MAY 2020 PROFESSIONAL EXAMINATIONS
FINANCIAL ACCOUNTING (PAPER 1.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

In my opinion on the expectations of the subject and preparedness of candidates, some were prepared and others were not prepared.

STANDARD OF THE PAPER

The standard of the paper was the same as previously administered ones. The marks allocation followed the weightings in the syllabus and was fairly allocated to each sub-question. The amount of work required by the questions was commensurate with the allotted time and marks. The questions were not 'too loaded' and the marks allocations were quite good. There were no ambiguities, typing or other errors in the paper. The questions and sub-questions were standard.

PERFORMANCE OF CANDIDATES

The general performance of candidates in the subject was mixed. The performance of candidates was average. Few candidates had above average. High performers were across all centres and low performers were also across all centres. There were no signs of copying at any centre. The level of preparedness of candidates was mixed.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

The strengths of candidates were demonstrated in questions two, three and five which was widespread among the centres. It appeared that majority of candidates prepared for such questions in the syllabus.

QUESTION ONE

a) Write a short note to a client explaining the following issues:

i) Outline the differences between ***Cost and Management Accounting*** and ***Financial Accounting***. **(3 marks)**

ii) Explain **FOUR (4)** roles of an Accountant in an organization. **(4 marks)**

iii) Outline **SIX (6)** key information provided by a Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position. **(3 marks)**

b) At 1 July 2017 the following information was extracted from the books of Tansah Ltd:

Non-current assets at cost:	**Reference**	**GH¢**
Machinery	M1	25,000
Equipment	E1 & E2	15,400
Motor vehicle	MV1	18,500
Provision for depreciation:		
Machinery	M1	18,500
Equipment	E1 & E2	8,600
Motor vehicle	MV1	6,500

During the financial year ended 30 June 2018 the following transactions took place.

Purchases	**Reference**		**GH¢**
1 April 2018	Machinery	M2	10,800
1 January 2018	Equipment	E3	6,800

Disposals

Reference	**Purchase date**	**Disposal date**	**Original Cost**	**Sale Proceeds**
			GH¢	**GH¢**
E2	1 January 2015	31 March 2018	7,200	6,400

All transactions took place through the bank account.

Tansah Ltd depreciates non-current assets at the following rates per annum.

Machinery	10% straight line on cost
Equipment	12.5% straight line on cost
Motor vehicle	15% reducing balance

Depreciation for new assets commences in the month in which the asset is acquired.

Required:

For Tansah Ltd, prepare the following ledger accounts for the year ended 30 June 2018.

i) Provision for Depreciation of Machinery **(2 marks)**

ii) Provision for Depreciation of Equipment **(4 marks)**

iii) Disposal of Equipment **(3 marks)**

iv) Motor vehicle **(1 mark)**

(Total: 20 marks)

QUESTION TWO

Sodzedo is sole proprietor with a small business. Below is a list of balances of the trial balance extracted as at 30 June 2019 which failed to agree:

	GH¢
Purchases	66,450
Payables	44,520
Sales	213,390
Discount allowed	2,220
Receivables	158,550
Sales Returns	6,300
Expenses	32,130
Non-Current Assets	68,250
Bank Overdraft	9,420
Capital	37,500
VAT Liabilities	18,960

Required:

a) Prepare the trial balance for Sodzedo as at 30 June 2019 and derive the balance in suspense account as at 30 June 2019. **(5 marks)**

b) A detailed examination of the books was undertaken and the following matters were uncovered:

i) The total in the purchases day book was GH¢126,450, but the figure used when posting to the purchases account was GH¢66,450.

ii) An invoice from a supplier for goods amounting to GH¢25,500 plus VAT at 10% was not recorded in the books and records of Sodzedo.

iii) During the bank reconciliation process it came to light that GH¢525.70 was earned in interest during the year and has not been accounted for.

iv) A review of the ledgers revealed that receivables were overcast by GH¢75,720.

v) Cash drawings by Sodzedo of GH¢5,610 were treated as cash sales in error.

Required:

Prepare a ***suspense account*** to clear the difference. **(5 marks)**

c) Ansah and Boakye have been in partnership for a number of years. The partners did not have a partnership agreement.

The following balances have been extracted from the books as at 1 January 2018.

		GH¢
Capital Accounts:	Ansah	160,000
	Boakye	240,000
Current Accounts:	Ansah	10,400 Dr
	Boakye	8,200 Dr

On 1 July 2018 they decided to admit Owusu to the partnership. On this date:
Owusu introduced capital of GH¢150,000 into the partnership. The amount was paid into the bank account.

Non-current assets were revalued from GH¢280,000 to GH¢420,000. Inventory was revalued from GH¢70,000 to GH¢30,000. Goodwill was valued at GH¢150,000. It was decided that goodwill would not remain in the books of the new partnership.

The three partners agreed that:

- Profits and losses would be shared equally.
- Under the new partnership agreement 10% interest per annum on capital is allowed. The interest on capital is calculated on the adjusted balances after admission of Owusu.
- Each partner would receive a salary of GH¢27,000 per annum. No interest on drawings would be paid.

The net profit before appropriation for the year ended 31 December 2018 was calculated at GH¢471,800. Profits earned accrued evenly throughout the year.

The partners' drawings were:

Ansah	GH¢85,000
Boakye	GH¢62,000
Owusu	GH¢38,000

Required:

i) Prepare the Capital Accounts for Ansah, Boakye and Owusu for the year ended 31 December 2018. **(8 marks)**

ii) Prepare the Appropriation Account for Ansah and Boakye for the half year ended 30 June 2018. **(2 marks)**

(Total: 20 marks)

QUESTION THREE

On 15 October 2019, Mr.Ladzagla received his bank statement for the month ended 30 September 2019. The statement showed a balance of GH¢208,700 (overdraft) as at 30 September while cash book showed a balance of GH¢262,995 (credit) as at that date.

On examination of the cash book and the bank statement, the following were discovered:

i) Mr Ladzagla exceeded his overdraft limit during the month of September. The bank had therefore charged him a penalty of GH¢1,250. This has not been effected in the cash book.
ii) A sum of GH¢6,250 had been credited to Ladzagla's bank account in error by the bank.
iii) Bank charges of GH¢1,005 had not been recorded in the cash book.
iv) A cheque for GH¢6,150 had been returned by the bank as dishonoured. Due to the dishonoured cheque, the bank charged Ladzagla GH¢75. Both the dishonoured cheque and the fee charged have not been effected in the cash book.
v) Cash receipts of GH¢18,700 were posted as cash payment of GH¢23,650 in the cash book.

vi) On 21 September, Mr Ladzagla lodged cash of GH¢3,250 to his personal bank account. This was lodged into the business bank account in error by the bank.
vii) Standing order and direct debits of GH¢5,575 had not been posted to the cash book.
viii) Payment of GH¢10,850 received from customers have been lodged in the bank account but is yet to be posted to the cash book.
ix) Lodgements of GH¢25,600 to bank on 30 September 2019 had not been credited by the bank.
x) The following cheques drawn on the bank accounts had not been presented to the bank for payment as at 30 September 2019.

Cheque Number	Date cheque was written	GH¢
No. 3528	11 September 2019	4,200
No. 3535	28 September 2019	8,700
No. 3557	30 September 2019	18,350

Required:

a) Prepare the adjusted cash book for the month of September 2019. **(8 marks)**
b) Prepare a statement on 30 September 2019 reconciling the adjusted cash book with the bank statement balance. **(8 marks)**
c) State **TWO (2)** reasons for preparing bank reconciliation on a regular basis. **(4 marks)**

(Total: 20 marks)

QUESTION FOUR

On 30 June 2019 the accounting records of Kofi, a sole trader, were partly destroyed by fire. The following list of assets, liabilities and equity as at 30 June 2018 is available:

		GH¢
Plant and equipment – cost		200,000
	– Accumulated depreciation	72,000
Office fixtures– cost		50,000
	– Accumulated depreciation	5,000
Inventory		30,500
Trade receivables and prepayments – ***Note (iv)***		35,000
Trade payables and accrued expenses – ***Note (iv)***		17,600
Bank overdraft		8,850
Loan (10% interest per annum)		95,000
Capital		117,050

The following summary of receipts and payments for the year to 30 June 2019 has been extracted from the bank statements:

	GH¢
Receipts	
Capital introduced	22,000
From credit customers	427,500
Payments	
Cash drawings – ***Note (v)***	22,450
Loan repayments – ***Note (vii)***	20,000
To credit suppliers	175,600
Rent	22,000

Wages	90,000
Office expenses	12,500

In preparing the statement of profit or loss and statement of financial position at 30 June 2019 the following further information is relevant:

Notes

i) Inventory at 30 June 2019 was GH¢27,850.

ii) Depreciation is to be provided as follows:

Plant and equipment	20% per annum, reducing balance basis
Office equipment	10% per annum on cost

iii) During the year, Kofi introduced a motor vehicle valued at GH¢5,000 into the business. It is to be depreciated over 4 years on the straight-line basis with a full year's depreciation charge in the year of acquisition.

iv) Prepayments and accrued expenses as at 30 June 2018 were:

	GH¢
Rent paid in advance	2,500
Accrued wages	4,300

v) Cash drawings during the year included GH¢6,750 for wages, GH¢4,200 for cash payments to suppliers and GH¢2,600 for advertising leaflets (of which half are yet to be distributed). The remainder was Kofi's personal expenditure.

vi) The bank balance per the bank statement as at 30 June 2019 after adjusting for unpresented cheques was GH¢106,700. Any difference is assumed to be cash takings (i.e. in respect of cash sales).

vii) Loan repayments include interest amounting to GH¢9,500.

viii) At 30 June 2019 the following assets and liabilities existed:

	GH¢
Rent paid in advance	2,700
Accrued wages	5,250
Amounts due to suppliers	12,200
Amounts due from customers	22,300

ix) On 3 July 2019 Kofi's major customer, Yaw, went into liquidation owing GH¢16,000. A statement from the customer's liquidator indicates that Kofi should expect to recover 20 pesewas for every GH¢1 owing.

Required:

Prepare Kofi's statement of profit or loss for the year ended 30 June 2019 and a statement of financial position as at that date. Ignore taxation.

(20 marks)

QUESTION FIVE

The following are extracts from the financial statements of Sky Ltd:

Statement of Profit or Loss	Year ended 31/12/2018		Year ended 31/12/2017	
	GH¢	GH¢	GH¢	GH¢
Revenue		19,200		16,800
Less Cost of Sales				
Opening Inventory	2,400		2,800	
Purchases	15,600		9,600	
Less Closing Inventory	(2,800)		(2,400)	
Cost of Sales		(15,200)		(10,000)
Gross Profit		4,000		6,800
Less Expenses		(2,400)		(2,800)
Net Profit		1,600		4,000

Statement of Financial Position as at 31 December 2018

	2018	2018	2017	2017
	GH¢	GH¢	GH¢	GH¢
Non-Current Assets		2,800		3,000
Current Assets				
Inventory	2,800		2,400	
Receivables	1,440		960	
Cash	960	5,200	1,040	4,400
Total Assets		**8,000**		**7,400**
Equities and Liabilities				
Equity and Reserves				
Ordinary Share Capital	3,000		3,000	
Reserves	2,040	5,040	1,720	4,720
Non-Current Liabilities				
Long-Term Debt		800		200
Current Liabilities				
Payables	1,200		1,800	
Bank Overdraft	960	2,160	680	2,480
Total Equities and Liabilities		**8,000**		**7,400**

Required:

a) Prepare the following ratio analysis for 2018 financial year.

i) Current ratio
ii) Acid test ratio
iii) Net Profit Margin
iv) Return on capital employed
v) Receivables day
vi) Payables day
vii) Inventory turnover **(10 marks)**

b) Comment on **FIVE (5)** of the ratios you have calculated.

Note: The following industry averages are provided to enable you write your comment.

Current ratio	1.9: 1
Acid test ratio	0.9: 1
Net profit margin	6%
Return on Capital Employed (ROCE)	25%
Receivable days	45 days
Payable days	38 days
Inventory Turnover	4.4 times

(10 marks)

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a) i)

Cost and Management Accounting

This is the process of providing detailed information to management on current and planned events. This information assists managers in their roles of planning, controlling and making decisions. Usually management accounts are only available to internal users of accounting information. Management accounting will contain information such as department budgets, product profitability, information on production costs etc.

Financial Accounting

This is the process of summarising financial information in order to prepare the company's financial statements. The financial statements of an organisation are the Income Statement, Statement of Financial Position, Statement of Cash Flow and Explanatory Notes. These statements are primarily of interest to external users of accounting information. Financial statements are historical in nature in that they are prepared on a semi-annual/annual basis and are concerned primarily with the financial performance of the company in the income statement and the financial position of the company reported in the statement of financial position. Therefore from the perspective of management the information contained therein is not timely being six months or a year out of date by the time it is reported. Financial accounting is thus the manner in which an organisation communicates financial information, namely performance, position and cash flow to the outside world. It represents a report on the directors' stewardship of the funds entrusted to them by the shareholders. The financial statements are public documents they are easily accessible. A copy of the financial statements must also be filed with the Registrar General where they can be publicly accessed. Therefore they would not reveal details about, for example, an individual products' profitability. That information would be contained in the management accounts of the business. **(3 marks)**

ii) The accountant's role in the organisation can be analysed as follows:

- Preparation and presentation of timely accurate financial/management accounts to management to help management interpret the financial information.
- Identification of areas of inefficiency and wastages of resources in the business.
- Treasury functions: The accountant also plays the role of treasury functions in such a way that they raise finance, cash management, etc.
- Setting up an effective system of internal and accounting controls.
- Preparation of feasibility reports: These reports assist management in assessing the viability/profitability or otherwise proposed capital expenditure such as the opening of a new factory or branch.
- Investigation of the performance/operations of competing business organisations to assist management in policy formulation.
- Investigation of fraud within the organisation, this is a key role of the accountant in preparation of an audit at year-end. **(4 points well explained for 4 marks)**

iii) **Information provided by the Income Statement**

- The income statement is fundamentally a listing of all income and all expenses for the year. Taking expenses from income gives the profit that the business earned for the year. Therefore the income statement is year specific – just looking at the accounting year or period in question.

- By examining income statements year on year a business can gain information about whether sales and expenses are increasing or decreasing and how they are moving in relation to each other. For example in any year if sales were to fall while at the same time expenses increase – the information would be captured in the income statement and action could be taken.

- Also the income statement divides the cost of producing/purchasing a good/service from the cost of administration and selling expenses within the business. The information can be useful when businesses are examining costs. **(3 marks)**

Information provided by the Statement of Financial Position

- The statement of financial position is fundamentally a listing of all the assets of a business and all the liabilities of a business. By subtracting these assets from liabilities we arrive at the net worth of the business. The statement of financial position is a snap shot pictures of a business at a point in time – usually the end of the financial year. It is different to the income statement in this regard – the income statement spans the full financial year.

(3 marks)

b)

i) Provision for Depreciation of Machinery

	GH¢		GH¢
Bal c/d	21,270	Bal b/d	18,500
		Profit & Loss	2,770
	21,270		21,270

Depreciation workings:

M1: 25,000 @ 10%	2,500
M2: 10,800 @ 10% x 3/12	270
	2,770

(2 marks)

ii) Provision for Depreciation of Equipment

	GH¢		GH¢
Disposal	2,925	Bal b/d	8,600
Bal c/d	7,800	Profit & Loss	2,125
	10,725		10,725

Depreciation workings:
Disposal:

E2: 7,200 @ 12.5% x 3	2,700
E2: 7,200 @ 12.5% x 3/12	225
	2,925

Profit & Loss:

E1: 8,200 @ 12.5%	1,025
E2: 7,200 @ 12.5% x 9/12	675
E3: 6,800 @ 12.5% x 6/12	425
	2,125

(4 marks)

iii) Disposal of Equipment

	GH¢		GH¢
Equipment	7,200	Depreciation	2,925
Profit & Loss	2,125	Bank	6,400
	9,325		9,325

(3 marks)

(iv) Motor Vehicle

	GH¢		GH¢
Bal b/d	18,500	Bal c/d	18,500
	18,500		18,500

(1 mark)
(Total: 20 marks)

EXAMINER'S REPORT
Question One a)
Majority of candidates were able to provide a distinction between management and financial accounting. In general, candidates were able to provide the essential differences between management and financial accounting. Few candidates however did not understand the difference between management and financial accounting.
The role of the Accountant in an organization was well organized and the key information provided by the income statement and the statement of financial position was also well done

Question One b)
This sub-question required candidates to provide: i) Provision for Depreciation on Machinery ii) Provision for Depreciation iii) Disposal of Equipment and iv) Motor Vehicle Account. Few candidates were able to handle this question.

QUESTION TWO

a) **Sodzedo**

Trial Balance as at 30 June 2019

	Debit	Credit
	GH¢	GH¢
Purchases	66,450	
Payables		44,520
Sales		213,390
Discount Allowed	2,220	
Receivables	158,550	
Sales Returns	6,300	
Expenses	32,130	
Non-Current Assets	68,250	
Bank Overdraft		9,420
Capital		37,500
VAT Liability		18,960
Suspense		10,110
	333,900	333,900

(5 marks evenly spread)

b)

Suspense Account

	GH¢		**GH¢**
Receivable	75,720	Balance b/d	10,110
		Purchases	60,000
		Sales	5,610
	75,720		75,720

(5 marks)

c) i) **Capital Accounts**

	A	**B**	**O**		**A**	**B**	**O**
	GH¢	**GH¢**	**GH¢**		**GH¢**	**GH¢**	**GH¢**
Goodwill	50,000	50,000	50,000	Bal b/d	160,000	240,000	
Bal c/d	235,000	315,000	100,000	Bank			150,000
				Revaluation	50,000	50,000	
				Goodwill	75,000	75,000	
	285,000	365,000	150,000		285,000	365,000	150,000

Revaluation surplus calculation:
Non-current assets of 140,000 less inventory of 40,000 = GH¢100,000

Goodwill in old ratio:

Ansah	150,000 x 1/2 = 75,000
Boakye	150,000 x 1/2 = 75,000

Goodwill in new ratio:

Ansah	150,000 x 1/3 = 50,000	
Boakye	150,000 x 1/3 = 50,000	
Owusu	150,000 x 1/3 = 50,000	**(8 marks evenly spread using ticks)**

ii) Ansah and Boakye

Appropriation Account for the half year ended 30 June 2018

		GH¢	GH¢
Net Profit			235,900
Share of profits	Ansah	117,950	
	Boakye	117,950	
			235,900

(2 marks)
(Total 20 marks)

EXAMINER'S REPORT

The trial balance was well prepared by candidates with the exception of few candidates. The part (b) however posed a little challenge to candidates. Part (c) also posed a little challenge to the candidates.

QUESTION THREE

a) **Mr Ladzagla**

Adjusted Cash Book for the month ended 30 September 2019

	GH¢		GH¢
Error 5	42,350	Balance	262,995
Credit transfer	10,850	Bank charges	1,005
Balance c/d	223,850	Overdraft penalty	1,250
		Dishonoured Cheque	6,150
		Dishonoured cheque penalty	75
		Standing Order	5,575
	277,050		277,050
		Balance b/d	223,850

(8 marks evenly spread using ticks)

b) **Mr Ladzagla**

Bank Reconciliation Statement as at 30 September 2019

		GH¢	GH¢
Balance per bank			(208,700)
Correction of bank error		(6,250)	
Correction of bank error		(3,250)	(9,500)
			(218,200)
Add Outstanding Lodgement			25,600
			(192,600)
Less Outstanding cheques:			
	3528	4,200	
	3535	8,700	
	3557	18,350	(31,250)
Balance as per cash book			(223,850)

(8 marks evenly spread using ticks)

c)Reasons for preparing bank reconciliation on a regular basis

- Identification of errors 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 orders, direct debits and dishonoured cheques. These will be known by the bank but not identified by a business until it receives the bank statement and prepares the bank reconciliation.

(2 points well explained for 4 marks)
(Total 20 marks)

EXAMINER'S REPORT

The adjusted cash book was well prepared by most of the candidates. The reconciliation of the cash book and bank statement balance was also done. The reason for preparing the bank reconciliation on regular basis was well tackled by candidates.

QUESTION FOUR

Statement of profit or loss for the year ended 30 June 2018

	GH¢	GH¢
Revenue (W1)		425,900
Opening inventory	30,500	
Purchases (W3)	178,700	

	209,200	
Closing inventory	(27,850)	

		181,350

Gross profit		244,550
Expenditure:		
Wages (6,750 + 90,000 – 4,300 + 5,250)	97,700	
Advertising expenses (2.600/2)	1,300	
Loan interest	9,500	
Rent (22,000 + 2,500 – 2,700):	21,800	
Office expenses	12,500	
Bad debt written off (80% × 16,000)	12,800	
Depreciation		
P&E (20% × (200,000 – 72,000))	25,600	
Vehicle (25% × 5,000)	1,250	
Office equipment (10% × 50,000)	5,000	

		187,450

Net profit		57,100
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Statement of financial position at 30 June 2018

	GH¢	GH¢	GH¢
Non-current assets			
Plant and equipment (Depn 72+25.6)	200,000	97,600	102,400
Office fixtures (Depn 5 + 5)	50,000	10,000	40,000
Vehicle	5,000	1,250	3,750
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	255,000	108,850	146,150
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Current assets			
Inventory		27,850	
Trade receivables (22,300 – 12,800)		9,500	
Prepayments (2,700 + 1,300)		4,000	
Bank		106,700	

		148,050
Total assets		294,200
	GH¢	GH¢
Capital		
Capital at 1 July 20X8		117,050
Add: Capital introduced (22,000 + 5,000)		27,000
Add: Profit		57,100
Less: Drawings (22,450 – (6,750 + 4,200 + 2,600))		(8,900)
		192,250
***Non-current liabilities**		
10% loan (95,000 – (20,000 – 9,500))		84,500
***Current liabilities**		
Trade payables	12,200	
Accrued expenses	5,250	
		17,450
Total capital and liabilities		294,200

Workings

1) **Total sales**

Trade receivables (total) a/c

	GH¢		GH¢
Bal b/fwd (35,000 – 2,500)	32,500*	Cash received (credit customers)	427,500*
Sales (βal)	425,900	Cash takings (W2)	8,600
		Bal c/fwd	22,300*
	458,400		458,400

2) **Cash takings**

Cash book (a/c)

	GH¢		GH¢
Receipts per Q (22,000 + 427,500)	449,500*	Bal b/fwd	8,850*
		Payments per Q	342,550*
Cash sales (βal)	8,600	Bal c/fwd	106,700*
	458,100		458,100

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3) **Total purchases**

Trade payables (total) a/c

	GH¢		GH¢
Payments (bank)	175,600*	Bal b/fwd	13,300*
Cash payments	4,200*	(17,600 – 4,300)	
Bal c/fwd	12,200*	Purchases (βal)	178,700
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	192,000		192,000
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(20 marks evenly spread using ticks)

EXAMINER'S REPORT

Majority of candidates were not able to prepare the control account ledger to generate the revenue for the preparation of statement of profit or loss account. Most of the candidates were not able to derive the purchases figure. As a result, majority of them were not able to derive the correct gross profit. Some of the candidates could not control some of the expenses. In the statement of financial position, a lot of items were posted with wrong figure. Only few candidates were able to perform very well.

QUESTION FIVE

a) **Sky Limited**

	2018	2018	2017	2017	Averages
Current Ratio	5,200/2,160	2.41:1	4,400/2,480	1.77:1	1.9 : 1
Acid Test Ratio	2,400/2,160	1.11:1	2,000/2,400	0.83:1	0.9 : 1
Net Profit Margin	1,600/19,200	8%	4,000/16,800	2%	6%
ROCE	1,600/5,840	3%	4,000/4,920	8%	25%
Receivable days days	1,440/19,200x365	27days	960/16,800x365	21days	45
Payable days days	1,200/15,600x365	28days	1,800/9.600x365	68days	38
Inventory turnover 4.4time	15,200/(2,400+2,800)2	5.8 times	10,000/(2,800+2,400)2	3.8times	

(10 marks evenly spread using ticks)

b) Comments

- Liquidity Ratios were below the benchmarks in 2017 but the company seems to have tackled this and they are now above the industry averages of 1.9:1 and 0.9:1 for the Current ratio and Acid test ratio respectively. This may be as a result of higher sales and corresponding higher debtors and stocks. In this regard, however a current ratio in excess of 2:1 and an Acid test ratio in excess of 1.1 would be considered excessive and indicative of perhaps poor credit control and/or inefficient inventory control.
- The company's Profitability, as measured by the net profit margin and ROCE, is above the industry averages of 6% and 25% respectively in both years but the dramatic decreases from 24% to 8% and from 81% to 27% for the net profit margin and ROCE respectively are very worrying and need to be addressed. The Gross profit margin has fallen by over 50% from 2017 to 2018 which explains most of the reduction in net profit. This may be due to an increase in the prices charged by suppliers or a reduction in sales prices charged by the company in order to compete with high street retailers.
- In terms of Working capital Activity, it is taking the company longer in 2018 to collect from its debtors but the figure for both years is comfortably below the industry average (of 45 days). The increase of 6 days in 2018 may show that the company has given more credit to customers or is not controlling collection of debts as effectively as before.
- The company is paying creditors much more promptly in 2018 (28 days as opposed to 68 days). This may be interpreted as a healthy sign as it reflects improved liquidity and capability to avail of discounts for prompt payment. However the company should ensure that it continues to avail of the full credit period available from each major supplier- generally 30 days.
- In 2017 the company was a net recipient of credit (about 47 days), however, in 2018 the company's Receivable and Payable days are very similar.
- The company's stock turnover has improved from 3.8 to 5.8 times. In 2017 it was below the industry average of 4.4 but is now above it.

(10 marks evenly spread using ticks)
(Total: 20 marks)

EXAMINER'S REPORT

The ratio analysis was well prepared by most of the candidates. The commentary was well done by majority of the candidates.

CONCLUSION

Candidates and Lecturers should use past question papers as a guide to future question papers, but candidates also need to be aware that future papers, although still following the current specification, may differ in approach and format from the current series. Candidates are also advised to ensure that they go through the syllabus very well before sitting for the examination.