

**INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**NOVEMBER 2010 EXAMINATIONS
(PROFESSIONAL)**

PART 1

**FINANCIAL ACCOUNTING FUNDAMENTALS
(Paper 1.1)**

Attempt ALL Questions

TIME ALLOWED:

Reading & Planning	-	15 Minutes
Working	-	3 Hours

QUESTION 1

The following Trial Balance has been extracted from the books of B. K. Enterprise, Shoes Manufacturers, as at 31 December 2009.

Trial Balance

	DR GHS	CR GHS
Inventory of raw materials 1/1/09	22,000	
Inventory of finished goods 1/1/09	37,500	
Work-in-progress 1/1/09	14,900	
Wages (direct 160,000; factory indirect 165,000)	325,000	
Carriage inwards (on raw materials)	4,000	
Purchases of raw materials	576,500	
Plant and machinery (cost 280,000)	230,000	
Computers (cost 20,000)	12,000	
General factory expenses	38,500	
Factory power	13,700	
Administration salaries	44,000	
Rent	10,000	
Insurance	4,200	
General administration expenses	15,700	
Accounts receivable & payable	142,300	64,000
Bank and cash	18,300	
Sales		1,200,000
Drawings	80,000	
Capital as at 01/01/09		324,600
	<u>1,588,600</u>	<u>1,588,600</u>

The following information is also provided.

- (i) Rent unpaid as at 31/12/09 amounted to GHS2,500.
- (ii) The inventory balances at 31/12/2009 are as follows:
Raw materials GHS25,000; work-in-progress GHS20,000 and finished goods GHS50,000.
- (iii) Depreciation on plant & machinery and computers at 10% per annum on cost.
- (iv) Rent and Insurance are to be apportioned: Factory 4/6 and Administration 2/6

Required:

- (a) Prepare Income Statement (Manufacturing Account and Profit and Loss Account) for the year ending 31 December 2009.

(15marks)
- (b) Prepare Statement of Financial Position as at 31 December 2009.

(5 marks)

(Total: 20 marks)

QUESTION 2

- (a) Sam entered into a joint venture with Tom for the purchase and sale of second hand mowers. They agreed that profits and losses should be shared in the ratio: Sam 7/10 and Tom 3/10. The following transactions took place during the month of January 2009.

June	1	Sam purchased mowers for GHS250,000 and paid carriage of GHS500
	3	Sam sent a cheque of GHS50,000
	4	Tom purchased mower for GHS40,000 and paid carriage of GHS100
	10	Sam sold mowers for GHS300,000
	15	Tom sold mowers for GHS60,000
	22	Tom sent a cheque of GHS40,000 to Sam
	22	Tom employed a casual labourer and paid GHS150
	30	The unsold mowers in the possession of Tom were taken over by him at a valuation of GHS18,000

The amount due from each other was paid on 2nd July, 2009 and the joint venture was dissolved.

You are required to prepare:

- (i) Memorandum Joint Venture Account
- (ii) Joint Venture with Tom
- (iii) Joint Venture with Sam

(15 marks)

- (b) The Summarised Accounts of God's love Ltd for the years 2008 and 2009 are given below:

Income Statements for the years ending 31 December

	2008		2009	
	GHS	GHS	GHS	GHS
Sales		20,000		28,000
Less cost of sales		<u>15,000</u>		<u>21,000</u>
Gross profit		5,000		7,000
Less administration expenses		<u>3,800</u>		<u>5,000</u>
Net profit		<u>1,200</u>		<u>2,000</u>

Statement of Financial Position as at 31 December

	2008	2009
	GHS	GHS
Non current asset (less depreciation)	11,000	14,000
<u>Current asset</u>		
Inventory	2,000	3,000
Accounts receivable	2,500	2,800
Bank	<u>-</u>	<u>500</u>
Total asset	15,500	20,300
Less <u>current liabilities</u>		
Accounts payable	1,500	1,200
Bank overdraft	<u>1,000</u>	<u>-</u>
Total net asset	<u>13,000</u>	<u>19,100</u>

Financed By:		
Ordinary share capital	10,000	10,000
Income surplus	3,000	4,100
8% Debenture	-	5,000
	<u>13,000</u>	<u>19,100</u>

Note: Inventory as at 1st January 2008 was GHS5,000.

Required:

Calculate the following ratios for 2008 and 2009 and briefly explain the meaning of these ratios.

- (i) Gross profit to Sales
- (ii) Inventory turnover
- (iii) Quick (acid test)
- (iv) Net Profit to Capital Employed.

(10 marks)

(Total: 25 marks)

QUESTION 3

Azu, Osu and Kuzi were in partnership sharing profits and losses in the ratio 3:2:1 respectively. The Statement of Financial Position of the partnership as at 31st December 2009 is as follows:

AZU, OSU AND KUZU PARTNERSHIP
Statement of Financial Position as at 31 December 2009

	GHS	GHS	GHS
Land			30,000
Freehold buildings			25,500
Plant & equipment			13,500
Motor vehicle			<u>16,800</u>
			85,800
Stock		12,900	
Debtors	16,500		
Less bad debts	<u>2,100</u>	14,400	
Bank		<u>25,200</u>	
		52,500	
Less creditors		<u>30,600</u>	<u>21,900</u>
			<u>107,700</u>

Financed by:
 Capital accounts
 Azu
 Osu
 Kuzi
 Loan (Azu)

54,000
 27,000
 18,000
8,700
107,700

Azu retired on 31/12/2009, whilst Osu and Kuzi continued in partnership sharing profits and losses as follows: Osu 60% and Kuzi 40%.

The assets of the firm were revalued as follows:

	GHS
Land	34,000
Freehold building	40,000
Plant & equipment	20,000
Motor vehicles	14,000
stocks	10,800

Azu's loan was repaid on 2nd January 2010. It was however agreed that 15% of the outstanding balances due him should be paid as soon as the amount was accurately determined, whilst the rest remain on loan to the firm.

The debtors figure is to be reduced by GHS1,900 in respect of uncollectible debts.

The partnership agreement provided that on the retirement of a partner, goodwill should be valued at two years' average annual profit. The relevant adjusted profits for the period of 2007 to 2009 were as follows:

	GHS
31/12/2009	13,200
31/12/2008	9,400
31/12/2007	6,800

It is the policy of the partnership not to maintain unpurchased goodwill in their books. The capital account of partners was to be used to record and adjust transactions between partners.

You are required to prepare:

- (a) The Revaluation Account
- (b) Partners Capital Account
- (c) The State of Financial Position of Osu and Kuzi as at 2nd January 2010

20 marks

QUESTION 4

After extracting the Trial Balance of Mama Lizzy Enterprise on 31st December 2009, a difference of GHS4,070 was discovered. A review of the ledger revealed the following errors:

- (a) A machinery purchased for GHS6,500 had been debited to repairs account.
- (b) A debit note of GHS1,260 received from a customer had been posted to the wrong side of his account.
- (c) The total of one page of the sales day book had been carried forward as GHS12,900 instead of GHS14,600.
- (d) Mr. Amoako whose debts of GHS3,500 to the business had been written off, paid during the year. His personal account was credited but no corresponding entry was made.
- (e) An amount of GHS850 on a creditor's account was omitted from the balance of creditors.
- (f) The receipts side of the cash account had been overstated by GHS2,500.

Required:

- (i) Prepare Journal Entries to correct the errors.
- (ii) Write up the Suspense Account

(15 marks)

QUESTION 5

Batonga Ltd has been in business since 2007 dealing in the sale of Japanese vehicles. During the three years ended 31/12/2009, the company presented the following information relating to debtors.

	<u>Debtors</u>	<u>Provision for doubtful debts</u>	<u>Provision for cash discount allowed</u>
	<u>GHS</u>	<u>GHS</u>	<u>GHS</u>
31 st December, 2007	200,000	110,000	15%
31 st December, 2008	840,000	135,000	15%
31 st December, 2009	600,000	115,000	15%

You are required to show the above information for the year ended 31st December 2007, 2008 and 2009 in the following accounts:

- (a) Provision for Doubtful Debts
- (b) Provision for Cash Discount on Debtors
- (c) Income Statement Extracts
- (d) Statement of Financial Position.

20 marks