THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

INTEGRITY

NOVEMBER 2009 EXAMINATIONS
(PROFESSIONAL)

PART 1

ACCOUNTING FOUNDATIONS
(Paper 1.1)

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

SECTION A

A and B are in partnership. They share profits equally. A is entitled to a salary of ¢40 million per annum. No interest is charged on drawings or allowed on current accounts or capital accounts. The trial balance of the partnership at 31st December 2008 was as follows:

		Dr ¢000	CR ¢000
Capital	- A		30,000
	- B		25,000
Current	- A		3,000
	- B		4,000
Drawings	- A	4,000	
	- B	5,000	
Sales			200,000
Stock 1 Jan 2008		30,000	
Purchases		103,000	
Operating expenses		64,000	
Loan	- B (10%)		10,000
	C (10%)		20,000
Land & Building		60,000	
Plant & Equipment	- Cost	70,000	
	- Depreciation (31/12/08)		40,000
Debtors & Creditors		40,000	33,000
Bank			11,000
		376,000	376,000

The following are relevant.

(i) Closing stock on hand at 31st December 2008 was ¢24 million.

(ii) On 31st December 2008 A & B agreed to admit their Manager, C, into partnership. C's loan account balance is to be transferred to a capital account as at 31st December 2008.

It was agreed that in future A, B and C will all share profit equally. A will be allowed a salary of ¢40 million as before, and C will be allowed a salary of ¢50 million per annum (half of what he received in 2008 as manager, included in operating expenses).

The three partners agreed that the goodwill of the business at 31st December 2008 should be valued at ¢12 million, but is not to be recorded in the books.

It was also agreed that land and buildings are to be revalued to a figure of ¢84 million and that this revalued figure is to be retained and recorded in the accounts.

(iii) Interest on the loan has not been paid.

iv) Included in sales are two items sold on 'sale or return' for ¢3 million each. Each item had cost the business ¢1 million. One of these items was in fact returned on 4th January, 2009 and the other was accepted by the customer on 6th January, 2009.

Required:

Prepare (i) Partner's capital accounts in columnar form.

(ii) Partner's current account in columnar form.

(iii) Trading, profit and loss account and appropriation account for 2008.

(20 marks)

QUESTION 2

a) State and explain the **three (3)** basic assumptions underlying the preparation of financial statements.

(*6 marks*)

b) State **six (6)** classes of persons who are likely to use financial accounting information and WHY?

(*8 marks*)

c) State and explain any **three (3)** qualitative characteristics of financial information.

(*6 marks*)

(Total: 20 marks)

QUESTION 3

The Accounts Clerk of Waawaah Ltd extracted from the general ledger, the control balances for debtors and creditors as at 30/9/2008 and attempted to reconcile these balances with those from the schedules of individual debtors and creditors extracted from the debtors ledger and creditors ledger respectively.

Given below are the details of the relevant accounts.

	Control accounts	Schedule of individual accounts	
		Dr	Cr
	¢000	¢000	¢000
Debtors	107,530 (Dr)	110,805	2,000
Creditors	71,370 (Cr)	12,640	83,110

The following errors were detected after an audit.

(i) The sales day book was summed up as ¢32,000,000 instead of ¢23,000,000.

(ii) The Returns Inwards Day Book was overcast by ¢9,825,000.

(iii) Sales of ¢380,000 to Kofi Owusu was wrongly posted from the sales Day Book to Coffie Owusu's account as ¢830,000.

(iv) A postdated cheque for ¢35,000,000 was received from Ogoro, a debtor. Waawaah Ltd immediately attempted to deposit this cheque. The bank accepted the deposit less a discount of ¢750,000. Thereafter, the Cash Book was debited and Ogoro's account and Debtors Control account credited with the net proceeds of ¢34,250,000. No other entries were recorded in respect of this transaction.

(v) Two errors were discovered in respect of the treatment of discount received in September 2008. The total column of the discounts received was overcast by ¢1,000,000 and an item of ¢100,000 was not posted to Ogede's account in the Creditors Ledger until October 2008.

Required:

(a) Write Journal entries to correct the errors detected in the books of Waawaah Ltd.

(b) Prepare a statement to correct the schedule of balances from the Debtors Ledger and the Creditors Ledger.

(c) Prepare a statement to show the effect of the corrections on the reported profit. (The reported profit per the draft account for the year ended 30th September 2008 was (¢10,000,000.)

(20 marks)

SECTION B

QUESTION 4

The Budgeted Factory Costs of New Millenium Ltd has been estimated as follows:

	¢000
Indirect wages	80,500
Power	120,000
Light and cooling	40,000
Repairs & maintenance	70,000
General expenses	45,000
Depreciation on machinery	60,000

The factory has two production departments, A and B and a service department X. The above indirect costs are to be allocated to the departments using the following basis for calculations.

	Departments		
	A	B	X
Floor space (m^2)	12,000	18,000	10,000
Power rating of machinery	10HP	120HP	30 HP
Value of machinery	¢20 million	¢196 million	¢24 million
From the last cost period			
Indirect labour (Hrs)	1500 hrs	1500 hrs	3000 hrs
Repairs etc	¢20 million	¢30 million	¢20 million
General expenses	¢15 million	¢25 million	¢5 million
Service of machinery by Department X	40%	60%	-

The budget also estimates that the following hours will be used on production in the budget period:

	Departments	
	A	B
Labour hours	12,065,000	5,000,000
Machine hours	500,000	4,000,000

It has been decided that overheads for department A should be absorbed by jobs on the basis of labour hours and for department B on the basis of machine hours.

Required:

(a) Calculate the overheads absorption rate for departments A and B using an overhead analysis sheet.

(b) If the wages rates for departments A and B are ¢145 and ¢165 each per hour respectively, calculate the production cost of Job No. 419, in respect of which the following details are given.

	Departments A	Departments B
Material cost	¢6,000	¢3,000
Labour hours	150 hrs	50 hrs
Machine hours	20 hrs	120 hrs

(22 marks)

QUESTION 5

DAWADAWA Ltd produced 30,000 kg of "Tuo Zaafi", its main product during June 2005.

During this period 24,000 kg of Tuo Zaafi was sold at ¢7,500 per kg.

Given below are the details of cost for the period:

Direct materials cost	¢1,000 per kg
Direct labour	¢500 per kg
Variable factory overhead	¢900 per kg
Fixed factory overheads	¢1,440,000
Selling & Administrative expenses:	
Variable	¢375 per kg
Fixed	¢300,000

You are required to:

(a) Prepare an Income Statement using

(i) Absorption Costing

(ii) Marginal costing

(b) Explain the difference in the net results (if any).

(18 marks)