

SOLUTION FINANCIAL ACCOUNTING FUNDAMENTALS NOV 2010

SOLUTION 1

(a) B. K. Ent.

Manufacturing Account and Income Statement for the year ending 31 December 2009

	GHS	GHS
Raw Materials – 1/1/09		22,000
Add Purchases of Raw Materials		576,500
Carriage inwards		<u>4,000</u>
		602,500
Less Raw Materials – 31/12/09		<u>(25,000)</u>
Cost of Raw Materials Consumed		577,500
Wages – direct		<u>160,000</u>
Prime Cost		737,500
Indirect Manufacturing Cost:		
General factory expenses	38,500	
Factory power	13,700	
Wages	165,000	
Rent (10,000 + 2,500) 4/6	8,333	
Insurance (4,200 x 4/6)	2,800	
Depreciation – P & M (280,000 x 10%)	<u>28,000</u>	
		<u>256,333</u>
Add work-in-progress – 1/1/09		993,833
Less work-in-progress – 31/12/09		14,900
Production cost of goods completed		<u>(20,000)</u>
		988,733
	GHS	GHS
Sales		1,200,000
Less cost of goods sold:		
Finished goods – 1/1/09	37,500	
Add production of cost of goods completed	988,733	
Less finished goods – 30/12/09	<u>(50,000)</u>	<u>976,233</u>
Gross profit		223,767
Less expenses:		
Administration salaries	44,000	
Rent (10,000 + 2,250) 2/6	4,167	
Insurance (4,200 x 2/6)	1,400	
General expenses	15,700	
Depreciation – computer (20,000 x 10%)	<u>2,000</u>	
		<u>67,267</u>
Net profit		<u>156,500</u>

(b)

B. K. Ent.

Statement of Financial Position as at 31 December 2009

	Cost GHS	Depreciation GHS	Net Value GHS
<u>Non-Current assets</u>	280,000	78,000	202,000
Plant & machinery	<u>20,000</u>	<u>10,000</u>	<u>10,000</u>
Computers	<u>300,000</u>	<u>88,000</u>	212,000
<u>Current Assets</u>			
Inventory: RM	25,000		
Finished goods	50,000		
Work-in-progress	20,000		
Accounts receivables	142,300		
Bank & cash	<u>18,300</u>		
		255,600	
<u>Less Current Liabilities</u>			
Accounts payable	64,000		
Rent	<u>2,500</u>	<u>66,500</u>	
Net current assets			
Net asset			<u>189,100</u>
			<u>401,000</u>
Financed By:			
Capital		324,600	
Add net profit		156,500	
Drawings		<u>(80,000)</u>	
Capital employed			<u>401,100</u>

SOLUTION 2

(a) (i)

Sam & Tom Joint Venture

Memorandum Joint Venture Account for the month of June 2009

	GHS	GHS		GHS	GHS
Purchase – Sam	250,000		Sales – Sam	300,000	
Tom	<u>40,000</u>		Tom	<u>60,000</u>	
		290,000			360,000
Carriage – Sam	500		Goods taken over - Tom		18,000
Tom	<u>100</u>				
		600			
Wages – Tom		150			
Shares of profit					
Sam 7/10	61,075				
Tom 3/10	<u>26,175</u>				
		<u>87,250</u>			
		<u>378,000</u>			<u>378,000</u>

(ii)	Joint Venture with John		
	GHS	GHS	
Purchases	250,000	Sales	300,000
Carriage	500	Cheque from Tom	40,000
Cheque to Tom	50,000		
Profit	<u>61,075</u>	Balance c/d	<u>21,575</u>
	<u>361,575</u>		<u>361,575</u>
Balance b/d	21,575	Cheque from Tom	21,575

(iii)	Joint Venture with Sam		
	GHS	GHS	
Purchases	40,000	Cheque from Sam	50,000
Carriage	100	Sales	60,000
Cheque to Tom	40,000	Goods taken over	18,000
Wages	150		
Profit	26,175		
Balance c/d	<u>21,575</u>		
	<u>128,000</u>		<u>128,000</u>
Cheque to Sam	21,575	Balance b/d	21,575

(b)	(i)	2008	2009
	Gross profit to sales		
	= $\frac{\text{Gross profit}}{\text{Sales}} \times 100$	$\frac{5,000}{20,000} \times 100$	$\frac{7,000}{28,000} \times 100$
		= 25%	= 25%
	(ii) Inventory turnover		
	= $\frac{\text{Cost of Sales}}{\text{Ave Stock}}$	$\frac{15,000}{(5,000 + 2,000) / 2}$	$\frac{21,000}{(2,000 + 3,000) / 2}$
		= <u>4.3 times</u>	= <u>8.4 times</u>
	(iii) Quick (acid test)		
	= $\frac{\text{Accounts Receivable} + \text{Bank}}{\text{Current Liabilities}}$	$\frac{2500}{2500}$	$\frac{2800 + 500}{1200}$
		= <u>1:1</u>	= <u>2:75:1</u>
	(iv) Net Profit to Capital Employed		
	= $\frac{\text{Net Profit}}{\text{Capital employed}} \times 100$	$\frac{1200}{13000} \times 100$	$\frac{2000}{19100} \times 100$
		= <u>9.2%</u>	= <u>10.5%</u>

Comments

- Gross Profit to Sales
This means that every one cedi sales the Gross profit is 20% - 25 pesewas. The company maintained the 25% in year 2009.
- Inventory Turnover
It means how many times the company was able to turn round the unventories. The company 2009 Inventory turnover showed an improvement of about 96% over the year 2008.
- Quick
How the company can meet its current liabilities with its accounts receivable and cash at bank. The ratio improved over 100% in year 2009.
- Net profit to Capital employed
The profit the total capital on fund employed with the period has enabled to bring or generate. There was a moderate improvement over the revious year (2008) rate.

SOLUTION 3

Azu, Osu and Kuzi

Revaluation Account

	GHS		GHS
Motor vehicles	2,800	Land	4,000
Stock	2,100	Greenhold premises	14,500
Debtors	1,900	Plant & equipment	6,500
Capital account:		Goodwill	19,600
Azu 18,900			
Osu 12,600			
Kuzi 6,300			
	<u>37,800</u>		
	<u>44,600</u>		<u>44,600</u>

Partners' Capital Account

	AZU	OSU	KUZI		AZU	OSU	KUZI
	GHS	GHS	GHS		GHS	GHS	GHS
Bank (loan)	8,700			Balance b/c	54,000	27,000	18,000
Transfer to loan a/c	61,965			Revaluation	18,900	12,600	6,300
Bank (15% of outstanding bal.)	10,935			Loan	8,700	-	-
Goodwill	-	11,760	7,840				
Balance c/d	-	<u>27,840</u>	<u>16,460</u>				
	<u>81,600</u>	<u>39,600</u>	<u>24,300</u>		<u>81,600</u>	<u>39,600</u>	<u>24,300</u>
				Balance b/d		27,840	16,460

Osu & Kuzi

Balance Sheet as at 2/1/2010

	GHS	GHS
<u>Non-Current Assets</u>		
Land		34,000
Freehold Premises		40,000
Plant & Equipment		20,000
Motor Vehicles		<u>14,000</u>
		108,000
<u>Current Assets:</u>		
Stock	10,800	
Debtors	14,400	
Less Bad Debt	<u>1,900</u>	
Bank (25,200 – 8,700 – 10,935)	<u>5,565</u>	
Less <u>Current Liabilities</u>	28,865	
Creditors	<u>30,600</u>	<u>(1,735)</u>
		106,265
<u>Financed By:</u>		
Capital		
Osu	25 x 1/5 = 5	27,840
Kuzi		16,460
Loan (Azu)		<u>61,965</u>
		<u>106,265</u>

Workings

Computation of Goodwill

	GHS
2009	13,200
2008	9,400
2007	<u>6,800</u>
Total	<u>29,400</u>

$$\text{Average} = \frac{29,400}{3} = 9,800$$

$$\therefore \text{Goodwill } 2 \times 9,800 = \underline{19,600}$$

SOLUTION 4

(i)

Mama Lizzy Ent

Journal Entries on 31st December, 2009

		DR GHS	CR GHS
(a)	Machinery Account	6,500	
	Repairs Account		6,500
(b)	Suspense Account	2,520	
	Debtors Account		2,520
(c)	Suspense Account	1,700	
	Sales Account		1,700
(d) (i)	Cash Account	3,500	
	Suspense Account		3,500
(e)	Suspense Account	850	
	Creditors Account		850
(f)	Suspense Account	2,500	
	Cash Account		2,500
(d) (ii)	Debtors Account	3,500	
	Bad Debt Recovered		3,500
	Being re-instatement of debt.		

(ii)

Suspense Account

	GHS		GHS
Debtors	2,520	Balance b/d	
Sales	1,700	(Difference)	4,070
Creditors	850	Cash	3,500
Cash	<u>2,500</u>		
	<u>7,570</u>		<u>7,570</u>

SOLUTION 5

Provision for doubtful debts

		GHS			GHS
31/12/2007	Balance c/f	<u>110,000</u>	31/10/2007	Profit and loss	<u>110,000</u>
31/12/2008	Balance c/f	135,000	01/01/2008	Balance b/f	110,000
			31/10/2008	Profit and loss	<u>25,000</u>
		<u>135,000</u>			<u>135,000</u>
31/12/2009	Profit and loss	20,000	01/01/2009	Balance b/f	135,000
31/12/2009	Balance c/f	<u>115,000</u>	31/10/2009		<u>135,000</u>
		<u>135,000</u>			<u>135,000</u>
			01/01/2010	Balance b/f	115,000

Provision for discount on debtors

		GHS			GHS
31/12/2007	Balance c/f	<u>30,000</u>	31/10/2007	Profit and loss	<u>30,000</u>
31/12/2008	Balance c/f	126,000	01/01/2008	Balance b/f	30,000
		<u>126,000</u>	31/10/2008	Profit and loss	<u>90,000</u>
		<u>126,000</u>			<u>126,000</u>
31/12/2009	Profit and loss	36,000	01/01/2009	Balance b/f	126,000
31/12/2009	Balance c/f	<u>90,000</u>	31/10/2009		<u>126,000</u>
		<u>126,000</u>			<u>126,000</u>
			01/01/2010	Balance b/f	90,000

Income Statement (Extract) for the year ended 31st December xxxxxx

		GHS	GHS
2007	Gross profit		xxxxxx
	Less Provision for doubtful debt	110,000	
	Provision for discount on debtors	<u>30,000</u>	140,000
2008	Gross profit		
	Less Provision for doubtful debt		xxxxxx
	Provision for discount on debtors	25,000	
		<u>96,000</u>	121,000
2009	Gross profit		
	Add Decrease in provision for doubtful debt		xxxxxx
	Decrease in provision for discount on debtors	20,000	
		<u>36,000</u>	56,000

Statement of Financial Position (Extract) as at 31st December xxxxxx

		GHS	GHS	GHS
2007	Debtors		200,000	
	Less Provision for doubtful debt	110,000		
	Provision for discount on debtors	<u>30,000</u>	<u>140,000</u>	
				60,000
2008	Debtors		840,000	
	Less Provision for doubtful debt	135,000		
	Provision for discount on debtors	<u>126,000</u>	<u>261,000</u>	
				579,000
2009	Debtors		600,000	
	Add Decrease in provision for doubtful debt	115,000		
	Decrease in provision for discount on debtors	<u>90,000</u>	<u>205,000</u>	
				395,000