

**MAY 2016 PROFESSIONAL EXAMINATION
FINANCIAL ACCOUNTING (1.1)
EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME**

EXAMINER'S REPORT

GENERAL COMMENTS

The standard of the question paper was good and candidates were asked to answer five (5) questions out of seven (7) questions. The questions were clear, well typed and the instructions were also clearly stated. There were no ambiguities in the paper except that in question 4 sub-question B candidates were asked to state the effects of the expansion policy. All the candidates did not understand what is meant by expansion policy hence most of them who answered this question score low marks

The mark allocations followed the weight as stated in the syllabus and marks were allocated to all sub-questions.

PERFORMANCE OF CANDIDATES

The performance of candidates was better compared to the previous sittings. Some of the candidates scored 72%. A good number of candidates exhibited a high sense of preparedness while few others were not well prepared. The strength of most candidates was demonstrated in the question 7 which was on the users of financial statements and qualitative characteristics of financial information.

Candidates generally scored better in question three (3) and seven (7) than in the other questions. High performers were evenly spread across all centres. Low performers were also spread across all centres.

There were no signs of copying in any centre. The level of preparedness of candidates was mixed because while others performed extremely well others performed poorly.

The standard of answers was mixed. Some of the candidates did not attempt the required number of questions making the achievement of an overall passing mark a challenge.

The general presentation of scripts was acceptable. The majority of candidates are now filing question parts together, though some still scatter them throughout the answer book. 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, poor expression and digression in answering theoretical questions. There were also improper labeling of answers as required in the answer booklet and cover and improper presentation of answers.

FINANNCIAL ACCOUNTING QUESTIONS

QUESTION ONE

Asomdwee Enterprise is run by a sole trader. The following Trial Balance was prepared from the business accounts on 30th September 2015.

	Dr	Cr
	GH¢	GH¢
Capital		185,280
Inventory	24,200	
Sales		421,450
Purchases	167,350	
Purchase returns		6,040
Electricity	2,230	
Discounts allowed	2,420	
Discounts received		4,270
Motor expenses	1,580	
Drawings	32,000	
Bank	24,511	
Salaries	108,000	
Insurance	15,400	
Receivables	110,140	
Irrecoverable debts	1,420	
Allowance for receivables		3,153
Payables		76,288
General expenses	6,780	
9% Loan (2012-2019)		150,000
Loan interest	12,000	
Land and buildings	340,000	
Accumulated depreciation for buildings		26,000
Equipment	22,000	
Accumulated depreciation for equipment		10,300
Motor vehicles	26,000	
Accumulated depreciation for motor vehicles		13,250
	<u>896,031</u>	<u>896,031</u>

The following information is also available.

- Only 10 months' salaries are shown in the Trial Balance. An equal amount is paid for salaries for each month of the year.

- ii) As at 30th September 2015, GH¢3,200 had been prepaid for insurance, whilst GH¢410 was owing for general expenses.
- iii) GH¢4,600 had been charged to general expenses for the owner's private holiday.
- iv) As at 30th September 2015, inventory was valued at GH¢22,500.
- v) A customer, owing GH¢5,040 has been declared bankrupt. This amount is to be written off in full.
- vi) An allowance for receivables is to be maintained at 3% of the remaining receivables.
- vii) As at 30th September 2015, the business's land was valued at GH¢100,000. Land is not depreciated.
- viii) Depreciation is to be provided as follows:
 - Buildings: 4% per annum using the straight line method.
 - Equipment: 25% per annum using the straight line method.
 - Motor vehicles: 40% per annum using the reducing balance method.
- ix) There were no additions or disposals of non-current assets during the financial year.

Required:

- a) Prepare the Income Statement for the year ended 30th September 2015. **(8 marks)**
 - b) Prepare the Statement of Financial Position as at 30th September 2015. **(6 marks)**
 - c) i) Identify the accounting concept involved in each of the footnotes/items **(i)**, **(iii)** and **(v)**. **(3 marks)**
 - ii) Explain the correct accounting treatment in each case. **(3 marks)**
- (Total: 20 marks)**

QUESTION TWO

The Sales Ledger Control Account of PC Ltd for the year ended 31st December 2014 has been prepared from the following information:

	GH¢
Debit balance b/d 1 st January 2014	128,540
Credit balance b/d 1 st January 2014	2,800
Total for the year 1 st January 2014 to 31 st December 2014	
Credit Sales	1,144,200
Cheques received from customers	1,046,200
Cash received from customers	7,100
Sales returns from customers	12,000
Discounts allowed	2,480
Dishonoured cheques	5,000
Contra purchases ledger	10,640
Irrecoverable debts	6,500

The Sales Ledger Control Account balance, which is part of the double entry system, failed to agree with the total receivables of GH¢189,380 as shown by the Schedule of Receivables. The following errors were subsequently discovered:

- i) A customer had returned goods to PC Ltd at the selling price of GH¢2,400. The goods had been bought on credit. No entries had been made to record the return of the goods in the accounts of PC Ltd.
- ii) The discounts allowed column in the cash book had been overcast by GH¢1,080.
- iii) No contra entry had been made in the receivables account in the sales ledger in respect of purchases by PC Ltd of goods at a list price of GH¢2,000. PC Ltd received a trade discount of 10% on these goods. This transaction had been correctly dealt with in the Sales Ledger Control Account.
- iv) A credit sale of GH¢3,520 to JT Ltd was correctly recorded in the Sales ledger Control Account, but no other entry had been made.
- v) A cheque received from a customer for GH¢6,900, correctly processed through the books, had subsequently been dishonored. No entries have yet been made to record this dishonored cheque.
- vi) DT Ltd, a customer, has recently been declared bankrupt and the debt of GH¢3,500 is to be written off, but no entries have yet been made.

Required:

- a) Prepare a revised Sales Ledger Control Account for the year ended 31 December 2014. **(9 marks)**
 - b) Prepare a statement showing the correct total of the Schedule of Receivables for the year ended 31 December, 2014. **(5 marks)**
 - c) Discuss **TWO** advantages to PC Ltd of using control accounts. **(6 marks)**
- (Total: 20 marks)**

QUESTION THREE

The following is a summary from the cash book of BW Ltd for July 2015:

	GH¢
Opening balance	1,530
Receipts	23,104
Payments	<u>(23,005)</u>
Closing balance	<u>1,629</u>

On investigation it was discovered that:

- i) Bank charges of GH¢15 shown on the bank statement have not been entered in the cash book.
- ii) A cheque drawn for GH¢110 to pay a supplier has been entered in the cash book as a receipt.
- iii) A cheque from a customer for GH¢120, which was banked (and included above in receipts), has been returned by the bank, but this has not been adjusted in the company's books.
- iv) An error of transposition which occurred in the opening balance of the cash book should have been recorded as GH¢1,350.
- v) Cheques totaling GH¢264 have been sent by post to suppliers but were not presented to the company's bank until August 2015.
- vi) The last page of a bank account paying-in book shows a deposit of GH¢1,040 which was not credited to the account by the bank until 1st August 2015.
- vii) The company's bank statement at 31st July 2015 shows a balance of GH¢318.

Required:

- a) Demonstrate any adjustments needed to the company's accounting records.
(8 marks)
- b) Prepare a Bank Reconciliation Statement as at 31st July 2015. (6 marks)
- c) Explain **THREE** benefits to BW Ltd of reconciling its cash book and bank statement balances. (6 marks)

(Total: 20 marks)

QUESTION FOUR

The Statements of Financial Position for the last two years for AO Ltd are shown below. AO Ltd implemented an expansion programme during the year ended 31st May 2015.

	31 st May 2014		31 st May 2015	
	GH¢	GH¢	GH¢	GH¢
<i>Non-current assets (net)</i>		380,000		530,000
<i>Current assets</i>				
Inventory	80,000		108,000	
Receivables	32,000		37,000	
Bank	13,000		-	
Cash	<u>1,000</u>		<u>3,000</u>	
		<u>126,000</u>		<u>148,000</u>
Total assets		<u>506,000</u>		<u>678,000</u>
<i>Current liabilities</i>				
Payables	26,000		30,000	
Corporation Tax	22,000		28,000	
Overdraft	-		5,000	
Dividends	18,000		21,000	
Accruals	<u>2,000</u>		<u>4,000</u>	
Total liabilities		68,000		88,000
<i>Capital and Reserves</i>				
GH¢1 Ordinary shares		350,000		490,000
General reserve		62,000		62,000
Revaluation reserve		-		28,000
Profit and loss		<u>26,000</u>		<u>10,000</u>
Total capital and liabilities		<u>506,000</u>		<u>678,000</u>

Additional information:

- i) The total depreciation provision incorporated in the statements of financial position was GH¢48,000 at 31st May 2014 and GH¢122,000 at 31st May 2015.
- ii) During the year ended 31st May 2015 a non-current asset costing GH¢22,000 with a carrying of GH¢6,000 was sold for GH¢1,000. No other disposals took place.

- iii) The revaluation surplus, represents a revaluation of premises during the year ended 31st May 2015.

Required:

- a) Prepare a Statement of Cash Flow for AO Ltd for the year ended 31st May 2015 in accordance with IAS 7. (Use the indirect method). **(12 marks)**
 b) State the effects of the expansion policy on AO Ltd. **(8 marks)**

(Total: 20 marks)

QUESTION FIVE

BB is the owner of a business supplying goods to other traders. He has just received the financial accounts for his business for the year ended 31st December 2014 from his accountant. These are reproduced below.

Income Statement for the year ended 31st December 2014

	GH¢
Sales	400,000
Cost of sales	<u>(300,000)</u>
Gross Profit	100,000
Expenses	<u>(70,000)</u>
Net Profit	<u>30,000</u>

Statement of Financial Position as at 31st December 2014

	GH¢	GH¢
Non-current Assets (net)		140,000
Current Assets		
Inventory	52,000	
Receivables	15,000	
Cash	<u>100</u>	<u>67,100</u>
Total Assets		<u>207,100</u>
Current Liabilities		
Payables	6,000	
Bank	<u>2,500</u>	8,500
Capital		
Balance b/d	200,000	
Net Profit	18,600	
Drawings	<u>(20,000)</u>	<u>198,600</u>
Total Capital and Liabilities		<u>207,100</u>

Note: Inventory on 1st January 2014 was valued at GH¢48,000.

BB has also obtained comparative information about a competitor for the year ended 31st December 2014.

Net profit margin	6%
Return on capital employed	10.50%
Current ratio	4.2:1
Liquid (acid test) ratio	0.3:1
Rate of inventory turnover	4 times

Required:

- a) Calculate for BB each of the following ratios for the year ended 31st December 2014 (where appropriate, calculations should be approximated to two decimal places):
- i) Net profit margin. **(2 marks)**
 - ii) Return on capital employed (using the closing year end value for capital employed) **(2 marks)**
 - iii) Current ratio. **(2 marks)**
 - iv) Liquid (acid test) ratio. **(2 marks)**
 - v) Rate of inventory turnover. **(2 marks)**
- b) Based on the ratios calculated in **part (a)** and all other information provided, demonstrate the performance (profitability and liquidity) of BB's business. **(10 marks)**

(Total: 20 marks)

QUESTION SIX

The ABSU Social Club prepares its accounts annually on 31st December. The Receipts and Payments Account for the year ended 31st December 2014 was prepared by the Treasurer as follows:

	GH¢		GH¢
Balance b/d	7000	Caretaker's wages	18,000
Subscriptions received		Heating and lighting	4,000
for the year: 2013	600	Insurance	1,000
2014	13,500	Bar payables	22,000
2015	1,100	Dinner dance expenses	1,000
Dinner dance ticket sales	1,800	Equipment purchases	1,200
Bar takings	55,000	Bar staff wages	16,000
Donations	2,500	Savings account	400
Sale of equipment	450	Balance c/d	18,350
	<u>81,950</u>		<u>81,950</u>

The following additional information is available:

- i) The equipment sold during the year was valued in the books at GH¢600 on 1st January 2014. The Club's policy is to provide a full year's depreciation in the year of purchase but none in the year of sale.
- ii) The savings account (short term) pays a fixed rate of interest of 5% per annum. An additional amount of GH¢400 was paid into the account on 1st July 2014. There were no withdrawals made during the year. Interest due on 31st December 2014 has not been received.
- iii) The remaining assets and liabilities of the Club at the beginning and end of the year were:

	1 st January 2014	31 st December 2014
	GH¢	GH¢
Clubhouse	230,000	230,000
Equipment	26,000	25,200
Savings account (short term)	2,000	2,400
Insurance prepaid	100	80
Bar staff wages owing	180	160
Subscriptions due and unpaid	800	300
Subscriptions paid in advance	700	1,000
Bar payables	2,400	1,400
Bar inventory	7,500	8,700

- iv) All subscriptions due for the year 2013, but unpaid on 31st December 2014 are considered to be irrecoverable debts.
- v) Bar staff wages are the only expense to be charged to the Bar Trading Account.

Required:

- a) Prepare the Bar Trading Account for the year ended 31st December 2014. **(5 marks)**
- b) Prepare the Income and Expenditure Account for the year ended 31st December 2014. **(8 marks)**
- c) Prepare Statement of Financial Position as at 31st December 2014. **(7 marks)**

(Total: 20 marks)

QUESTION SEVEN

- a) Identify any **FOUR** users of financial statements and explain their needs for accounting information. **(8 marks)**
- b) The conceptual framework of accounting recognises qualitative characteristics of financial information that is useful for decision making.

Required:

Identify and explain **FOUR** qualitative characteristics of financial information recognized by the conceptual framework. **(12 marks)**

(Total: 20 marks)

FINANCIAL ACCOUNTING MARKING SCHEME

QUESTION ONE

(a)

Asomdwee Enterprise
Income Statement for the year ended 30 September 2015

	GH¢	GH¢
Sales		421,450
Opening inventory	24,200	
Purchases	167,350	
Purchases returns	<u>(6040)</u>	
	185,510	
Closing inventory	<u>(22,500)</u>	
Cost of sales		<u>(163,010)</u>
Gross profit		258,440
Discount received		<u>4,270</u>
		<u>262,710</u>
Electricity	2,230	
Discounts allowed	2,420	
Motor expenses	1,580	
Salaries (108,000 + 21,600)	129,600	
Insurance (15,400-3,200)	12,200	
Irrecoverable debts (1,420+5,040)	6,460	
General expenses (6,780-4,600+410)	2,590	
Loan interest(9% x 150,000)	13,500	
Depreciation: Buildings (340,000-100,000)x4%	9,600	
Equipment (22,000x25%)	5,500	
Motor vehicles (26,000-13,250)x40%	<u>5,100</u>	
		<u>(190,780)</u>
Net profit		<u>71,930</u>

Statement of Financial Position as at 30 September 2015

	GH¢	GH¢
Non-Current Assets		
Land and Buildings(340,000-26,000- 9,600)		304,400
Equipment (22,000-10,300-5,500)		6,200
Motor vehicles (26,000-13,250-5,100)		7,650
		<u>318,250</u>
Current Assets		
Inventory	22,500	
Receivables (110,140-5,040-3,153)	101,947	
Prepaid insurance	3,200	
Bank	<u>24,511</u>	
		<u>152,158</u>
Total Assets		<u>470,408</u>
Capital		
Brought down	185,280	
Net profit	71,930	
Drawings (32,000+4,600)	<u>(36,600)</u>	
		220,610
Non-Current Liabilities		
9% Loan		150,000
Current Liabilities		
Payables	76,288	
Accruals: General expenses	410	
Salaries (10,800x2)	21,600	
Loan interest	<u>1,500</u>	
		<u>99,798</u>
Total Capital and Liabilities		<u>470,408</u>

(b) Item (i): Accruals/Matching concept : The matching of receipts and payments within an accounting period . Adjustments have to be made regarding early and late transactions both at the start and at the end of the accounting period . GHS21,600 of unpaid salaries has to be accrued in order to get the correct value of salaries expenses for the financial year .

Item (iii): Business Entity concept. Only the transactions of the business should be recorded in the accounts of the business. The owner's private holiday is not a business expense and must be shown as drawings which reduces the amount of capital the owner has invested in the business.

Item (v): The Prudence concept requires a business to understate, rather than overstate, profit. Writing off an irrecoverable debt is an example of this, as this will increase expenses and thus reduce net profit. This action will also reduce the value receivables and hence current assets in the statement of financial position

(3 points x 2 marks)

EXAMINER'S COMMENTS

Question 1 required candidates to prepare an Income Statement and statement of financial position from a trial balance and additional information provided. Candidates were also asked to identify the concept underlying some of the adjustments. The performance of candidates in this question was above average. Candidates could have scored very good marks in this question but a great number of them could not treat some adjustments. Adjustments for irrecoverable debts and allowance for receivable proved challenging to most candidates. Adjustment for general expenses and drawing were not done well. Calculation of depreciation for the Income Statement and Statement of Financial Position was not dealt with correctly by some candidates.

Most candidates did know the concepts and principles underlying some of the adjustment.

QUESTION TWO

(a) **Sales Ledger Control Account**

	GHS		GHS
Balance b/d	128,540	Balance b/d	2,800
Credit sales	1,144,200	Bank	1,046,200
Bank (dishonoured)		Cash	7,100
(5,000 + 6,900)	11,900	Sales returns (12,000+2,400)	14,400
		Discounts allowed (2,480-1,080)	1,400
		Irrecoverable debts	
		(6,500+3,500)	10,000
		Contra purchases ledger	10,640
		Balance c/d	192,100
	<u>1,284,640</u>		<u>1,284,640</u>

(b)	<u>Revised schedule of receivables</u>	
		GHS
	Original balance	189,380
(i)	Sales returns	(2,400)
(iii)	Contra (2,000x0.9)	(1,800)
(iv)	Sales	3,520
(v)	Dishonoured cheque	6,900
(vi)	Irrecoverable debt	(3,500)
		<u>192,100</u>

(c) Control accounts identify the ledger in which the errors have been made, and therefore make it easier for detection and correction of the errors.

Control accounts provide an independent check on the entries in the sales ledger and purchases ledger. The balance on the sales ledger control account must equal the total of the balances from the customers' account in the sales ledger, and the balance on the purchases ledger control account should equal the total on the balances from the supplier's accounts in the purchases ledger.

Division of duties helps in the prevention of fraud as the control account and the sales and purchases ledger are completed by different employees. It is usually a more senior member of staff who completes the control account.

Control accounts allow the quick calculation of receivables and payables totals. This allows them to be used to provide the data for the final accounts.

(2 points x 3 marks)

EXAMINER'S COMMENTS

Most candidates answered this question and scored good mark. The following points were not handled well. The dishonoured cheques were generally dealt with incorrectly. The sales returns from customers were treated incorrectly as the goods returned by customers for which no entries had been made was not added. Some candidates did not handle discounts allowed very well as they failed to take in account the overcast. Some candidates did not deal with the closing balances correctly. The irrecoverable debts were not treated very well by some candidates. A small number of candidates were not at all familiar with control accounts and mixed up debit and credit entries. The main issue with Part (b) of the question was the fact that most candidates did not understand the question very and were not able to answer it satisfactorily. In Part (c) most candidates were able to write the two advantages of using control accounts.

QUESTION THREE

(a) The cash book balance should be:	GHS
Opening balance	1,350
Receipts (23,104 - 110)	22,994
Payments (23,005 + 110)	(23,115)
Bank charges	(15)
Returned cheque	<u>(120)</u>
Closing balance	<u>1,094</u>

This is the figure that should appear in the company's Statement of Financial Position.

(b) Bank reconciliation statement as at 31 July 2015.

	GHS
Balance as per bank statement	318
Add: banking not yet cleared into account	<u>1,040</u>
	1,358
Less: cheques drawn but not yet presented to the bank	<u>(264)</u>
Balance as per cash book (after correction)	<u>1,094</u>

(c)

- ✓ It enables missing entries in the cash book to be accounted for, preventing errors in the financial statements. For example, the bank charges and the returned cheque.
- ✓ It enables errors in the cash book to be identified and corrected, preventing errors in the financial statements. For example the transposition error and the cheque paid to the suppliers
- ✓ It enables errors on the bank statement to be identified/investigated and notified to the bank for correction.
- ✓ It enables out-of-date cheques to be identified and cancelled in the cash book.
- ✓ It acts as a deterrent to fraud due to the bank statement being an independent accounting record prepared by the bank.

(3 points x 2 marks)

EXAMINER'S COMMENTS

The question was reasonably well answered by candidates. Most candidates were aware of the correct approach to the question. Challenges arose in the following area; Some candidates were not able to get the correct figure for a cheque drawn for GHc110 to pay a supplier which had been entered in cash book as receipt and some also debited the dishonoured cheque in the adjusted cash book.

The reconciliation statement was well presented by candidates. The benefits of reconciling the cash book and the bank statement were well presented by candidates

QUESTION FOUR

(a) Statement of cash flows for AO Ltd for the year ended 31 May 2015

	GHS
Cash flows from operating activities	
Net profit for the year (W1)	33,000
Depreciation (122,000 +16,000 -48,000)	90,000
Loss on sale	5,000
Increase in inventory	(28,000)
Increase in receivables	(5,000)
Increase in payables	4,000
Increase in accruals	<u>2,000</u>
Cash generated from operations	101,000
Dividends paid	(18,000)
Tax paid	(22,000)
Net cash flow from operating activities	<u>61,000</u>
Cash flows from investing activities	
Proceeds of sale of a non-current asset 1,000	1,000
Purchase of non-current assets (W2) (218,000)	<u>(218,000)</u>
Net cash used in investing activities	(217,000)
Cash flows from financing activities	
Issue of shares <u>140,000</u>	<u>140,000</u>
Net cash flow from financing activities	140,000
Decrease in cash and cash equivalents	(16,000)
Cash and cash equivalents at start of year	<u>14,000</u>
Cash and cash equivalents at end of year	<u>(2,000)</u>

(W1) Net profit for the year	GHS
Net profit before tax	33,000
Taxation	<u>28,000</u>
	5,000
Profit and loss b/f	<u>26,000</u>
	31,000
Dividends	<u>21,000</u>
Profit and loss c/f	<u><u>10,000</u></u>

(W2) Purchase of non-current assets	GHS
Non-current assets c/f (530,000+122,000)	652,000
Cost of non-current asset disposed of	22,000
Non-current assets b/f (380,000+48,000)	(428,000)
Revaluation of premises	<u>(28,000)</u>
Purchase of non-current assets	<u><u>218,000</u></u>

(b)

- ✓ The liquidity position has fallen as evidenced by the decrease in cash. The current ratio has fallen from 1.85:1 to 1.68:1.
- ✓ The acid test for both years is below 1:1 which could indicate that the company may have a problem in paying short-term debts.
- ✓ The company has large amounts of cash invested in inventory and the inventory holding has increased by GHS28,000. Inventory is not a liquid asset and it will take time to convert into cash
- ✓ Investment in non-current assets has increased and the total cost of the investment in non-current assets was GHS218, 000. The increased investment may increase future profits and increase the return on capital employed and returns for the shareholders.
- ✓ The company has taken a risk with a large investment and if income does not increase, then it may make a lower return for shareholders.
- ✓ The equity share capital has increased due to the issue of shares of GHS140,000. More shares are available for purchase on the stock market. Although this increases equity, the control factor could change because of the increase in the number of votes by ordinary shareholders.

EXAMINER'S COMMENTS

This question was very poorly answered by few candidates who attempted. In fact the question was above the standard for the level and candidates struggled to achieve a pass mark on this question.

In Part (b) the question asked the candidates to state the effects of the expansion policy of the company. Candidates did not know what an expansion policy. Most of the candidates who attempted this question did not achieve a pass mark.

QUESTION FIVE

(a) net profit as a percentage of sales	= 4.65%
return on capital employed	= 15.11%
current ratio	= 7.89:1
liquid (acid test) ratio	= 1.78:1
rate of inventory turnover	= 6 times

(b) The net profit as a percentage of sales is lower than the competitor, this may be because the cost of the goods is higher for BB, or he is not marking his purchases up as much as his competitor. It could also be caused by his expenses being higher than his competitor. BB's ROCE is better than his competitor at 15.11% compared to 10.50%, this means that he is making more profit per cedi on investment in the company.

The current ratio of 7.89:1 is extremely high, the current ratio of his competitor is also on the high side as the generally accepted ratio should be around 2:1, in BB's case this is probably caused by high inventory holding. The acid test ratio at 1.78:1 is also a little high as here the generally accepted ratio is 1:1, however the ratio of his competitor of 0.3:1 is very low and may not be making the best use of resources.

BB's inventory-turnover is higher than his competitor which means that he is selling it more frequently than his competitor. This is a better performance than that of his competitor, since he is selling his inventory more frequently than them. This means that he makes a profit on every item he sells this contributes to the profitability to a greater extent than his competitor.

Although BB's net profit ratio is lower than that of his competitor his other ratios are all better, and his liquidity position is healthier than that of his competitor, in fact his competitor does look to have very poor liquidity which may lead to serious cash flow problems.

EXAMINER'S COMMENTS

The performance in this question was above average. Many candidates who attempted this question were able to compute the ratios and compared with the competitor. However some of candidates were quoting wrong formula for return on capital employed and inventory turnover. Some did not know the figures to pick out for the calculation

QUESTION SIX

(a) ABSU Social Club

Bar Trading Account for the year ended 31 December 2014

	GHS	GHS
Bar sales		55,000
Opening inventory	7,500	
Purchases (W1)	<u>21,000</u>	
	28,500	
Closing inventory	<u>(8,700)</u>	
Cost of sales		19,800
Gross Profit		35,200
Bar staff wages	15,980	
		<u>15,980</u>
Net Profit		<u>19,220</u>

(b) Income and Expenditure Account for the year ended 31 December 2014

<u>Income</u>	GHS	GHS
Profit from Bar		19,220
Subscriptions (W2)		14,600
Profit from Dinner Dance (1,800-1,000)		800
Donations		2,500
Savings interest (5% x 2,000 + 5% x 400x1/2)		<u>110</u>
		37,230
<u>Expenses</u>		
Caretakers wages	18,000	
Heating and lighting	4,000	
Insurance (W3)	1,020	

Irrecoverable debts (800-600)	200	
Loss on sale of equipment (600-450)	150	
Depreciation equipment (W4)	<u>1,400</u>	
		24,770
Surplus of income over expenditure		<u><u>12,460</u></u>

Statement of Financial Position as at 31 December 2014

Non-current Assets	GHS	GHS
Clubhouse		230,000
Equipment		<u>25,200</u>
		255,200
 Current Assets		
Inventory	8,700	
Subscriptions owing	300	
Savings account	2,400	
Insurance prepaid	80	
Savings account interest	110	
Bank	<u>18,350</u>	
		<u>29,940</u>
Total Assets		<u><u>285,140</u></u>
 Current Liabilities		
Payables	1,400	
Subscriptions in advance	1,000	
Bar wages owing	<u>160</u>	
		2,560
 Accumulated Fund		
Balance b/d (W5)	270,120	
Surplus of Income over Expend.	<u>12,460</u>	
		<u>282,580</u>
Total Accumulated Fund and Liabilities		<u><u>285,140</u></u>

(W1) Purchases

Purchases Control Account			
	GHS		GHS
Bank	22,000	Balance b/d	2,400
Balance c/d	<u>1,400</u>	Purchases	21,000
	<u><u>23,400</u></u>		<u><u>23,400</u></u>

(W2) Subscriptions**Subscriptions Account**

GHS		GHS	
Balance b/d	800	Balance b/d	700
Income and expenditure	14,600	Bank	15,200
Balance c/d	1,000	Irrecoverable debt	200
		Balance c/d	300
	<u>16,400</u>		<u>16,400</u>

(W3) Insurance**Insurance Account**

GHS		GHS	
Balance b/d	100	Income and Expenditure	1,020
Bank	1,000	Balance c/d	80
	<u>1,100</u>		<u>1,100</u>

(W4) Depreciation-equipment

	GHS
Equipment at 1 January 2014 (net)	26,000
Equipment purchases	1,200
Value of equipment sold	(600)
Equipment at 31 January 2014 (net)	<u>(25,200)</u>
Depreciation	<u>1,400</u>

(W5) Accumulated Fund**Statement of Affairs as at 31 December 2013**

	GH¢	GH¢	GH¢
Non-Current Assets			
Clubhouse			230,000
Equipment			26,000
			<u>256,000</u>
Current Assets			
Bar inventory		7,500	
Savings account		2,000	
Insurance prepaid		100	
Subscriptions owing		800	
Cash at bank		7,000	
		<u>17,400</u>	

Less Current liabilities

Bar Payables	2,400	
Staff wages owing	180	
Subscriptions in advance	<u>700</u>	
		(3,280)
Net current assets		<u>14,120</u>
		<u><u>270,120</u></u>
Financed by:		
Accumulated fund (difference)		<u><u>270,120</u></u>

EXAMINER'S COMMENTS

Most candidates got passed mark in this question. A lot of candidates did not calculate bar purchases correctly and did not adjust bar wages in respect of the opening and closing accruals. The majority of candidates did not treat subscriptions correctly, mixing up the adjustment for opening and closing subscriptions paid in advance and subscriptions due. Some candidates could not calculate the depreciation figure and the correct insurance figure. A significant number of candidates went on to complete a closing accumulated fund for the question, which was not asked and therefore wasted time.

QUESTION SEVEN**a)**

- a) **Investors** are those who provide risk capital i.e. mainly shareholders. They are concerned with the risk inherent in and the return provided by the business. They need information to help them determine whether they should buy, hold or sell their holdings. They also need information to assess the ability of the business to pay dividends.
- b) **Employees** of the business and their representative groups are interested in information about the stability and profitability of their employer. They need to assess the likelihood of future employment and increase or decrease in remuneration packages. They will also be interested in retirement benefits and employment opportunities/advancement.
- c) **Lenders.** These consist of debenture holders, banks, lessors, other financial institutions, other businesses etc. They are interested in information that enables

them to determine whether their loans, and the interest attached to them, will be paid when due.

- d) **Suppliers and other trade payables.** 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.
- e) **Customers or trade receivables.** Customers have an interest 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 to them they will wish to know that that supply will continue into the future.
- f) **Governments and their agencies.** Governments are interested in the allocation of resources within a country and of course the collection of revenues such as taxes from individual businesses. They will require information on the activities of the business to regulate them, determine taxation policies and assess the basis for national income and similar statistics.
- g) **The general public.** The most interested 'public' are generally those that live in close proximity to the business. They will wish to know if the business makes a contribution to the local economy and what effect it has on the local environment, for example in terms of pollution. They will wish to know the number of people the business employs from the locality, their patronage of local suppliers and the possible effect on the locality if the business ceases to operate.

(b)

The IASB states that there are four principal characteristics- understandability, relevance, reliability/faithful representation and comparability.

(a) Understandability: Information provided to users must not be so complex that a user with a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence, would not be able to understand it. There is a fine balancing act needed here by those preparing financial statements to ensure that all information relevant to users is given to them even though it may be complex.

(b) Relevance: To be useful, information must be relevant to the decision-making needs of users. Relevance is closely related to its predictive role- that is the extent to which the information helps users to predict the organisation's future and so make decisions about

it. For example, the attempt by a potential investor to predict future profitability and dividend levels will be at least partly based on the financial statements. A sub characteristic to relevance is materiality- information is material and therefore relevant if its omission or misstatement could influence the economic decisions of users. Materiality depends of the size of the item or error judged in the particular circumstances.

(c) Reliability/Faithful representation: Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. There is quite often a conflict between relevant and reliable information. Information may be relevant, but so unreliable in nature or representation that its recognition may be potentially misleading. For example, if the validity and amount of a claim for damages under a legal action are disputed, it may be inappropriate for the business to recognise the full amount of the claim in the statement of financial position as this would provide unreliable information. However, to ensure relevance, it would be appropriate to disclose the amount and circumstances of the claim in a note to the accounts.

(d) Comparability: Users need to be able to compare financial statements of a business through time in order to identify trends in its financial position and performance. Users also need to be able to compare one business with another and, therefore, the measurement and display of the financial effect of transactions and other events must be carried out in a consistent way for different entities. Thus, we have the need for accounting standards from this characteristic.

EXAMINER'S COMMENTS

About 90% of the candidates attempted this question and the performance of candidates was very good. However a few candidates could not properly explain their facts to earn higher marks but kept going round the issues. They probably took an overly simplistic view of the question. Some candidates mixed up the characteristics of good accounting information with accounting concepts and principles.

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.