MAY 2017 PROFESSIONAL EXAMINATIONS
FINANCIAL ACCOUNTING (PAPER 1.1)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

The overall standard of answers was mixed. Some candidates failed to attempt the required number of questions resulting in struggling to achieve an overall passing mark as a result. In my opinion some of the questions were difficult for the level and some of the candidates were not well prepared.

STANDARD OF THE PAPER

The standard of the question paper was good and candidates were asked to answer five (5) questions out of seven. The mark allocations followed the weight as stated in the syllabus and marks were allocated to all sub-questions. Some of the questions were overloaded. There were no ambiguities in the paper. The questions were clear, well typed 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 average and better as compared to the previous sitting. The pass rate was 52.17%. High performers were evenly spread across all centres and so also were low performers. There were no signs of copying in any centre. A small number of candidates exhibited a high sense of preparedness while majority were not well prepared. The level of preparedness of candidates was mixed because while a few others performed very well others performed poorly.

The numbers of candidates answering each question were as follows:
Question 1 366 attempted
Question 2 373 attempted
Question 3 436 attempted
Question 4 475 attempted
Question 5 167 attempted
Question 6 348 attempted
Question 7 347 attempted

The total number of candidates that took part was 531.

NOTABLE STRENGTHS & WEAKNESS OF CANDIDATES

The strength of most candidates was demonstrated in the question 4(a) and 3. Most of the candidates presented the answer 4(a) and 3 in a good format. 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 the approach to answering questions. There were improper labelling of answers as required in the answer booklet, cover and improper presentation of answers. Some candidates used pencils in writing which was a bad practice. The overall standard of some answers was disappointing. In particular some candidates showed a poor understanding of bookkeeping across several questions. Many candidates did not attempt the required number of questions, making the achievement of an overall passing mark a challenge. The other areas of weakness around presentation are as follows:

- Poor and untidy handwriting
- No workings presented for some questions.

QUESTION ONE

a) B & C Brothers are partners sharing profits and losses equally between themselves for many years. However, they have now decided to dissolve their partnership as at 31 December 2016. Below is their Statement of financial position as at 31 December, 2016:

	GH¢000	**GH¢000**
Non-Current Assets:		
Land and Buildings	3,200	
Furniture and Fittings	3,400	6,600
Current Assets:		
Trade receivables	11,200	
Cash and Bank balances	7,200	18,400
		25,000
Capital accounts:		
B	8,000	
C	6,000	14,000
Trade payables		11,000
		25,000

Additional information:

At dissolution, the trade receivables realized was GH¢10,800,000 the land and buildings GH¢1,600,000 and the furniture and fittings GH¢3,800,000. The expenses incurred on dissolution were GH¢400,000 and discounts amounted to GH¢800,000 were received from suppliers.

Required:

Prepare

i) Realisation Account **(5 marks)**

ii) Cash Account **(3 marks)**

iii) Partners' Capital Account **(2 marks)**

b) The objective of ***IAS 2 Inventories*** is to prescribe the accounting treatment for inventories and provide guidance for measuring and valuation of inventories. It determines the cost of inventories and subsequent recognition as an expense, including any write-down to net realisable value.

Required:

i) Explain Inventories. **(3 marks)**

ii) Explain how inventories are measured and valued in the financial statements in accordance with IAS 2. **(3 marks)**

c) In order to enhance the quality of information in financial statements, business transactions are grouped into different classes or categories on the basis of their economic characteristics. The broad classes or categories are called elements of financial statements.

Required:

Explain any **TWO** elements of financial statements in line with the ***IASB Conceptual Framework for Financial Reporting*** and identify their criteria for recognition. **(4 marks)**

(Total: 20 marks)

QUESTION TWO

Adepa, a limited liability Company, has the following Trial balance as at 31 December 2016

	Debit GH¢'000	Credit GH¢'000
Cash at bank	100	
Inventory at January, 2016	2,400	
Administrative expenses	2,206	
Distribution costs	650	
Non-current assets at cost:		
Buildings	10,000	
Plant and equipment	1,400	
Motor vehicles	320	
Suspense		1,500
Accumulated depreciation:		
Buildings		4,000
Plant and equipment		480
Motor vehicles		120
Retained earnings		560
Trade receivables	876	
Purchases	4,200	
Dividend paid	200	
Sales revenue		11,752
Sales tax payable		1,390
Trade payables		1,050
Capital surplus		500
GH¢ 1 ordinary shares		1,000
	22,352	22,352

The following additional information is relevant.

i) Inventory at 31 December, 2016 was valued at GH¢1,600,000. While doing the inventory count, errors in the previous year's inventory count were discovered. The inventory brought forward at the beginning of the year should have been GH¢2,200,000 not GH¢2,400,000 as stated above.

ii) Depreciation is to be provided as follows:

- Buildings at 5% straight line, charged to administrative expenses
- Plant and equipment at 20% on the reducing balance basis, charged to cost of sales
- Motor vehicles at 25% on the reducing balance basis, charged to distribution costs.

iii) No final dividend is being proposed.

iv) A customer has gone bankrupt owing GH¢76,000. This debt is not expected to be recovered and an adjustment should be made. 5% provision for bad debt is to be made.

v) 1 million new ordinary shares were issued at GH¢1.50 on 1 December 2016. The proceeds have been left in a suspense account.

Required:

a) Prepare Statement of profit or loss for the year ending 31 December 2016 and Statement of Changes in Equity for the year ended 31 December 2016. **(12 marks)**

b) Prepare statement of financial position as at 31 December 2016. **(8 marks)**
(**Ignore taxation)**

(Total: 20 marks)

QUESTION THREE

The Income Statement of Unity Trading Enterprise (UTE) for the year ended 31 December 2016 as prepared by an Accounts Assistant indicated a net profit of GH¢49,360,000. However, the cash book on 31 December 2016 showed a balance at bank to be GH¢6,440,000. Your attention is however drawn to the following:

i) Cheques from customers totaling GH¢4,980,000 which were recorded in the cash book on 20 December 2016 were actually not credited by the bank until 2 January 2017.

ii) Cheques issued on 13 December 2016 totaling GH¢7,420,000 in favour of suppliers were actually not paid by the bank until after the end of the year (that is after 31 December 2016).

iii) On 22 November 2016, the bank paid an amount of GH¢3,600,000 with respect to a standing order from UTE for rent of business premises for the three months to 31January 2017 but unfortunately, no entry for this payment had been made in the cash book. Additionally, no provision of this outstanding rent had been made in the income statement for the period.

iv) On 31 December 2016, a customer known as Mr. Abuusu had paid GH¢2,340,000 into UTE bank account through a standing order to his bankers in full settlement of a debit balance of GH¢2,400,000 in UTE sale ledger, but no entry had been made in the books.

v) On 30 December 2016, a cheque for GH¢480,000 was received from a customer in settlement of sales invoice for the same amount. The cheques were lodged into UTE bank account. Both sale of goods and the cheque were entered in UTE's books. However, on 31 December 2016, the customer returned the goods and also instructed her bankers not to pay the cheque (This instruction was carried out the same day) but no entries in respect of these latter developments have been made in UTE's books. The cost of these goods amounting to GH¢320,000 were not actually included in the closing inventories.

vi) A cheque for GH¢840,000 from an insurance company in settlement of claim for fire damage to inventory had been paid into the bank and credited by the bank on 21 December 2016, but an estimated amount of GH¢800,000 had been entered in UTE's income statement.

Required:

a) Prepare a statement on 31 December 2016, indicating clearly the cash book balance. **(5 marks)**

b) Prepare the bank reconciliation statement for UTE. **(5 marks)**

c) Prepare a statement of corrected net profit of UTE on 31 December 2016. **(5 marks)**

d) Explain **TWO** reasons for carrying out bank reconciliation. **(2 marks)**

e) Explain why the bank statement is usually taken as being more accurate than the details that appear in the company's own records. **(2 marks)**

f) Indicate how the bank balance will be reported in UTE's final accounts. **(1 mark)**

(Total: 20 marks)

QUESTION FOUR

a) Partnerships and limited liability companies present several similarities for business owners looking for the right company structure. Both have similar income distribution and tax-reporting formats, and both are simpler to set up and operate than a corporation. Despite their similarities, they have differences.

Required:
Identify and explain **THREE** fundamental differences between a company and a partnership.
(6 marks)

b) Sole proprietorships are the smallest form of business organization, and also the most common in the country. However, while there are certain advantages (it is easier to set up a sole proprietorship than a limited liability company, for instance), there are numerous disadvantages.

Required:
State **FOUR** disadvantages of the sole proprietorship as a mode of business. **(4 marks)**

c) Otiko Ltd's head office building is the only building it owns. Using professional valuers, it revalued this building on 1 January 2016, at GH¢2,100,000. Otiko Ltd has adopted a revaluation policy for buildings from this valuation date and has decided that the original useful life of buildings has not changed as a result of the revaluation. The building was acquired on 1 January 2006. The cost of the building on acquisition was GH¢2,500,000 and the accumulated depreciation to the 31 December 2015 amounted to GH¢500,000. The depreciation up to 1 January 2016 was depreciated evenly since acquisition. The professional valuer believes that the residual value on the building would be GH¢600,000 at the end of its useful life.

Required:
Calculate the depreciation amount of the building for the year ended 31 December 2016 based on the information provided in the above scenario. **(6 marks)**

d) WD noted in 2016 that in 2015 it had omitted to record a depreciation expense on an asset amounting to GH¢600. Its accounts before the correction of the error are;

	2016	**2015**
	GH¢000	**GH¢000**
Gross profit	6000	6900
Distribution costs	(600)	(600)
Administration expenses	(1,800)	(1800)
Depreciation	(600)	Nil
Profit from operations	3000	4,500
Income tax	(600)	(900)
Net profit	2,400	3,600

WD's retained earnings (income surplus) for the two years before the correction of the error were;

Retained earnings carried forward	6,900	4,500
Retained earnings brought forward	4,500	900

Required:
Describe how the above error should be corrected in accordance with ***IAS 8: Accounting policies, changes in accounting estimates and errors.*** **(4 marks)**
(Total: 20 marks)

QUESTION FIVE

Below are the statement of financial position for Saasa Company Limited at 31 December 2015 and 31 December 2016 and the income statement for the year ended 31 December, 2016.

	2016	**2015**
	GH¢'000	**GH¢'000**
ASSETS		
Non-current assets:		
Property, plant and equipment	528	447
Development costs	110	93
	638	540
Current assets:		
Inventories	413	380
Trade receivables	238	215
Investments	28	-
Cash	111	4
	790	599
TOTAL ASSETS	**1,428**	**1,139**
EQUITY AND LIABILITIES		
Equity :		
GH¢1 ordinary shares	240	200
Capital surplus	140	120
Revaluation surplus	100	-
Retained earnings	538	530
	1,018	850
Non-current liabilities		
Provision for warranties	30	25
6% debentures	150	-
	180	25
Current liabilities		
Income tax payable	37	32
Trade payables	193	232
	230	264
TOTAL EQUITY AND LIABILITIES	**1,428**	**1,139**

Statement of profit or loss for the year ended 31 December, 2016

	GH¢'000
Revenue	900
Cost of sales	(550)
Gross profit	350
Expenses	(245)
Finance costs	(9)
Profit on sale of equipment	7
Profit before tax	103
Income tax expense	(30)
Profit for the period	**73**

Additional information

i) Deferred development expenditure amortized during 2016 was GH¢25,000.

ii) Additions to property, plant and equipment totaling GH¢167,000 were made. Proceeds from the sale of equipment were GH¢58,000, giving rise to a profit of GH¢7,000. No other items of property, plant and equipment were disposed of during the year.
iii) Finance costs represent interest paid on the new 6% debentures (2016-2022) issued on 1 January 2016.
iv) Current asset investments represent treasury bills acquired. The company deems these to represent cash equivalents.
v) Dividends paid during the year amounted to GH¢65,000.

Required:
Prepare a statement of cash flow for Saasa Company for the year ended 31 December 2016, using the indirect method in accordance with ***IAS 7: Statement of Cash Flows***.

(Total: 20 marks)

QUESTION SIX

The following is a summary of the Financial Statements of two companies in the retailing business.

Statement of Profit or Loss account of the two companies for the year ended 31 December 2016

	FATHER LTD		**SON LTD**	
	GH¢000	**GH¢000**	**GH¢000**	**GH¢000**
Revenue		200,000		200,000
Inventories	32,000		8,000	
Purchases	156,000		150,000	
	188,000		158,000	
Closing inventories	(48,000)		(12,000)	
Cost of sales		140, 000		146,000
Gross profit		60,000		54,000
Expenses		(47,400)		(42,480)
Net profit		**12,600**		**11,520**

The two companies' Statement of Financial Position as at 31 December 2016

	FATHER LTD		**SON LTD**	
	GH¢'000	**GH¢'000**	**GH¢'000**	**GH¢'000**
Non- current Assets		130,000		80,000
Current assets:				
Inventories	48,000		12,000	
Accounts receivables	17,000		4,250	
Bank and Cash	5,000	70,000	19,750	36,000
		200,000		**116,000**
Stated capital		80,000		80,000
Income surplus		100,000		16,000
		180,000		96,000
Accounts payable		20,000		20,000
		200, 000		**116, 000**

Required:

a) Calculate the following ratios for each company:
i) Current ratio
ii) Acid Test ratio
iii) Gross profit margin
iv) Return on capital employed
v) Trade Payable period
vi) Receivable collection period

(10 marks)

b) Using the information in (a) above, interprete the results of the ratios under three broad categories of ***profitability, liquidity and efficiency***. **(10 marks)**

(Total: 20 marks)

QUESTION SEVEN

STL has been in business for a number of years. In the past year, she has been busy training for the Olympics and has not kept proper records for her business. She has given you some information.

The balances as at 1 May 2016 are as follows:

	GH¢
Motor vehicle (carrying amount)	4,750
Inventories	956
Trade receivables	2,632
Trade payables	1,745
Cash in hand	50
Cash at bank (overdrawn)	1,693
Capital	4,950

The bank statements for the year to 30 April 2017 are summarised as follows:

	GH¢
Payments to suppliers	6,463
Cash takings	5,907
Sundry expenses	763
Motor expenses	505
Rent	1,800
Telephone	135

The balance on the bank statement at 30 April 2017 was GH¢1,144. There were no timing differences.

You are given the following additional information:

i) Closing inventory is valued at GH¢1,324.
ii) STL took goods which had a cost of GH¢96 and would have been sold for GH¢124 for her own personal use.
iii) A telephone bill was received on 7 July 2017 for GH¢75, this related to the quarter ended 30 June 2017.
iv) Rent includes GH¢1,000 paid on 1 January 2017 for the year to 31 December 2017.
v) STL takes GH¢60 every week out of the takings before banking them. She also spends GH¢20 every week on petrol for the company van.
vi) Depreciation is to be charged at 15% reducing balance.

vii) Closing trade receivables and payables were GH¢2,072 and GH¢967 respectively. However, one customer, Caroline, has vanished and her debt of GH¢575 is not likely to be paid.
viii) STL always keeps a cash float of GH¢50.
ix) STL makes sales to cash and credit customers. Customers taking credit always pay by cheque or bank transfer.

Required:

a) Prepare the statement of profit or loss for STL for the year ended 30 April 2017. **(12 marks)**

b) Prepare the statement of financial position for STL as at 30 April 2017. **(8 marks)**

(Total: 20 marks)

MARKING SCHEME

QUESTION ONE

a)

B & C Brothers

i) Realisation Account

	GH¢000	GH¢000
Debit Entries		
Land and Buildings	3,200	
Furniture and Fittings	3,400	
Trade receivables	11,200	
Cash: Expenses	400	18,200
Credit Entries		
Cash: Trade receivables	10,800	
Land and Buildings	1,600	
Furniture and Fittings	3,800	
Discounts	800	
Loss on realization:		
B	600	
C	600	18,200
		(5 marks)

ii) Capital Accounts

	GH¢000	GH¢000
	B	C
Loss on realization accounts	600	600
Cash	7,400	5,400
Balance brought forward	8,000	6,000
		(3 marks)

iii) Cash Account

	GH¢000	GH¢000
Balance brought forward	7,200	
Trade receivables	10,800	
Land and Buildings	1,600	
Furniture and Fittings	3,800	23,400
Expenses on realization	400	
Trade payables	10,200	
Capital accounts: B	7,400	
C	5,400	23,400

(2 marks)

b)
i)
Inventories, per paragraph 6 of IAS 2 are assets that are

- Held for sale in the ordinary course of business
- In the process of production for such sale; or
- In the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories per IAS 2 comprise a) Merchandise b) Production Supplies c) Materials d) Work in Progress e) Finished Goods authorized for issue.

(3 marks)

ii) **Valuation of Inventories**
Inventories are measured at the lower of

Cost
And
Net Realisable Value (NRV)

Cost should include all: [IAS 2.10]

- costs of purchase (including taxes, transport, and handling) net of trade discounts received
- costs of conversion (including fixed and variable manufacturing overheads) and
- other costs incurred in bringing the inventories to their present location and condition

Net Realisable Value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale.

(3 marks)

c**) Elements of Financial Statement and its recognition criteria**
Definition of Assets
"Assets" are future economic benefits controlled by the entity as a result of past transactions or other past events.
Criteria for Recognition of Assets
An asset should be recognised in the statement of financial position when and only when:

- it is probable that the future economic benefits embodied in the asset will eventuate; and
- The asset possesses a cost or other value that can be measured reliably.

Definition of Liabilities
"Liabilities" are the future sacrifices of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events.
Criteria for Recognition of Liabilities
A liability should be recognised in the statement of financial position when and only when:

- it is probable that the future sacrifice of economic benefits will be required; and
- the amount of the liability can be measured reliably.

Definition of Equity
"Equity" is the residual interest in the assets of the entity after deduction of its liabilities.

Definition of Revenues
"Revenues" are inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners that result in an increase in equity during the reporting period.
Criteria for Recognition of Revenues
A revenue should be recognised in the operating statement, in the determination of the result for the reporting period, when and only when:
- it is probable that the inflow or other enhancement or saving in outflows of future economic benefits has occurred; and
- the inflow or other enhancement or saving in outflows of future economic benefits can be measured reliably.

Definition of Expenses
"Expenses" are consumptions or losses of future economic benefits in the form of reductions in assets or increases in liabilities of the entity, other than those relating to distributions to owners that result in a decrease in equity during the reporting period.
Criteria for Recognition of Expenses
An expense should be recognised in the operating statement, in the determination of the result for the reporting period, when and only when:
- it is probable that the consumption or loss of future economic benefits resulting in a reduction in assets and/or an increase in liabilities has occurred; and
- the consumption or loss of future economic benefits can be measured reliably

(Any 2 elements for 4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS
The (a) part of the question asked candidates to prepare realisation account, cash account and partners' capital account. In this question performance was average as candidates who answered obtain pass mark. However some candidates placed debit figures as credit and vice versa. The discount received from the suppliers was debited to realisation account. The expenses incurred on dissolution was also credited by some candidates. The cash account was also prepared by crediting items that should have been debited. In effect some of the candidates could not obtain the correct figure on capital account.

In part (b) candidates were to explain inventories and explain how inventories are measured and valued in the financial statements in accordance with IAS 2. The explanation of inventories was done by most candidates but instead of talking about lower of cost and net realisable value as measure of stock some candidates were discussing valuation methods (FIFO, LIFO and weighted average).

The (c) part of the question required candidates to explain any two elements of financial statements in line with the IASB Conceptual Framework for Financial Reporting and identify their criteria for recognition. Most candidates were able to mention assets, liabilities, equity, revenues and expenses and others were writing on the qualitative characteristics of financial statements.

QUESTION TWO

Adepa LTD
Statement of profit or loss for the year ended 31 December 2016

	GH¢'000
Revenue	11,752
Cost of sales (W2)	4,984
Gross profit	6,768
Administrative expenses (W3)	2,822
Distribution costs (650 + 50 (W1)	700
Profit for the year	3,246

Adepa Ltd
Statement of Changes in Equity for the year ended 31 December, 2016

	Share capital GH¢'000	Capital surplus GH¢'000	Retained earnings GH¢'000	Total GH¢'000
Balance at 1 January, 2014	1,000	500	560	2,060
Prior period adjustment	-	-	(200)	(200)
Restated balance	1,000	500	360	1,860
Total comprehensive income for the y	-	-	3,246	3,246
Dividends paid	-	-	(200)	(200)
Share issue	1000	500	-	1,500
Balance at 31 December, 2014	2000	1,000	3,406	6,406

Adepa Ltd Statement of financial position as at 31 December 2016

	GH¢'000	GH¢'000
Non-Current assets		
Property, plant and equipment (W4)		6,386
Current assets		
Inventory	1,600	
Trade receivables (876-76-40)	760	
Cash	100	
		2,460
Total assets		**8,846**

Equity and liabilities		
Equity		
Share capital		2,000
Share premium		1,000
Retained earnings (W5)		3,406
Current liabilities		
Sales tax payable	1,390	
Trade payable	1,050	
		2,440
Total equity and liabilities		**8,846**

Workings

Depreciation (W1)

	GH¢ '000
Buildings (10,000 x 5%)	500
Plant (1,400-480) x 20%	184
Motor Vehicles (320-120) x 25%	50

Cost of sales (W2)

	GH¢'000
Opening inventory	2,200
Purchases	4,200
Depreciation (W1)	184
Closing inventory	(1,600)
	4,984

Administrative expenses (W3)

	GH¢'000
Per T/B	2,206
Depreciation (W1)	500
Irrecoverable debt	76
Receivable allowance (876-76) x 5%)	40
	2,822

Property, plant and equipment (W4)

	Cost GH¢ '000	**Acc Dep GH¢ '000**	**Dep chg GH¢ '000**	**NBV GH¢ '000**
Buildings	10,000	4,000	500	5,500
Plant	1,400	480	184	736
Motor vehicles	320	120	50	150
	11,720	4,600	734	6,386

Retained earnings (W5)

	GH¢ '000
B/f per T/B	560
Prior period adjustment (inventory)	(200)
Profit for period	3,246
Dividend paid	(200)
	3,406

(20 marks to be evenly spread to the total number of ticks)

EXAMINER'S COMMENTS

This question asked candidates to prepare statement of profit or loss and statement of changes in equity and statement of financial position from a trial balance and additional information provided.

This question was more traditional in nature and examined the candidates' ability to make necessary adjustments and prepare the required accounts. Unfortunately candidates scored very low marks which was disappointing given that this style of question appears quite frequently in examinations.

Most of the candidates were able to calculate depreciation of buildings, plants and motor vehicles but did not know how to distribute it among cost of sales, administration and distribution costs. Receivables allowance was computed wrongly. Sales tax payable was also treated in the profit or loss account instead of treating it under current liabilities. Most of the candidates were not able to prepare the statement of changes in equity correctly. The 1million new shares issued at 1.50 cedis and left in suspense account was not treated correctly.

QUESTION THREE

UNITY TRADING ENTERPRISE

a) **Adjusted Cash Book**

	GH¢000
Balance brought forward	6,440
Cash received from customers	2,340
Insurance claim	840
	9,620
Standing order charges	(3,600)
Cheques withdrawn	(480)
Corrected cash book balance at December 31, 2016	**5,540**

(5 marks)

b) **Bank Reconciliation Statement as at December 31st, 2016**

	GH¢000
Balance as per adjusted cash book as indicated above	5,540
Add: Un-presented cheque	7,420
	12,960
Less: Un-credited cheque	(4,980)
Balance as per bank statement	**7,980**

Alternative presentation of the bank reconciliation statement

Balance as per the bank statement	7,980
Add: Un-credited cheque	4,980
	12,960
Less: Unpresented cheque	(7,420)
Balance as per the adjusted cash book	5,540

(5 marks)

c)Statement of Corrected Net profit of UTE for the year ended 31st Dec 2016

	GH¢000	GH¢000
Net profit as from the income statement		49,360
Add: Insurance claim	40	
Cost of inventory omitted	320	360
		49,720
Less: Rent of premises	2,400	
Discount allowed	60	
Returned inwards	480	(2,940)
		46,780

(5 marks)

NOTE:
Candidates who prepares the adjusted cash book using the T accounts will be acceptable

d) A bank reconciliation is carried out for the following reasons:

- To confirm the accuracy of entries in the cash book
- To uncover any error which may have been made by the bank?
- To provide a reliable cash figure for the trial balance
- (To identify any items, such as bank charges, which need to be entered in the accounting records, including the cash book

(2 marks)

e) **Human Error** - There is more chance of errors happening in the bank account details in a company due to human error in inputting details in a bank statement. **(2 marks)**

f) Reported as current asset if it is positive or as a current liability if it a negative in the statement of financial position. **(1 mark)**

(Total: 20 marks)

EXAMINER'S COMMENTS

The (a) part asked candidates to prepare a statement clearly showing the cash book balance and (b) the bank reconciliation statement. The (c) part asked for corrected net profit and the (d) asked candidates two reasons for carrying out bank reconciliation. The part (e) asked candidates to explain why the bank statement is usually taken as being more accurate than the details of the company's own records and part (f) asked the candidates to indicate how the bank balance will be reported in the final accounts.

The performance of candidates in this question was good as many of them obtained the pass mark. While candidates were able to answer the theory part of the question (and therefore pick up some marks), some of them were not able to prepare either the adjusted cash book or the bank reconciliation statement. The statement of the corrected profit was also a problem for most candidate

QUESTION FOUR

a) Differences between a company and Partnership

- **Name** – A partnership cannot use the word "limited" in its name.
- **No separate legal personality** – a partnership has no separate legal personality, separate from its partners/members of the partnership. However, a company does have a separate personality from its shareholders. A company owns its property, not the shareholders. Partners own the partnership property.
- **Unlimited Personal Liability**– a partnership has unlimited liability for all the debts of the firm whereas shareholders in a company have liability limited.
- **Succession** – when one partner dies, the partnership is dissolved unless the partnership agreement provides otherwise. However, a company has "perpetual succession". Shareholders may die but the company continues until it is wound up.
- **Management** – a partnership is managed by the partners together – they are the shareholders, managers and workers. A company is managed by the directors not the shareholders.
- **Shares** – partners have a share in a partnership as agreed between them. A partner's share cannot be transferred without the consent of the other partners. In reality there is not a substantial difference in the definition of a share between a company and a partnership. Size – a partnership can have between 2 and 20 partners, except solicitors and accountants. A private company can have more and a public company can have 7 or more shareholders.
- **Regulation** – a company has memorandum & Articles of Association and a partnership usually has a Partnership Agreement to regulate its affairs.
- **Legislation** – the Incorporated Partnership Act of 1952 Act 152 is the primary piece of law (legislation) which governs partnerships .Companies are governed by the Companies Acts 1963, Act 179 – to date.
- **Taxation** – it is often said that partnerships are tax-transparent. Tax is paid by the partners on the profits each partner makes at the usual income tax levels for an individual. A company, being a separate legal personality, pays corporation tax (currently at 25%) but in addition to this, the shareholders will pay tax on any dividends received from the company.
- **Accounts** – Partnerships are not required to file accounts in the Company records office. Companies must file accounts at the Company records office. Therefore while a lot of a company's financial details are a matter of public record, Partnerships financial details are kept private.

(**Any 3 points for 6 marks)**

b) Some disadvantages of sole proprietorship form of businesses are;

- **Liability:** The business owner will be held directly responsible for any losses, debts, or violations coming from the business. For example if the business must pay any debts, these will be satisfied from the owner's own personal funds. The owner could be sued for any unlawful acts committed by the employees. This is drastically different from corporations, wherein the members enjoy limited liability (i.e., they cannot be held liable for losses or violations)

- **Taxes**: While there are many tax benefits to sole proprietorships, a main drawback is that the owner must pay self-employment taxes. Also, some tax benefits may not be deductible, such as health insurance premiums for employees.

- **Lack of "continuity"**: The business does not continue if the owner becomes deceased or incapacitated, since they are treated as one and the same. Upon the owner's death, the business is liquidated and becomes part of the owner's personal estate, to be distributed to beneficiaries. This can result in heavy tax consequences on beneficiaries due to inheritance taxes and estate taxes.

- **Difficulty in raising capital**: Since the initial funds are usually provided by the owner, it can be difficult to generate capital. Sole proprietorships do not issue stocks or other money-generating investments like corporations do

Any four (4) valid point for 1mark each **(4 marks)**

c) i. The depreciation amount is as follows:

Working - Property, Plant & Equipment	Buildings	Total
	GH¢	GH¢
Cost	2,500,000	2,500,000
- Accumulated depreciation	(500,000)	(500,000)
Carrying Value b/d at 1st January 2016	2,000,000	2,000,000
Revaluation Gain	100,000	100,000
	2,100,000	2,100,000
Depreciation - buildings - note 1	(37,500)	(37,500)
Carrying Value c/d at 31st December 2016	**2,062,500**	**2,062,500**

Note 1

Buildings - original Cost	2,500,000
Buildings - original Accumulated depreciation	500,000
Accumulated depreciation / Cost = 20%	

Building has been depreciated by 20% over 10 years (01.01.06 - 31.12.15) so annual rate of depreciation has been 2% i.e. 20% / 10 years as asset has been depreciated evenly since acquistion. Therefore the original useful life is 50 years i.e. 100% / 2% and the remaining useful life is 40 years. Therefore, the remaining useful life is 10 years

To calculate the new depreciation amount, we use the following depreciation formula

$$\frac{\text{Revalued Cost of Asset – residual Value i.e.}}{\text{Expected useful life of Asset}} \quad \frac{2,100,000 - 600,000}{40 \text{ Years}}$$

Depreciation = 37,500

(6 marks evenly spread to be using ticks)

d) According to IAS 8 (revised) states that the correction of an error that relates to prior periods should be shown as an adjustment in the opening balance of retained earnings. As a result, in 2014 accounts (ignoring all tax implications):
Dr retained earnings brought forward GH¢600
Cr Accumulated depreciation GH¢600
It is important to notice that this will have no impact on the current income statement but is shown as a prior period adjustment in the statement of changes in equity:

	2016
	GH¢000
Retained earnings brought forward as reported previously	4,500
Prior year adjustment to correct error	(600)
Retained earnings, beginning as restated	3,900
Net profit for the year	2,400
Retained earnings carried forward	**6,300**

(4 marks)

(Total: 20 marks)

NOTE: Although the requirement did not ask of the restatement of the 2015 income statement, in practice the income statement for 2015 will normally be restated to be comparable to 2016 as current and previous year. This is same for the statement of changes in equity.

EXAMINER'S COMMENTS

The (a) part of this question asked the candidates to identify and explain three difference between a company and partnership and the part (b) asked candidates to state four disadvantages of the sole proprietorship as mode of business.

The (c) part asked the candidates to calculate depreciation amount of a building based on the information provided and the (d) part asked candidates to describe how an error would be corrected in accordance with IAS 8: Accounting policies, changes in accounting estimates and errors based on the information provided.

The (a) and (b) parts were delivered excellently by candidates. A very popular question that was well answered, this question gave many candidates a chance to pick up marks. One area of weakness was when discussing limited companies some of candidates did not understand the difference between shareholders and directors.

The part (c) and (d) posed problem for most of the candidates who attempted it. Majority could not fashion out the depreciation formula let alone fetch the appropriate figures to derive the answer. The treatment of events after the balance sheet date was too technical for the candidates and not a single candidates successfully answered this part.

QUESTION FIVE

Saasa Company

Statements of Cash flow for the year ended 31 December, 2016 (indirect method)

	GH¢'000	GH¢'000
Cash flows from operating activities		
Profit before taxation	103	
Adjustments for:		
Depreciation	135	
Amortization	25	
Interest expense	9	
Profit on disposal of equipment	(7)	
	265	
Increase in trade receivables		
Increase in inventories	(23)	
Decrease in trade payables	(33)	
Increase in provisions	(39)	
	5	
Cash generated from operations	175	
Interest paid	(9)	
Income taxes paid	(25)	
		141
Net cash from operating activities		
Cash flows from investing activities		
Development expenditure	(42)	
Purchase of property, plant and equipment	(167)	
Proceeds from sale of equipment	58	(151)
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from issue of shares (240+140) –(200-120)	60	
Proceeds from issue of debentures	150	
Dividends paid	(65)	
Net cash from financing activities		145
Net increase in cash and cash equivalents		135
Cash and cash equivalents at the beginning of period		4
Cash and cash equivalent at end of period (28+11)		139

Note 1: Property, plant and equipment Account

	GH¢000		GH¢000
Balance brought forward	447	Disposals	51
Additions during the year	167	Depreciation	135
Revaluation surplus	100	Balance carried forward	528
	714		714
Balance brought down	528		

Development expenditure account

	GH¢000		GH¢000
Bal. b/f	93	Amortisation	25
Cash paid	42	Bal. c/f	110
	135		135
Bal b/f	110		

(20 marks evenly spread using ticks)

EXAMINER'S COMMENTS

This cash flow statement question was poorly answered by those candidates who attempted it. Many candidates did not know which Income Statement figures to use, which should of course have been the current year figures. Also many candidates could not correctly calculate taxation paid or dividends paid. The structure of cash flow statement and which items fall under which subsection was a major problem as they mixed up the figures. Most figures were wrongly derived as few candidates prepared workings .Inflows were treated as outflows and vice versa. Sub-headings and related figures were either not provided or wrongly done.

QUESTION SIX

(a)

Ratio	Formula	Father Ltd	Son ltd
Liquidity			
Current ratio	CA/CL	70,000/20,000 = 3.5:1	36,000/20,000 =1.8:1
Acid test ratio	CA-inventories/CL	70,000-48,000/20000 1.1:1	36,000-12000/20000 = 1.2:1
Profitability			
Gross profit	Gross profit/salesx100	60,000/200,000x100 30%	54,000/200,000x100 27%
ROCE	Net profit/capital employed x 100	12,600/180,000x100 7%	11,520/96,000x100 12%
Efficiency			
Trade receivable collection period	Receivable/credit sales x 365 days	17,000/200,000x365days 31days	4,250/200,000x365days 8days
Trade payable period	Payables/credit purchases x 365days	20,000/156,000x365days 48days	20,000/150,000x365days 49 days

10 marks spread evenly using ticks

Liquidity

Liquidity is the ability of an entity to be able to pay for its short term obligations as and when they fall due without any difficulties. Again, this payment should not affect the working capital of the firm and as a result the company continues to operate without any operational difficulties. Applying this understanding to both Father and Son limited above suggest that the current assets of Father limited can pay for its current liabilities about 3.5 times as opposed to 1.8 times of Sons limited. However, adjusting for inventories the quick ratios of both companies shows 1.1:1 and 1.2:1 respectively for Father and Son. This suggests that inventories forms a significant part of the current assets of Father limited and may not be convertible into cash very quickly. The quick ratio indicates that slightly Son limited is better off with respect to its liquidity position. At the moment both companies can meet their current short-term obligations but Father Limited may have difficulty going forward with its significant nature of inventories.

Profitability

Every business wants to make the highest profit possible for its shareholders but care needs to be taken that profit is not equal to cash.

Looking at the gross margin of both Father and Son Limited, the gross margin is 30% and 27% respectively with the same level of sales. Better management of cost of sales may be key to the differences in the margins as depicted by the calculations above. This may also be

partly due to the credit policies of both companies. On the face value it may not be fair to say that Father limited is doing well because it has 3% more than that of Sons Limited.
Return on capital employed really looks at the efficiency in the utilization of capital in earning or generating profit in percentage terms. The higher this ratio the better management would have better utilize capital invested by shareholders and vice versa. Father Limited from that calculation has return on capital of 7% compared with 12% of Sons Limited. This suggests that Sons Limited is better using every pesewa invested by its shareholders efficiently and effectively as opposed to Father Limited. Father limited may need to change this situation as a matter of urgency.

Efficiency
Activity or efficiency ratios assesses how efficient and effective an entity is with respect to its credit policies as well as general operational decision making processes. The receivable collection period indicate the time period it takes for management of an entity to be able to collect its debts from credit customers or debtors. Generally, the shorter time it takes the entity to do that the better since this will enhance the liquidity position of the entity. Looking at the ratios above Son Limited collect its debts within 8 days as opposed 31days for Father limited. This suggests that a huge amount of sale of Father Limited is on credit. This cannot be said of Son Limited as significant amount of its sales appears to be in cash sales and therefore it is not surprising that it is slightly better off with respect to its liquidity position. Similarly, trade payable period is the time an entity uses to settle its suppliers. A better supplier relationship could allow for a longer period for payment and this is a very good source of finance to the entity. Both companies seem to have relatively the same period of 48days and 49days for Father and Son Limited respectively.

(10 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS
This question was very well answered by candidates who showed a relatively good understanding of the ratios. The category of ratios which caused most difficulty was profitability, very few candidates calculated ROCE actually correctly. Candidates should resist rounding ratios as those who rounded, missed the opportunity to identify trends.
However a few candidates had some challenges which are stated below:

- Formulae were wrongly presented.
- Wrong selection of figures for the computation of the ratios.
- Wrong classification of ratios.

Part (b) of the question required candidates to interpret the result of the ratios under three categories of profitability, liquidity and efficiency. This was met with a very mixed response and is clearly an area where candidates are less comfortable. Nevertheless the overall performance was good and this is reflected in the high mark awarded.

QUESTION SEVEN

STL

Statement of Profit or Loss for the year ended 30 April 2017

	GH¢'000	GH¢'000
Sales (W5)		16,678
Less: Cost of Sales		
Opening Inventory	956	
Purchases(W2)	5,685	
Drawings	(96)	
	6,545	
Less: Closing Stock	1,324	5,221
Gross Profit		11,457
Less Expenses		
Telephone (135+25)	160	
Rent (1,800-667)	1,133	
Motor Expenses	1,545	
Sundry Expenses	763	
Bad Debts	575	
Depreciation		4,889
Net Profit	713	**6,568**

STL

Statement of Financial Position as at 30 April 2017

	GH¢'000	GH¢'000
Non-Current Assets		
Motor Van		4,037
Current Assets		
Inventory	1,324	
Trade Receivables	2,072	
Prepayment	667	
Bank	1,144	
Cash	50	5,257
		9,294
Total Assets		
Capital and Liabilities		
Capital	4,950	
Add Profit	6,568	
	11,518	
Less Drawings (W6)	3,216	**8,302**
Current Liabilities		
Trade Payables	967	
Accrual	25	**992**
Total Capital and Liabilities		**9294**

Workings

W1

Trade Receivables

Balance b/f	2,632
Sales	6,611
	9,243
Bad debt	575
Bank	6,596
Balance c/d	2,072
	9,243

W2

Trade Payables

Bank	6,463
Balance c/d	967
	7,430
Balance b/f	1,745
Purchases	5,685
	7,430

W3

Bank Account

Cash Takings	5,907
Trade Receivables	6,596
	12,503
Balance b/f	1,693
Payment to suppliers	6,463
Sundry Expenses	763
Motor Expenses	505
Rent	1,800
Telephone	135
Balance c/d	1,144
	12,503

W4

Sales

Bank	5,907
Drawings (60X52)	3,120
Motor Expenses (20X52)	1,040
Credit	6,611
	16,678

W5

Depreciation

Motor Van 4,750 * .15
= 713

W6
Drawings

Cash Takings	3,120 + Goods 96	= **3,216**

(20 marks evenly spread using ticks)

EXAMINER'S COMMENTS
Majority of the candidates were not comfortable with this question which was on incomplete records.

Candidates were not able to correctly prepare the adjustments to obtain the right figures such as sales, purchases, rent, telephone, motor expenses, depreciation and drawings.
Answers were poorly presented with poor arrangement of items and with missing headings.

CONCLUSION
Candidates and lecturers should use past question papers as a guide to future question papers. 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.