x GH¢19.76 =	8,299.20
Materials added = 357 x GH¢4.09 =	1,460.13
Conversions cost = 189 x GH¢8.63 =	1,631.07
	11,390.40

QUESTION 5

(a)

i. Cost Allocation: Is the charging of discrete identifiable items of cost to cost centre or Cost units.

ii. Cost Apportionment: Is the sharing of common costs between two or more cost centres, so that the costs are split between the cost centres in a "fair" proportion, that reflects the relative benefit received.

(b) ABUBAR LTD

REAPPORTIONMENT OF SERVICE COST CENTRE OVERHEADS

	P_A	P_B	S_1	S_2
	GH¢	GH¢	GH¢	GH¢
Allocated and Apportioned	350,000	192,000	85,000	75,000
Re-apportionment: S_2	28,571	39,286	7,143	(75,000)
S_1	44,191	47,952	(92,143)	
	422,762	279,238		

(c) Production overheads absorption rate = $\frac{\text{budget overhead}}{\text{budget production hours}}$ = $\frac{\text{GH¢}80{,}000}{4{,}000}$

= GH¢20 per direct labour hour

(i) Production overhead absorption

	January	February
Actual hours of production	3,500	5,500
Overhead absorption rate (GH¢)	20	20
Absorbed production overhead (GH¢)	70,000	110,000

(ii) Production overhead over/under absorption:

	January		February	
	GH¢		GH¢	
Absorbed	70,000		110,000	
Actual	80,000		80,000	
	10,000	under	30,000	over