ACCOUNTING FOUNDATIONS NOVEMBER 2009

QUESTION 1

(i) PARTNERS CAPITAL

	A	B	C		A	B	C
	¢000	¢000	¢000		¢000	¢000	¢000
Goodwill	4,000	4,000	4,000	Balance b/c	30,000	25,000	0
Balance c/d	44,000	39,000	16,000	Goodwill	6,000	6,000	0
				Land revaluation	12,000	12,000	0
				Surplus	0	0	20,000
				Loan a/c			
Total	48,000	43,000	20,000		48,000	43,000.	20,000
				Balance b/d	44,000	39,000.	16,000

(ii) PARTNERS CURRENT ACCOUNT

	A	B	C		A	B	C
	¢000	¢000	¢000		¢000	¢000	¢000
Drawing	4,000	5,000	0	Balance b/d	3,000	4,000	
Share of loss	10,000	10,000	0	Salary	40,000		
Balance c/d	29,000	0	2,000	Loan interest		1,000	2,000
				Balance c/d		10,000	
Total	43,000	15,000	2,000		43,000	15,000	2,000
Balance b/d		10,000		Balance b/d	29,000		2,000

A & B
TRADING, PROFIT & LOSS AND APPROPRIATION ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008

	¢000	¢000
Sales (200,000 – 6,000)		194,000
Opening stock	30,000	
Purchases	103,000	
Closing stock (24,000 – 2,000)	26,000	
Cost of sales		107,000
Gross profit		87,000
Operating expenses	64,000	
Interest (10% x (10,000 – 20,000))	3,000	
		67,000
Net profit		20,000
Salary A		40,000
Share of loss		20,000
A (1/2)	10,000	
B (1/2)	10,000	
		20,000

Workings

Sales made on sale or return can only be treated as sale once the customer accepts the goods. Up to that point, the goods 'sold' are treated as stock and valued at the lower of cost and net realizable value as usual. The goods accepted in January will therefore be treated as sold in the next accounting period.

Sales: ¢200,000 - ¢600 = ¢194,000
Stock: ¢24,000+2000 = ¢26,000
Debtors: ¢40,000 -¢6,000 = ¢34,000

QUESTION 2

a

(i) Going Concern – This implies that the business will continue to operate for the foreseeable future so it is considered sensible to keep to the use of the cost concept when arriving at the valuation of asset.

(ii) Consistency: This means that when a firm has adopted a method for the accounting treatment of an item, it will treat all similar items in exactly the same way. Constantly changing the method would lead to misleading profits being calculated from the accounting methods. A firm may however change the method used but such change is not made without a lot of consideration.

(iii) Accrual – This means that all revenue and expenses relating to the financial period to which they relate should be matched against each other, irrespective of the date of receipt or payment, for profit determination.

b.

(i) Owners – Profitability
(ii) Directors – Profitability and Asset usage
(iii) Employees – payment of wages, salaries and allowances
(iv) Shareholders – profitability, leading to dividend payment
(v) Creditors – ability to pay them when their debts fall due, the liquidity of the firm
(vi) Gov't – economic planning and tax purposes
(vii) Banks / lenders – profitability i.e. whether the firm is able to service its debts
(viii) Prospective investors / buyers – profitability

c.

Accuracy
Reliability
Timeliness
Understandability
Relevance
Comparability
Consistency

QUESTION 3

a.

Books of Waawaah Ltd

Journal Entries

	Dr	Cr
	¢000	¢000
Sales a/c	9,000	
Debtors control a/c		9,000
Correction of sales overcast		
Debtors control a/c	9,825	
Returns inwards a/c		9,825
Correction of returns inwards overcast		
Kofi Owusu a/c	380	
Sales a/c	450	
Coffie Owusu		830
Correction of sales to Kofi for ¢380,000 entered against Coffie Owusu as ¢830,000		
Bank discount (Commission) a/c	750	
Debtors control a/c		750
Recognition of discount by bank of customers posted cheque		
Discount received a/c	1,000	
Creditors control a/c		1,000
Correction of discount received previously overstaffed		
Ogede's a/c		100
Suspense a/c	100	
Correction of an omission to post a discount received of ¢100,000 to Ogede's a/c		

b.

Corrected Schedule of Debtors

	Debit	Credit	Net debtors a/c
	¢000	¢000	¢000
Balance b/d	110,805	2,000	
Kofi Owusu	380		
Coffie Owusu		830	
Bank discount		750	
Corrected balance	111,185	3,580	107,605Dr

Corrected Schedule of Creditors

	Debit	Credit	Net debtors a/c
	¢000	¢000	¢000
Balance b/d	12,640	83,110	
Discount recovered - Odege		100	
Corrected balance	12,640	83,210	70,570Cr

c. Statement of Corrected Profit

	Add	Deduct	Balance
	¢000	¢000	¢000
Net profit per draft account			10,000
Sales overcast		9,000	
Returns overcast	9,825		
Sales overcast		450	
Bank commission		750	
Discount recovered overcast		1,000	
	9,825	12,200	1,375
Corrected net profit			8,625

QUESTION 4

a. New Millenium Hotel Overhead Analysis Sheet

Overhead Item	Basis of apportionment	Production A	Production B	Service X	Total
		¢000	¢000	¢000	¢000
Indirect wages	Indirect labour by 15:15:30	20,125	20,125	42,250	82,500
Power	Power ratio 10:120:30	7,500	90,000	22,500	120,000
Light & cooling	Floor space 12:18:10	12,000	18,000	10,000	40,000
Repairs & Maintenance	Allocated	20,000	30,000	20,000	70,000
General expenses	Allocated	15,000	25,000	5,000	45,000
Depreciation on machinery	Value of machinery 20:116:24	5,000	49,000	6,000	60,000
		79,625	232,125	103,750	417,500
		41,500	62,250	103,750	
Service department overhead cost	40:60	121,125	294,375	Nil	417,500

4,000 hrs

Budgeted labour hours		12,065 hrs	
Budgeted machine hours			4,000 hrs
Overhead Absorption Rate =	Budgeted overhead	¢121,125,000	¢294,375,000
	Budgeted activity level	12,065 hrs	4,000 hrs
		¢10.04/labour hr	¢73.59/machine hrs

b.

JOB NO.419
Cost Card

			¢000	¢000	
Direct materials cost	Dept A		6,000.00		
	Dept B		3,000.00	9,000.00	
Direct labour cost	Dept A		21,750.00		
	Dept B		8,250.00	30,000.00	
Prime cost				39,000.00	
Overhead absorbed	Dept A	150 hrs @ 10.01		1,506.00	
	Dept B	120 hrs @ 73.59		8,830.80	10,336.80
Production cost					49,336.80

QUESTION 5

a. (i) Dawadawa Ltd.

Income Statement (Absorption costing Method)
for the month of June 2005

	¢000	¢000
Sales (24,000 kg @ 7,500)		180,000
Less cost of sales		
Materials cost (30,000 @ 1,000)	30.000	
Direct labour cost (30,000 @ 500)	15,000	
Variable factory overhead (30,000 @ 900)	27,000	
Fixed factory overheads	1,440	
	73,440	
Less closing stock	14,688	58,752
Gross profit		121,248
Less: Selling & Administrative expenses		
Variable (2,400 @ 375)	9,000	
Fixed	300	9,300
Net profit		111,948

(ii)

	¢000	¢000
Sales (24,000 kg @ 7,500)		180,000
Less marginal cost of sales		
Materials cost (30,000 @ 1,000)	30.000	
Direct labour cost (30,000 @ 500)	15,000	
Variable factory overhead (30,000 @ 900)	27,000	
	72,000	
Less closing stock (600/3000*72000)	14,400	
Marginal production cost	57,600	
Variable selling & Admin. Overheads 24000*375	9,000	66,600
		58,752
Contribution		113,400
Less: Fixed cost:		
Production overheads	1,440	
Selling & Admin. Overheads	300	1,740
Net profit		111,660

c.

The difference in profit is because of the difference in the valuation of stocks for each method.

- The absorption method has included part of the fixed factory overheads into stock and has thus deferred part of the fixed factory overhead to the future. The result is that this has generated a higher profit.

- The marginal costing approach has charged all the fixed costs as a period cost. None of the fixed cost has been deferred by being included in closing stocks. The result is a lower profit figure

	Absorption costing	**Marginal costing**	**Difference**
Net profit	111,984	111,660	288
Closing stock	14,688	14,400	288

As from the above, the difference in profit is due to stocks. The stocks under absorption costing being higher thereby making the profit under absorption being higher.