

**AUGUST 2022 PROFESSIONAL EXAMINATION  
FINANCIAL ACCOUNTING (PAPER 1.1)  
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME**

**EXAMINERS'S GENERAL COMMENTS**

The objective of the paper was to test the basic/fundamental understanding of candidates' knowledge of the paper. While few candidates exhibited high levels of competence, majority showed poor knowledge of the fundamentals of the paper.

**STANDARD OF THE PAPER**

The standard of the question paper was good and similar to the previously administered ones. Candidates were required to answer all the five (5) questions set. The mark allocations adhered to the weight stated in the syllabus and marks were allocated to all sub-questions. 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 mixed. While some had good marks, others had low marks. This sitting (August 2022) recorded a pass rate of 35.2% compared to the 35% achieved at the April 2022 sitting resulting in a slight increase of 0.2% in performance. High performers were spread across some centres and so were low performers. Some candidates exhibited a high sense of preparedness while others were not well prepared and therefore performed poorly.

**NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES**

The strength of most candidates was demonstrated in questions 3 and 5. The most prevalent reasons for low marks remains as in previous sittings, i.e. studying only a few selected topics, not reading the questions carefully enough, or a lack of structure in the approach to answering questions. There were cases of improper labeling of answers and presentation of answers by some candidates. The overall standard of some answers was disappointing especially questions 1 b), c), 2 and 4 a). Some candidates showed poor understanding of bookkeeping across several questions. Few candidates did not attempt the required number of questions, thus making the achievement of an overall pass mark a challenge.

The other areas of weakness around presentation were as follows:

- Poor and untidy handwriting
- Use of pencil instead of blue or black pen
- No workings presented for some questions
- Some candidates making calculation errors within workings and thus presenting an incorrect figure in the solution.
- Some candidates either did not number their answers or misnumbered them.

Others did not list the correct order in which questions were answered as required, on the cover page.

- A few candidates presented two solutions for a particular question without cancelling one.

## QUESTION ONE

- a) *IASB Conceptual Framework* underpins what IFRS say and why they identify a particular accounting treatment. Another important aspect of the conceptual framework is an attempt to define “high quality” information or in other words, what makes financial information useful.

**Required:**

Explain in accordance with the IASB’s Conceptual Framework the enhancing qualitative characteristics of useful financial accounting information. **(10 marks)**

- b) On 1 January 2021, Koo Nimo, a trader, had the following entries in his ledger.

	<b>GH¢</b>
Commission received (owing)	900
Stationery (owing)	400
Rates (prepaid)	600

The following information relates to the financial year ended 31 December 2021. All transactions were by cheque.

- i) Commission received was as follows:

	<b>GH¢</b>
14 January	850
16 November	3,200

On 31 December 2021 GH¢800 was still owing in commission to Koo Nimo for the 2021 financial year.

- ii) Stationery was paid as follows:

	<b>GH¢</b>
19 January	800
13 November	4,200

On 1 January 2021 there was no stock of stationery, while at 31 December 2021 stock of stationery was GH¢200. There were no outstanding invoices for stationery at 31 December 2021.

- iii) Rates were paid as follows:

	<b>GH¢</b>
9 April	2,600
24 November	2,800

A refund for rates of GH¢800 was received on 15 December 2021. At 31 December 2021 rates were overpaid by GH¢250.

**Required:**

Prepare the *commission received, stationery and rates* ledger accounts, including in each case the transfer to the Statement of Profit and Loss, for the year ended 31 December 2021, and the balance carried down to the next financial year. **(6 marks)**

- c) Explain **TWO (2)** reasons why a business entity will make adjustments for accruals and prepayments in the final accounts. **(4 marks)**

**(Total: 20 marks)**

**QUESTION TWO**

- a) The following Statement of Financial Position extract has been taken from the accounts of Yamfo Ltd as at 31 December 2020.

**Non-current Assets**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
	<b>GH¢</b>	<b>GH¢</b>	<b>GH¢</b>
Office Equipment	172,800	92,100	80,700

During the year ended 31 December 2021 the following transactions took place in relation to Office Equipment.

**Disposals:**

	<b>Disposal Date</b>	<b>Purchase Date</b>	<b>Original Cost</b>	<b>Disposal Proceeds</b>
			<b>GH¢</b>	<b>GH¢</b>
Equipment 1	31 March 2021	1 January 2018	22,000	4,000
Equipment 2	30 June 2021	1 January 2017	30,000	5,100

**Additions:**

	<b>Date</b>	<b>Cost</b>
		<b>GH¢</b>
Equipment 3	1 October 2021	35,000

Depreciation for Office Equipment is charged using the straight line method based on a five-year life and estimated residual value of 10% of original cost. Depreciation is applied from the date the Office Equipment was bought until it was sold. All transactions were by cheque.

**Required:**

Prepare the following ledger accounts for the year ended 31 December 2021.

- i) Office Equipment **(2 marks)**  
ii) Disposal of Office Equipment **(4 marks)**

b) The following balances are in the books of a partnership as at 31 December 2021:

		<b>GH¢</b>
Capital accounts	Badu, as at 1 January 2021	500,000
	Tawiah, introduced 1 July 2021	300,000
Drawings	Badu	220,000
	Tawiah	100,000

**Additional information:**

- 1) Until 30 June 2021, Badu had run the business as a sole trader. Tawiah joined him on 1 July 2021 introducing capital of GH¢300,000.
- 2) Under the partnership agreement, the balance of profit is to be shared between Badu and Tawiah in the ratio 3:2. No interest is to be charged on drawings. Both partners are to receive interest on their capital account balances at 5% per annum. Tawiah is to receive a salary of GH¢40,000 per annum but no salary is to be paid to Badu.
- 3) The profit for the year ended 31 December 2021 was GH¢330,000. It was agreed that this profit had accrued one-third in the six months ended 30 June 2021 and two thirds in the six months ended 31 December 2021, except for an irrecoverable debt of GH¢30,000 charged in arriving at the profit which was to be regarded as occurring in the six months ended 30 June 2021.

**Required:**

- i) Calculate the amount of profit due to Badu for the six months to 30 June 2021. **(2 marks)**
- ii) Prepare the Appropriation Account for Badu and Tawiah for the six months ended 31 December 2021. **(6 marks)**
- iii) Prepare the Current Accounts for Badu and Tawiah for the year ended 31 December 2021. **(6 marks)**

**(Total: 20 marks)**

### QUESTION THREE

The following list of balances was extracted from the books of Awatey at 30 April 2021.

	<b>GH¢</b>
Sales	134,200
Purchases	62,300
Inventory at 1 May 2020	4,700
Discounts received	390
Discounts allowed	240
Salaries and wages	12,700
Rent and rates	8,100
Motor vehicle expenses	7,500
Machinery repairs	14,200
General expenses	2,600
Machinery at cost	45,000
Machinery accumulated depreciation at 1 May 2020	8,000
Motor vehicles at cost	30,000
Motor vehicles accumulated depreciation at 1 May 2020	6,000
Bank	4,400
Trade receivables	4,600
Trade payables	2,200
Drawings	7,400
Capital at 1 May 2020	52,950

After the extraction of the above balances, the following errors and omissions were discovered:

- i) A sale on credit to Ali Baba of GH¢800 had been entered in the Sales Journal as GH¢80 and had also been posted to the Sales Ledger at the same amount.
- ii) A new Motor Vehicle costing GH¢15,000 bought during the year had been debited to the Purchases Account.
- iii) Purchase of goods on credit from Agyemang Duah, amounting to GH¢600, had been omitted from the books.
- iv) A cheque for GH¢435 paid for Motor Vehicle expenses was recorded in the Cash Book and the Motor Vehicle Expenses Account as GH¢475.
- v) Sales of goods on credit to Nii Ayi, amounting to GH¢1,000, had been omitted from the books.
- vi) A cheque for GH¢689 paid for general expenses was recorded in the Cash Book and the General Expenses Account as GH¢698.
- vii) The purchase of machinery for GH¢8,500 had been debited to Machinery Repairs Account.

**Required:**

- a) Prepare journal entries *with appropriate narratives* to correct each of the errors and omissions. **(8 marks)**
- b) Prepare the Trial Balance of Awatey as at 30 April 2021 after adjusting for the errors and omissions. **(8 marks)**
- c) Explain **TWO (2)** types of errors which would not affect the balancing of a trial balance. **(4 marks)**

**(Total: 20 marks)**

## QUESTION FOUR

a) The following information relates to the activities of Chemu Ltd:

### Statement of Financial Position as at 31 December

	2021	2020
	GH¢000	GH¢000
<b>Assets</b>		
Non-current assets	1,295	810
<b>Current assets</b>		
Inventory	1,500	500
Receivables	2,680	890
Bank	-	740
<b>Total assets</b>	<b><u>5,475</u></b>	<b><u>2,940</u></b>
<b>Equity and liabilities</b>		
Share capital	600	400
Retained earnings	<u>1,625</u>	<u>600</u>
Total equity	<b><u>2,225</u></b>	<b><u>1,000</u></b>
<b>Non-current liabilities</b>		
10% Debentures	160	360
<b>Current liabilities</b>		
Bank overdraft	1,810	-
Payables	1,000	680
Taxation	<u>280</u>	<u>900</u>
<b>Total liabilities</b>	<b><u>3,250</u></b>	<b><u>1,940</u></b>
<b>Total equity and liabilities</b>	<b><u>5,475</u></b>	<b><u>2,940</u></b>

### Additional information:

i) The statement of profit or loss for the year ended 31 December 2021 shows the following:

	GH¢000
Operating profit	1,531
Interest payable	<u>(26)</u>
Profit before taxation	1,505
Taxation	<u>(480)</u>
	<b><u>1,025</u></b>

- ii) Payables consists of trade payables and accrued interest. The accrued interest as at 31 December 2021 was GH¢45,000 and 2020 was GH¢80,000.
- iii) Profit before taxation had been arrived at after charging GH¢395,000 for depreciation on non-current assets.
- iv) During the year non-current assets with a carrying amount of GH¢200,000 were sold for GH¢190,000.

**Required:**

Prepare a Statement of Cash Flows for Chemu Ltd for the year ended 31 December 2021, in accordance with *IAS 7: Statement of cash flows*. **(16 marks)**

- b) Identify **FOUR (4)** benefits Chemu Ltd may derive from preparing Statement of Cash Flows. **(4 marks)**

**(Total: 20 marks)**

**QUESTION FIVE**

- a) Garu and Gushegu are two businesses that compete in the same market and have been trading for a number of years.

The following information relates to their results for the year ended 31 December 2021.

	<b>Garu</b> <b>GH¢000</b>	<b>Gushegu</b> <b>GH¢000</b>
Sales	4,455	5,264
Cost of sales	2,549	2,632
Net profit	1,075	1,137
Inventory at 1 January	820	518
Inventory at 31 December	1,040	498
Capital employed	2,428	1,953
Receivables	1,200	1,324
Bank	75	980
Payables	750	720

There are no other current assets or current liabilities.

**Required:**

Calculate the following ratios for each of the two businesses:

- i) Return on capital employed (ROCE) **(2 mark)**
  - ii) Gross Profit Margin **(2 mark)**
  - iii) Current Ratio **(2 mark)**
  - iv) Liquid (Acid Test) Ratio **(2 mark)**
  - v) Inventory Turnover **(2 mark)**
- b) Using the ratios calculated, discuss which of the two businesses appears to be performing better. **(10 marks)**

**(Total: 20 marks)**



## SUGGESTED SOLUTION

### QUESTION ONE

- a) The IASB's Conceptual Framework states that there are four enhancing qualitative characteristics- comparability, verifiability, timeliness and understandability.

**Comparability:** Comparability is the qualitative characteristic that enables users to identify and understand similarities, and differences among, items. Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability should not be confused with consistency. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. Applying consistency helps in achieving the goal of comparability.

**Verifiability:** Verifiability helps to assure users that information is a faithful representation of the transactions or events it purports to represent. If information is verifiable it essentially means that it can be proven, for example it can be checked if it is true by examination, inspection or comparison. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

**Timeliness:** Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. As a general rule older information is less useful than recent information. Some information, however, may still be timely for a long time after the end of a reporting period. This is true of information for users of financial information who need to identify and assess trends.

**Understandability:** Information is understandable if it is classified, characterised and presented clearly and concisely. In considering whether information is understandable, it should be borne in mind that financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who are willing to review and analyse the information diligently.

**(4 points @ 2.5 marks each = 10 marks)**

b)

i)

**Commission Received Account**

Date	Details	Amount GH¢	Date	Details	Amount GH¢
1 January	Bal b/d	900	14 January	Bank	850
31 December	Profit & Loss	3,950	16 November	Bank	3,200
			31 December	Bal c/d	800
		<b>4,850</b>			<b>4,850</b>

ii)

**Stationery Account**

Date	Details	Amount GH¢	Date	Details	Amount GH¢
19 January	Bank	800	14 January	Bal b/d	400
13 November	Bank	4,200	16 November	Profit & Loss	4,400
			31 December	Bal c/d	200
		<b>5,000</b>			<b>5,000</b>

iii)

**Rates Account**

Date	Details	Amount GH¢	Date	Details	Amount GH¢
1 January	Bal b/d	600	14 January	Bal b/d	800
9 April	Bank	2,600	16 November	Profit & Loss	4,950
24 November	Bank	2,800	31 December	Bal c/d	250
		<b>6,000</b>			<b>6,000</b>

**(2 marks each = 6 marks)**

- c) The accruals concept states that a business must match expenses and revenues to the time period in which those expenses or revenues were incurred. Failure to add accruals and subtract prepayments in the Statement of Profit and Loss would generate an inaccurate figure for net profit.

Recording prepaid expenses (and/or accrued revenues) as current assets and accrued expenses (and/or prepaid revenues) as current liabilities generates a fair valuation of the business in the Balance Sheet.

**(1 for reason, plus one for explanation) x 2 = 4 marks**

**(Total: 20 marks)**

**EXAMINER'S COMMENTS**

In Question 1 a), candidates were to explain the *enhancing* qualitative characteristics of useful financial accounting information. Most candidates did not answer the question

well. They rather explained the *fundamental* qualitative characteristics of accounting information, such as relevance, faithful representation and so on.

Candidates had a lot of challenges and difficulties in answering question 1 b). They were asked to prepare ledger accounts and subsequently adjust the accounts for accruals and prepayments in respect of expenses and income. Most candidates failed to enter the details or narrations required for the accounts involved. They also failed to balance off these accounts resulting in them losing valuable marks.

With respect to question 1 c), most candidates failed to explain the reasons for adjusting accounts for accruals and prepayments.

**QUESTION TWO**

a)

i)

**Office Equipment**

Date	Details	Amount GH¢	Date	Details	Amount GH¢
1 January	Bal b/d	172,800	31 March	Disposal	22,000
1 October	Bank	35,000	30 June	Disposal	30,000
			31 December	Bal c/d	155,800
		207,800			207,800

**(2 marks)**

ii)

**Disposal of Office Equipment**

Date	Details	Amount GH¢	Date	Details	Amount GH¢
31 March	Office equipment	22,000	31 March	Bank	4,000
30 June	Office equipment	30,000	30 June	Bank	5,100
			31 December	Depreciation	12,870
			31 December	Depreciation	24,300
			31 December	Profit & Loss	5,730
		52,000			52,000

**(2 marks)**

**ALTERNATIVELY:**

**Disposal of Office Equipment 1 Account**

Date	Details	Amount GH¢	Date	Details	Amount GH¢
31 March	Office equipment	22,000	31 March	Bank	4,000
			31 December	Depreciation	12,870
			31 December	Profit & Loss	5,130
		22,000			22,000

**Disposal of Office Equipment 2 Account**

Date	Details	Amount GH¢	Date	Details	Amount GH¢
30 June	Office equipment	30,000	30 June	Bank	5,100
			31 December	Depreciation	24,300
			31 December	Profit & Loss	600
		30,000			30,000

**Depreciation workings:**

Disposal:

First disposal:  $(22,000 \times 0.9 \times 0.2 \times 3) + (22,000 \times 0.9 \times 0.2 \times 3/12) = 12,870$

Second disposal:  $(30,000 \times 0.9 \times 0.2 \times 4) + (30,000 \times 0.9 \times 0.2 \times 6/12) = 24,300$

b)

i) Profit due to Badu - Six months to 30 June 2021

	<b>GH¢</b>	
Profit accrual $(\frac{1}{3} \times (330,000 + 30,000) - 30,000)$	90,000	
		<b>(2 marks)</b>

ii) Appropriation account - Six months to 31 December 2021

	<b>GH¢</b>	<b>GH¢</b>
Profit accrual $(\frac{2}{3} \times (330,000 + 30,000))$		240,000
Interest on capital - Badu $(5\% \times 500,000 \times \frac{1}{2})$	12,500	
- Tawiah $(5\% \times 300,000 \times \frac{1}{2})$	<u>7,500</u>	
		(20,000)
Salary - Tawiah $(40,000 \times \frac{1}{2})$		<u>(20,000)</u>
		<b><u>200,000</u></b>
Balance of profit - Badu (3/5)	120,000	
- Tawiah (2/5)	<u>80,000</u>	
		<b><u>200,000</u></b>

(Marks are evenly spread using ticks = 6 marks)

iii)

**Current Account**

	<b>Badu</b>	<b>Tawiah</b>		<b>Badu</b>	<b>Tawiah</b>
	<b>GH¢</b>	<b>GH¢</b>		<b>GH¢</b>	<b>GH¢</b>
Drawings	220,000	100,000	Profit to 30.6.21	90,000	-
			Profit to 31.12.21		
		207,800	Interest	12,500	7,500
			Salary	-	20,000
			Balance of profit	120,000	80,000
Bal c/d	2,500	7,500			
	222,500	107,500		222,500	107,500

(marks evenly spread using ticks = 6 marks)

**(Total: 20 marks)**

## **EXAMINER'S COMMENTS**

In question 2 a) (i&ii), candidates were asked to prepare/make entries into Office Equipment and Disposal of Office Equipment Ledger Accounts. These were done fairly well. Most candidates however failed to accurately compute the accumulated depreciation amounts involved in respect of the Disposal Account.

In the case of question 2 b), about 90% of the candidates did not answer the question well. They did not know how to adjust the Net Profit for the irrecoverable debt and subsequently calculate the correct amount due to Badu. Also, the Appropriation Account was poorly done because candidates could not determine the correct date or time period. This affected the calculation of the Net Profit for the Partnership.

Sub-question 2 b) iii) which required candidates to prepare the Current Account, was poorly answered. Candidates could not compute most of the figures (especially, interest on capital and salary for Badu) correctly.

### QUESTION THREE

a) Journal entries

		Dr	Cr
		GH¢	GH¢
i)	A Baba	720	
	Sales		720
	Being the correction of posting the wrong amount of a credit sale to the sales ledger.		
ii)	Motor vehicle	15,000	
	Purchases		15,000
	Being the correction of a purchase of a motor vehicle wrongly debited to the purchases account.		
iii)	Purchases	600	
	A Duah		600
	Being the correction of error of omission.		
iv)	Bank	40	
	Motor vehicle expenses		40
	Being the correction of a cheque of GH¢435 paid recorded as GH¢475		
v)	N Ayi	1,000	
	Sales		1,000
	Being the correction of error of omission.		
vi)	Cash Book/Bank	9	
	General expenses		9
	Being the correction of transposition error.		
vii)	Machinery	8,500	

	Machinery repairs		8,500
	Being the purchase of machinery wrongly debited to machinery repairs account.		

(Marks are evenly spread using ticks = 8 marks)

b)

**Awatey  
Trial Balance at 30 April 2021**

	Dr GH¢	Cr GH¢
Sales (134,200 + 720 + 1,000)		135,920
Purchases (62,300 - 15,000 + 600)	47,900	
Inventory at 1 May 2020	4,700	
Discounts received		390
Discounts allowed	240	
Salaries and wages	12,700	
Rent and rates	8,100	
Motor vehicle expenses (7,500 - 40)	7,460	
Machinery repairs (14,200 - 8,500)	5,700	
General expenses (2,600 - 9)	2,591	
Machinery at cost (45,000 + 8,500)	53,500	
Machinery accumulated depreciation at 1 May 2020		8,000
Motor vehicles at cost (30,000 + 15,000)	45,000	
Motor vehicles accumulated depreciation at 1 May 2020		6,000
Bank (4,400 + 40 + 9)	4,449	
Trade receivables (4,600 + 720 + 1,000)	6,320	
Trade payables (2,200 + 600)		2,800
Drawings	7,400	
Capital		80,950
	<u>220,060</u>	<u>220,060</u>

(Marks are evenly spread using ticks = 8 marks)

c) Types of errors

**Omission:** A transaction has been completely omitted from the accounts, either a debit or a credit entry has been made.

**Commission:** A transaction has been posted using the correct figure but to the wrong account

**Principle:** The correct figure has been used but the transaction has been posted to the wrong class of account.



**Complete reversal:** The transaction has been posted at the correct value, but the debit has been posted as a credit and vice versa.

**Error of original entry:** The transaction has been incorrectly entered in the book of original entry. This generates an identical incorrect posting of the entry in the ledger accounts with both the debit and credit sides equally affected.

**Compensating:** Errors totaling the same amount on the debit side are cancelled out by errors on the credit side of the accounts.

**(Any 2 points @ 2 marks each = 4 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

Candidates were asked to use the Journal to correct the various errors and subsequently adjust the trial balance. Although it was the most well-attempted question, a few candidates exhibited poor understanding of the basic double entry principles. The trial balance was also poorly dealt with by these candidates.

For question 3 c), candidates were required to explain two types of errors which would not affect the balancing of the Trial Balance. Most candidates answered the question well. Only few failed to answer it satisfactorily.

In all, this question was well-answered by majority of the candidates resulting in some of them scoring the full marks.

## QUESTION FOUR

### a) Chemu Ltd

#### Statement of cash flows for the year ended 31 December 2021

	GH¢'000	GH¢'000
<i>Cash flows from operating activities</i>		
Profit before interest and tax		1,531
Adjustments for:		
Depreciation	395	
Loss on sale of tangible non-current asset (200 - 190)	10	
Increase in inventory (1,500 - 500)		(1,000)
Increase in trade receivables (2,680 - 890)		(1,790)
Increase in trade payables (955 - 600)	355	
Cash used in operations	(499)	
Interest paid (W1)	(61)	
Tax paid (W2)	(1,100)	
<b>Net cash flow from operating activities</b>		<b>(1,660)</b>
<i>Cash flow from investing activities</i>		
Purchase of non-current assets (W3)	(1,080)	
Proceeds from sale of tangible non-current asset		190
<b>Net cash used in investing activities</b>		<b>(890)</b>
<i>Cash flows from financing activities</i>		
Proceeds from issuing shares (600 - 400)	200	
Repayment of debentures	(200)	
<b>Net cash used in financing activities</b>		<b>0</b>
Net increase in cash and cash equivalents		(2,550)
Cash and cash equivalents at the beginning of the period		<u>740</u>
<b>Cash and cash equivalents at the end of the period</b>		<b><u>(1,810)</u></b>

#### Workings:

1.

		Interest		
		GH¢'000		GH¢'000
Interest paid (bal. figure)	61		Bal / d	80
Bal c/d	45		Profit & Loss	26
	<u>106</u>			<u>106</u>

2.

		Tax	
	GH¢'000		GH¢'000
Tax paid (bal. figure)	1,100	Bal b/d	900
Bal c/d	<u>280</u>	Profit & Loss	<u>480</u>
	<u><u>1,380</u></u>		<u><u>1,380</u></u>

3.

		Non-current assets	
	GH¢'000		GH¢'000
Bal b/d	810	Disposal	200
Purchases	<u>1,080</u>	Depreciation	395
	<u><u>1,890</u></u>	Bal c/d	<u>1,295</u>
			<u><u>1,890</u></u>

**(Marks are evenly spread using ticks = 8 marks)**

- b) Benefits of preparing Statement of cash flows
- Verifying Profitability and Liquidity Positions.
  - Verifying Capital Cash Balance.
  - Cash Management.
  - Planning and Coordination.
  - Superiority over Accrual Basis of Accounting.

**(Any 4 points @ 1 mark each = 4 marks)**

**(Total: 20 marks)**

### EXAMINER'S COMMENTS

In question 4 a), candidates were asked to prepare a Statement of Cash Flows, in accordance with IAS 7. It was clear that majority of candidates had not prepared for the question. Most candidates scored less than ten (10) marks. This might be due to the fact that it was not a popular question.

Candidates were required in question 4 b) to identify four (4) benefits that may be derived from preparing Statement of Cash Flows. Candidates' performance was fairly good. Only a few candidates answered the question poorly.

**QUESTION FIVE**

a)	<u>Garu</u>	<u>Gushegu</u>
i) ROCE:		
$\frac{\text{Net profit}}{\text{Capital employed}} \times 100$	$\frac{1,075}{2,428} \times 100 = 44.28\%$	$\frac{1,137}{1,953} \times 100 = 58.22\%$
		<b>(2 marks)</b>
ii) Gross profit margin:		
$\frac{\text{Gross profit}}{\text{sales}} \times 100$	$\frac{1,906}{4,455} \times 100 = 42.78\%$	$\frac{2,632}{5,264} \times 100 = 50\%$
		<b>(2 marks)</b>
iii) Current ratio:		
$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{2,315}{750} = 3.09:1$	$\frac{2,802}{720} = 3.89:1$
		<b>(2 marks)</b>
iv) Liquid ratio:		
$\frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$	$\frac{1,275}{750} = 1.7:1$	$\frac{2,304}{720} = 3.2:1$
		<b>(2 marks)</b>
v) Inventory turnover:		
$\frac{\text{Cost of sales}}{\text{(Average) Inventory held}}$	$\frac{2,549}{930} = 2.74 \text{ times}$	$\frac{2,632}{508} = 5.18 \text{ times}$
		<b>(2 marks)</b>

- b) Both businesses have high rates of return on capital employed. Gushegu has a higher rate of return on capital employed due to lower capital employed relative to net profit. Gushegu is therefore making more efficient use of capital.

Garu has higher net profit margin whereas Gushegu has a higher gross profit margin. Gushegu appears to have better control over stock costs while Garu appears to have better control over expenses.

Both businesses have current ratios above the generally accepted minimum level (2:1) but Gushegu's is better. Neither business seems to be carrying excess working capital.

Both businesses have liquid (acid test) ratios above the generally accepted minimum level (1:1) but Gushegu's is better. Gushegu has better access to cash readily available to meet obligations to make payments.

Gushegu has a higher inventory turnover than Garu. If the inventory turnover gets lower the total amount of inventory held will increase. Gushegu has a lower level of inventory held than Garu. Gushegu's higher inventory turnover accounts for the lower level of inventory held.

**(5 points @ 2 marks = 10 marks)**

**(Total: 20 marks)**

### **EXAMINER'S COMMENTS**

Question 5 a) required candidates to compute five ratios (Return on Capital Employed, Gross Profit Margin, Current Ratio, Liquid Ratio, and Inventory Turnover) This part of the question was fairly answered by majority of candidates who attempted it. It is worthy of note that some candidates were not able to ascertain and determine, Gross Profit Margin, Return on Capital Employed and Inventory Turnover. Although some of these ratios are easy to compute, some candidates failed to accurately compute them. For instance, some candidates computed the Inventory Turnover Period instead of the Inventory Turnover Ratio required by the question.

In respect of question 5 b), candidates were asked to use the ratios calculated in 5 a) to discuss which of the two businesses appears to be performing better. Majority of candidates performed fairly well. Some candidates scored good marks.

### **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 should always read questions well and understand the requirements before answering them.

Candidates are also advised to ensure that they thoroughly study and exhaust the entire syllabus and practice a lot of questions before sitting for the examination.