MAY 2021 PROFESSIONAL EXAMINATIONS
FINANCIAL ACCOUNTING (PAPER 1.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

STANDARD OF THE PAPER

The standard of the question paper was good, and candidates were asked to answer all five (5) questions. The mark allocations followed the weight as stated in the syllabus, and marks were allocated to all sub-questions. There were no ambiguities in the paper, except that question 4 was too loaded. The questions were clear, and the instructions were also clearly stated. The questions were evenly spread over the topics in the syllabus.

PERFORMANCE OF CANDIDATES

The performance of candidates was mixed. While others had good marks, others had low marks. This sitting (May 2021) recorded a pass rate of 47.74% compared to 48.31% of the November 2020 sitting, a slight decrease in performance. High performers were spread across some centres, and so were low performers. Some candidates exhibited a high sense of preparedness, while others were not well prepared and therefore performed poorly.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

The strength of most candidates was demonstrated in questions 1a, 3 and 5a. The most prevalent reasons for some candidates obtaining low marks remains as in previous sittings, i.e. studying only a few selected topics, not reading the question carefully enough, or a lack of structure in answering questions. There were improper labelling of answers and inappropriate presentation of solutions for some candidates. The overall standard of some answers was disappointing. In particular, some candidates showed a poor understanding of bookkeeping across several questions. Few candidates did not attempt the required number of questions, thus making the achievement of an overall pass mark a challenge. The other areas of weakness around presentation are as follows:

- Poor and untidy handwriting
- No workings presented for some questions
- Some candidates were making calculation errors within workings and thus presenting an incorrect figure in the solution.
- Some candidates either did not number their answers or miss-numbered them. This was the case on the cover page too.

QUESTION ONE

a) Explain why each of the following would be interested in the published financial statements of a company.

i) Shareholders
ii) Lenders
iii) Customers
iv) Suppliers
v) Financial analysts and advisers **(10 marks)**

b) The following details were taken from the books of Suban Ltd for the year ended 31 July 2020.

i) Tangible non-current assets at cost as at 1 August 2019 were:

	GH¢
Land and Buildings (Land GH¢120,000)	520,000
Motor Vehicles	310,000
Equipment	115,000

ii) Accumulated depreciation as at 1 August 2019:

	GH¢
Land and Buildings	75,000
Motor Vehicles	110,000
Equipment	40,000

Suban Ltd depreciates non-current assets as follows:
Buildings 3% per annum on cost.
Motor vehicles 20% per annum reducing balance basis.
Equipment 10% per annum on cost.
Depreciation is charged for each month of ownership.

iii) On 1 October 2019, Land was revalued at GH¢200,000.
iv) A Motor Vehicle purchased on 1 May 2018 for GH¢40,000 was sold on 1 February 2020.
v) All equipment as at 1 August 2019 had been purchased after 1 February 2013, except for one equipment which cost GH¢10,000 purchased on 1 August 2008.
vi) During the year the following assets were purchased:
Motor vehicles GH¢35,000 on 1 November 2019.
Equipment GH¢20,000 on 1 February 2020.

Required:
Prepare the Schedule of Non-Current Assets for the year ended 31 July 2020. **(10 marks)**

(Total: 20 marks)

QUESTION TWO

a) The following information is available from the books of Twibom Ltd.

	1 January 2020	31 December 2020
	GH¢	GH¢
Interest received	680 Accrued	750 Accrued
General expenses	5,200 Prepaid	3,180 Accrued
Allowance for receivables	1,350	-
Receivables	45,000	56,000

During the year ended 31 December 2020 the following amounts were received or paid (all transactions were through the bank account).

		GH¢
31 March	Interest received	1,280
4 August	General expenses paid	4,500
5 December	Rent paid	27,000

The rent is due in equal monthly instalments. The payment for rent covered the period from 1 January 2020 to 31 March 2021.

The allowance for receivables is to be set using the same percentage of receivables as in the previous year.

Required:

Prepare the following ledger accounts for the year ended 31 December 2020.

i) Interest Received **(1 mark)**
ii) General expenses **(1 mark)**
iii) Rent **(1 mark)**
iv) Allowance for Receivables **(2 marks)**

b) Agbeko, Musah and Osei had been in partnership for several years sharing profits and losses in the ratio 5:3:2. On 1 January 2021 they decided to dissolve their partnership after a disagreement. The Statement of Financial Position of the partnership as at 31 December 2020, was as follows.

	GH¢	GH¢
Non-current assets		
Plant and machinery		110,000
Furniture and fittings		70,450
Motor vehicles		55,000
		235,450
Current assets		
Inventory	46,200	
Receivables	76,450	
Bank	15,000	
		137,650
Total assets		**373,100**

Capital and liabilities

Capital accounts		
Agbeko	80,000	
Musah	65,000	
Osei	50,000	
		195,000
Current accounts		
Agbeko	18,400	
Musah	15,500	
Osei	13,200	
		47,100
Non-current liabilities		
Loan		75,000
Current liabilities		
Payables		56,000
Total capital and liabilities		**373,100**

Additional Information

- The plant and machinery were sold for GH¢98,200.
- The inventory was sold for GH¢40,500.
- The Receivables realised GH¢62,000.
- The motor vehicles were taken over by Agbeko at an agreed value of GH¢40,800.
- The furniture and fittings were sold for GH¢50,400.
- A discount of GH¢4,320 was received when payables were paid off.
- The loan was repaid in full on 1 January 2021.
- There were no outstanding interest payments on the loan.
- Dissolution expenses amounted to GH¢3,000.

Required:

Prepare the following accounts on dissolution:

i) Partners' capital accounts. **(3 marks)**
ii) Realization account **(7 marks)**
iii) Bank account. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

a) On 4 April 2020 Kofi Ntam received his bank statements for the month ended 31 March 2020. The bank statement showed a balance of GH¢417,400 (overdraft) as at 31 March whilst the cash book showed a balance of GH¢525,990 (credit) as at that date. Upon examination of the cash book and the bank statement the following were discovered:

- Bank charges of GH¢2,010 had not been recorded in the cash book.
- Kofi Ntam exceeded his overdraft limit during the month of March. The bank had therefore, charged a penalty of GH¢2,500. This has not been recorded in the cashbook.
- A sum of GH¢12,500 had been wrongly credited to Kofi Ntam's bank account by the bank.
- A cheque for GH¢12,300 had been returned by the bank as dishonored. As the cheque had been dishonored, the bank charged Kofi Ntam GH¢150. This has not reflected in the cash book.
- Cash receipts of GH¢37,400 were posted as cash payment of GH¢47,300 in the cash book.
- On 21 March, Kofi Ntam deposited an amount of GH¢6,500 into his personal bank account. This was deposited to the business bank account in error by the bank.
- Standing orders and direct debits of GH¢ 11,150 had not been posted to the cash book.
- Customers had deposited GH¢21,700 directly to the bank account. This has not been recorded in the cash book.
- Receipts of GH¢51,200 deposited to the bank account on 31 March 2020, had not been credited by the bank.
- The following cheques, drawn on the bank account, had not been presented to the for payment as at 31 March 2020:

Cheque Number	**Date Cheque was Written**	**GH¢**
No.45280	11 March 2020	8,400
No 45350	28 March 2020	17,400
No 45370	31 March 2020	36,700

Required:

i) Prepare the adjusted cash book for the month of March 2020. **(8 marks)**

ii) Prepare a statement on 31 March 2020 reconciling the adjusted cash book with the bank statement balance. **(6 marks)**

iii) Explain **TWO (2)** reasons for preparing bank reconciliation on regular basis. **(2 marks)**

b) A petty cash book is created to facilitate small payments in a business or organisation. It is meant to meet the day to day expenses and it is entrusted into the hands of the petty cashier.

Required:

Prepare a brief note to Kofi Ntam explaining how the petty cash book operates.

(4 marks)

(Total: 20 marks)

QUESTION FOUR

The following is the trial balance of Poloo Ltd as at 31 December 2020.

	GH¢	GH¢
Authorised, issued and called-up capital:		
500,000 equity shares of GH¢1 each		500,000
60,000 7% redeemable preference shares of 50p each		30,000
Equipment: cost	350,000	
Equipment: accumulated depreciation		75,000
Motor vehicle: cost	160,000	
Motor vehicle: accumulated depreciation		25,650
Premises	220,000	
Inventory as at 1 January 2020	51,980	
Bank	10,050	
Sales		508,420
Purchases	225,000	
Trade receivables	130,010	
Trade payables		10,200
Distribution costs	80,400	
Administrative expenses	45,240	
Irrecoverable debts	1,250	
Allowance for receivables		14,360
Rent received		8,500
Income from investments		17,040
Interim dividend on equity shares	7,420	
Retained earnings		51,760
General reserve		40,420
	1,281,350	**1,281,350**

Additional information:

i) Inventories as at 31 December 2020 are valued at GH¢85,420.

ii) Insurance include GH¢840 for one and half-year end 30 June 2021. Insurance is included in administrative expenses.

iii) Rent received includes an amount of GH¢2,400 paid in advance as at 31 December 2020.

iv) Distribution costs of GH¢750 were prepaid and administrative expenses of GH¢800 were owing as at 31 December 2020.

v) The total trade receivables balance of GH¢130,010 includes a balance of GH¢1,010 which has been outstanding for ten months. Poloo Ltd has decided to write off this balance.

vi) Poloo Ltd's policy is to allow for receivables on the basis of the length of time the debt has been outstanding. The aged analysis of trade receivables at 31 December 2020 and the required allowance are shown below:

Age of debt	Balance GH¢	Allowance required
0 – 30 days	80,000	Nil
31 – 60 days	40,000	20% of balances
Over 60 days	10,010	85% of balances
	130,010	

vii) On 15 January 2020 Poloo Ltd purchased premises at a cost of GH¢105,000. This cost included GH¢3,500 relating to legal costs. The legal costs of GH¢3,500 had been included in administrative expenses and not in the cost of premises. Premises are not depreciated.

viii) On 1 April 2020 Poloo Ltd purchased equipment which cost GH¢50,000. This transaction was entered in the accounts on 1 April 2020.

ix) Depreciation is to be provided as follows:
Equipment 20% per annum on cost
Motor vehicles 20% per annum reducing balance basis

x) Depreciation on equipment is apportioned 20% to administrative expenses and 80% to distribution costs. Depreciation is charged for each month of use. Depreciation of motor vehicles is treated as a distribution cost.

Required:
Prepare, for Poloo Ltd, the following statements in accordance with International Financial Reporting Standards (IFRS).

a) Statement of Profit and Loss for the year ended 31 December 2020. **(10 marks)**
b) Statement of Financial Position as at 31 December 2020. **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

a) The accountant of Kwadaso Traders has prepared the Trading and Profit and Loss Account for the year ended 31 December 2020 and the forecast for the year ended 31 December 2021. These are reproduced below.

	31 December 2020 (Actual)		**31 December 2021 (Forecast)**	
	GH¢	**GH¢**	**GH¢**	**GH¢**
Sales		150,000		192,500
Cost of sales:				
Opening inventory	12,000		10,000	
Purchases	98,000		141,500	
	110,000		151,500	
Closing inventory	(10,000)		(14,000)	
		(100,000)		(137,500)
Gross Profit		50,000		55,000
General expenses	13,000		13,000	
Depreciation	2,000		5,500	
		(15,000)		(18,500)
Net Profit		**35,000**		**36,500**

The following additional information is available for the two years:

	2020	2021
Mark up on cost	50%	40%
Capital employed	GH¢175,000	GH¢180,000

Required:

i) Calculate the following ratios for the year ended 31 December 2020 and for the year ended 31 December 2021.

Gross profit Margin. **(1 mark)**
Net profit Margin. **(1 mark)**
Inventory turnover. **(1 mark)**
Return on capital employed. **(1 mark)**

ii) The manager of Kwadaso Traders has set the objective of improving the profitability of the business for the year ending 31 December 2021. Discuss the changes between the two years based on the ratios calculated and the additional information provided, and explain whether or not Kwadaso Traders will achieve its objective. **(8 marks)**

iii) Explain the importance of the Return on Capital Employed (ROCE) percentage to a business.

(3 marks)

b) Financial statements prepared by clubs, societies and associations are different from those prepared by sole traders, partnerships and limited liability companies. The financial statements prepared by these not-for-profit organisations are the Trading Account, the Income and Expenditure Account, the Receipts and Payment Account and the Statement of Financial Position.

Required:
Explain **TWO (2)** differences between an Income and Expenditure Account and a Receipts and Payments Account. **(5 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a)

i) Shareholders
Shareholders, the business owners, will want to assess how effectively management is performing its stewardship function. In addition, they will want to know how profitably management is running the business and how much profit they can afford to withdraw as dividends.

ii) Lenders
These consist of debenture holders, banks and other financial institutions. They are interested in information that enables them to determine whether their loans and the interest attached to them will be paid when due.

iii) Customers
Customers are interested in information about the continuance of the business, especially if they have bought goods with guarantees etc. If the business is a major supplier of goods, they will wish to know that it will continue into the future.

iv) Suppliers
These are people the business owes money to. They are interested in information that enables them to determine whether amounts owing to them will be paid when due. Many suppliers will also be interested in the long term survival of the business if the business is their major customer.

v) Financial analysts and advisers
They need information for their clients or audience. For example, stockbrokers will need the information to advise investors in stocks and shares; credit agencies will want the information to advise potential suppliers of goods to the business, and journalists need information for their reading public.

(Each point @ 2 marks = 10 marks)

b) **Suban Ltd**

Schedule of Non-Current Assets for the year ended 31 July 2020

	Land and Buildings	Motor vehicles	Equipment
	GH¢	GH¢	GH¢
Cost as at 1 August 2019	520,000	310,000	115,000
Additions	-	35,000	20,000
Disposals	-	(40,000)	
Revaluations	80,000	-	-
Cost as at 31 July 2020	**600,000**	**305,000**	**135,000**
Accumulated depreciation as at 1 August 2019	75,000	110,000	40,000
Profit and loss (W1,W3,W4)	12,000	42,210	11,500
Disposals (W2)	-	(12,640)	-
Accumulated depreciation as at 31 July 2020	87,000	139,570	51,500
Net book value as at 31 July 2020	**513,000**	**165,430**	**83,500**

Workings:

1. (520,000 – 120,000) x 3% = 12,000

2. Accumulated depreciation of motor vehicle disposed of:
a. 40,000 x 20% x 3/12 + (40,000 – 2,000) x 20% + (40,000 – 2,000 – 7,600) x 20% x 6/12 = 2,000 + 7,600 + 3,040 = 12,640.

3. (270,000 – (110,000 – 9,600)) x 20% + (40,000 – 9,600) x 20% x 6/12 + 35,000 x 20% x 9/12 = 33,920 + 3,040 + 5,250 = 42,210.

4. (115,000 – 10,000) x 10% + 20,000 x 10% x 6/12 = 10,500 + 1,000 = 11,500

(10 marks evenly spread using ticks)

(Total: 20 marks)

CHIEF EXAMINER'S COMMENTS

Question one a) was well answered by the majority of candidates. The knowledge demonstrated was fairly good. The b) part of the question was poorly answered by the majority of candidates. The majority of candidates who attempted the question lacked the basic double-entry principles in answering the question. The content of the question was up to the standard for a level one accounting question. However, it is important to mention that the few candidates who attempted it did very well and, in some cases, some scoring more than 7 out of the allocated marks of 10.

QUESTION TWO

a)

i) Interest Received

Date		**GH¢**	**Date**		**GH¢**
1 January	Bal b/d	680	31 March	Bank	1,280
31 December	Profit and Loss	1,350	31 December	Bal c/d	750
		2,030			**2,030**

(1 mark)

ii) General Expenses

Date		**GH¢**	**Date**		**GH¢**
1 January	Bal b/d	5,200	31 December	Profit and loss	12,880
4 August	Bank	4,500			
31 December	Bal c/d	3,180			
		12,880			**12,880**

(1 mark)

iii) Rent

Date		**GH¢**	**Date**		**GH¢**
5 December	Bank	27,000	31 December	Profit and loss	21,600
			31 December	Bal c/d	5,400
		27,000			**27,000**

(1 mark)

iv) Allowance for Receivable

Date		**GH¢**	**Date**		**GH¢**
31 December	Bal c/d	1,680	1 January	Bal b/d	1,350
			31 December	Profit and loss	330
		1,680			**1,680**

(2 marks)

b)

i) Capital Accounts

	Agbeko	**Musah**	**Osei**		**Agbeko**	**Musah**	**Osei**
	GH¢	**GH¢**	**GH¢**		**GH¢**	**GH¢**	**GH¢**
Realisation account:				Balance b/d	80,000	65,000	50,000
Motor vehicles				Current accounts	18,400	15,500	13,200
taken over	40,800						
Shares of realisation losses	32,440	19,464	12,976				
Bank	25,160	61,036	50,224		-	-	-
	98,400	**80,500**	**63,200**		**98,400**	**80,500**	**63,200**

(3 marks evenly spread using ticks)

ii) Realisation Account

	GH¢		GH¢	GH¢
Plant and Machinery	110,000	Bank:		
Furniture and fittings	70,450	Plant and Machinery		98,200
Motor vehicles	55,000	Furniture and fittings		50,400
Inventory	46,200	Inventory		40,500
Receivables	76,450	Receivables		62,000
Bank: Dissolution expenses	3,000	Agbeko's capital account:		
		Motor vehicles taken over		40,800
		Payables: Discount		4,320
		Loss on realisation		
		Agbeko (5/10)	32,440	
		Musah (3/10)	19,464	
		Osei (2/10)	12,976	
	-			64,880
	361,100			**361,100**

(7 marks evenly spread using ticks)

iii) Bank Account

	GH¢		**GH¢**
Balance b/d	15,000	Realisation account:	
Realisation account:		Dissolution expenses	3,000
Plant and machinery	98,200	Payables	51,680
Furniture and fittings	50,400	Loan	75,000
Inventory	40,500	Capital accounts:	
Receivables	62,000	Agbeko	25,160
		Musah	61,036
		Osei	50,224
	266,100		**266,100**

(5 marks evenly spread using ticks)

(Total: 20 marks)

CHIEF EXAMINER'S COMMENT

Question two a) was poorly answered. A lot of candidates had difficulties with their ledger opening and closing balances. For example, some candidates could not distinguish between the opening balance of an expense account and an income account. The deficiency in the double-entry principles was evidenced as some of the candidates scored very low marks.

Question two b) was fairly answered. Some candidates mixed up some of the transactions as to which item to be treated in the realisation account and the bank account. Only a few candidates were able to prepare both the Realisation account and Partners Capital account and had good marks.

QUESTION THREE

i) Adjusted Cash Book

	GH¢		GH¢
Error 5	84,700	Balance b/d	525,990
Credit transfer	21,700	Bank charges	2,010
		O/D penalty	2,500
		Dishonoured cheque	12,300
		Dis. Cheque -penalty	150
Balance c/d	447,700	SO/DD	11,150
	554,100		**554,100**

(8 marks evenly spread)

ii) Bank Reconciliation Statement as at 31 March 2019

		GH¢	GH¢
Balance per bank			(417,400)
Correction of bank error			(12,500)
Correction of bank			(6,500)
Add outstanding lodgement			51,200
Less: Outstanding cheques			
	45280	8,400	
	45350	17,400	
	45370	36,700	(62,500)
Balance as per Adjusted cashbook			**(447,700)**

(6 marks evenly spread)

iii) The importance of regular preparation of bank reconciliation:

- Identification of errors, such errors may have been made either by the bank, the company or both. For example, a business may have omitted to post receipts from receivables.
- Items such as bank interest, charges, standing order, direct debits and dishonoured cheques. These will be known by the bank but not identified by a business until it receives a bank statement and prepares the reconciliation.

(2 points for 2 marks)

b)

- A petty cash system operates by setting aside a small amount of cash, called a float. This is withdrawn from the business bank account normally by cashing a petty cash signed cheque from the bank, A responsible member of staff, who keeps it in a safe locked box, controls cash.
- When a small of cash is required within the business, a petty cash docket is completed setting out details of the cash requirement and authorised. This docket is placed into the cash box and the cash handed over. Where a receipt is received in respect of purchase for which the cash was issued, this is then attached to the original withdrawal docket.
- At any one time, the total of the remaining cash in the box and the total of all dockets in the box should equal the exact amount of the original float. At the end of a specific period, all dockets are totalled, and a cheque is cashed for this exact amount bringing the total petty cash back to the original starting amount. This is known as the imprest system,
- In most businesses, there is a requirement for small amounts of cash. For example, to purchase supplies for the canteen where there is no credit facility in the local shop, the purchase of stamps, newspapers, cleaning and other supplies and the reimbursement of staff incidental expenses. Therefore, the system must control the flow of cash, and regular spot checks should be done.

(4 marks)

(Total: 20 marks)

CHIEF EXAMINER'S REPORT

Most candidates answered the question well, with some scoring as high as 18 marks. A handful scored the total marks. Most of the candidates demonstrated their in-depth knowledge about the preparation of bank reconciliation and cashbook management. The essay part of the question were answered well too. Only a few candidates were not able to deal with the Adjusted Cashbook and the Bank reconciliation statement.

QUESTION FOUR

a) **Poloo Ltd.**
Statement of Profit and Loss for the year ended 31 December 2020

	GH¢	GH¢
Sales		508,420
Opening inventories	51,980	
Purchases	225,000	
	276,980	
Closing inventories	(85,420)	
Cost of sales		(191,560)
Gross profit		316,860
Other income (17,040 + 8,500 – 2,400)		23,140
Distribution costs (80,400 – 750 + 48,000 + 6,000 + 26,870)	160,520	
Administrative expenses (45,240 – (3/6x840) + 800 + 1,250 + 1,010+1,290 + 12,000 + 1,500 – 3,500)	59,170	
Preference dividends (7% x 30,000)	2,100	221,790
Profit before tax		118,210
Taxation		(0.00)
Profit after tax		**118,210**

(10 marks evenly spread using ticks)

b) **Poloo Ltd.**
Statement of Financial Position at 31 December 2020

	GH¢	GH¢
Assets		
Non-current assets		
Premises (220,000 + 3,500)		223,500
Equipment (350,000 – 75,000 – 60,000 – 7,500)		207,500
Motor vehicles (160,000 – 25,650 – 26,870)		107,480
		538,480
Current assets		
Inventories	85,420	
Trade receivables (130,010 – 1,010 – 15,650)	113,350	
Prepayments ((3/6x840) + 750)	1,170	
Bank	10,050	
		209,990
Total assets		**748,470**
Equity and liabilities		
Equity		
Equity share capital	500,000	
General reserve	40,420	
Retained earnings (51,760 + 118,210 – 7,420)	162,550	

		702,970
Non-current liabilities		
Preference shares		30,000
Current liabilities		
Trade payables	10,200	
Accruals (800 + 2,100)	2,900	
Prepaid rent income	2,400	
		15,500
Total equity and liabilities		**748,470**

(10 marks evenly spread using ticks)

Workings:

Allowance for receivables

	Balance GH¢		Allowance required GH¢
31 – 60 days	40,000	x 20%	8,000
Over 60 days	10,010		
Irrecoverable debt	(1,010)		
	9,000	x 85%	7,650
Allowance required			15,650
Existing allowance			14,360
Increase in allowance			1,290

(Total: 20 marks)

CHIEF EXAMINER'S COMMENTS

This question was a challenge for most candidates as they scored very low marks. The question was loaded with many adjustments, and that perhaps scared candidates or, maybe, they needed more time to solve it. Candidates who attempted the question by ensuring they showed workings earned the required marks. Some candidates did not attempt the question at all. They only wrote the question number and, in some cases, opened a few ledgers without recording any transaction/figure in the ledgers opened.

QUESTION FIVE

a)

i)

Gross profit margin: <u>31 December 2020</u> <u>31 December 2021</u>

$\frac{Gross\ profit}{sales} x100$ $\frac{50,000}{150,000} x100 = 33.33\%$ $\frac{55,000}{192,500} x\,100 = 28.57\%$

(1 mark)

Net profit margin:

$\frac{Net\ profit}{sales} x\,100$ $\frac{35,000}{150,000} x\,100 = 23.33\%$ $\frac{36,500}{192,500} x\,100 = 18.96\%$

(1 mark)

Inventory turnover:

$\frac{Cost\ of\ sales}{(Average)\ Inventory\ held}$ $\frac{100,000}{11,000} = 9.09\ times$ $\frac{137,500}{12,000} = 11.46\ times$

(1 mark)

ROCE:

$\frac{Profit}{Capital\ employed} x\,100$ $\frac{35,000}{175,000} x\,100 = 20\%$ $\frac{36,500}{180,000} x\,100 = 20.28\%$

(1mark)

ii) The gross profit margin percentage is lower for 2021. This indicates that in 2020 there is a lower cost of sales or higher selling price. It appears that in 2021 the business intends to reduce the mark up on cost in order to stimulate a higher volume of sales. **(1.5 marks)**

The net profit margin percentage is lower for 2021. This indicates that the business is making more profit per cedi of sales in 2020. However, general expenses are expected to be the same in 2021 as 2020, which is shown as a reduction in the expenses to sales ratio. **(1.5 marks)**

The inventory turnover for 2021 is higher than 2020, showing that it will be selling its inventory quicker in 2021. This could be a result of the lower markup, which would stimulate a greater volume of sales. **(1.5 marks)**

Return on capital employed is 20% in 2020. This is a high return for the amount of capital invested. In 2021 this shows an increase to 20.28%, a higher return on the amount of capital invested. **(1.5 marks)**

In summary, using the predicted figures for 2021, Adawso Traders will achieve its objective of improving profitability. Although its gross profit percentage and net profit percentage will have fallen slightly, its return on capital employed will increase, and its actual profits will increase from GH¢35,000 to GH¢36,500.

(2 marks)

iii) Return on capital employed is the key profitability ratio which shows how much profit is earned for every cedi employed. Therefore, return on capital employed percentage can be used to compare with previous years and a trend in the profitability over a period of time can be identified.

A business can use the return on capital employed ratio to compare the return on alternative investments.
Investments with a high forecast return on capital can be identified as high risk but high return.
A business can compare the return on capital employed percentage with interest rates and the cost of borrowing.
The return on capital employed percentage can be used to carry out an inter-firm comparison with similar firms. **(3 marks)**

b) Income and Expenditure Account is equivalent to the income statement. Figures in the income and expenditure account are adjusted in accordance with the accruals concept and are matched against what has been used rather than the amount paid. It also includes non-cash items, for example, depreciation. It shows a surplus or a deficit. (**3 marks)**

Receipts and Payments Accounts, on the other hand, is equivalent to cash book. It records actual cash and bank transactions, and it includes capital expenditure. It has an opening and closing balances. (**2 marks)**

(Total: 20 marks)

CHIEF EXAMINER'S COMMENT
Calculations of the financial ratios were answered satisfactorily. Few candidates had some challenges with the determination of the inventory turnover. But the overall performance was quite good.
Most candidates were able to interpret the ratios highlighting the changes between the two years. However, some candidates could not explain the connection between the cost of sales and gross profit and expenses and its relationship with the overall net profit.
Also, few candidates were able to explain the importance of Return on Capital Employed as required by question a) iii).
Part b) of the question was fairly answered by the majority of the candidates.

CONCLUSION
Students and Lecturers should use past question papers to guide future examinations. However, they must be aware that future papers, although still following the current specification, may differ in approach and format from the current series.
Students are also advised to ensure that they go through the syllabus very well before sitting for the examination.