SB/BMS/14/0161

UNIVERSITY OF CAPE COAST

COLLEGE OF HUMANITIES AND LEGAL STUDIES

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

SBU/BUS 104 FOUNDATION/PRINCIPLES OF ACCOUNTING II

END OF SECOND SEMESTER EXAMINATION 2014/2015 ACADEMIC YEAR

TIME: 3 HOURS

INSTRUCTIONS

Answer ALL questions

Question 1

a. State three reasons why it is necessary to have a partnership agreement. (3 marks)

b. In the absence of a partnership agreement, how are mutual relations of partners governed? (4 marks)

c. Anthony, Fuleratu and Esi have been in partnership for many years. Their bookkeeper has just produced the following summarized income statement for the year ended 31 December 2014.

	GHS
Revenue	2,400,000
Cost of sales	(1,440,000)
Gross profit	960,000
Expenses	(600,000)
Net profit before appropriations	360,000

The following information is also available:

1. The partnership agreement states that interest is to be credited at 6% per annum on the year-end balance on capital accounts.
2. The partners are entitled to the following salaries per annum:

Fuleratu	GHS44,000
Anthony	GHS64,000
Esi	GHS26,000

3. The partners made the following cash drawings during the year:

Esi	GHS53,600
Anthony	GHS82,400
Fuleratu	GHS56,800

4. The balance on the capital and current accounts at the beginning of the year were:

Capital accounts	Anthony	GHS100,000 credit
	Fuleratu	GHS88,000 credit
	Esi	GHS12,000 credit
Current accounts	Anthony	GHS22,800 credit
	Fuleratu	GHS9,600 credit
	Esi	GHS9,200 debit

Capital accounts remained unchanged throughout the year.

5. The partners shared profits in the ratio of 5:3:2.
6. Fuleratu had also loaned the partnership GHS40,000 at an interest rate of 10% per annum. This interest has not yet been accounted for as at 31 December 2014.

REQUIRED:

Prepare the:

(i) partners' capital accounts for the year ended 31 December 2014 **(4 marks)**

(ii) appropriation account for the partnership for the year ended 31 December 2014. **(5 marks)**

(iii) partners' current accounts for the year ended 31 December 2014. **(4 marks)**

[Total: 20 marks]

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Question 2

Ghana Drunkards Limited is engaged in the manufacturing of hard liquor in Ghana. At 31 December, 2013 the following balances were extracted from the books of the company:

	GHS	GHS
Raw materials purchased	620,000	
Sales		2,500,000
Rent and Rates	86,000	
Selling and Distribution expenses	65,000	
Inventories at January 1, 2013:		
Raw materials	410,000	
Work in progress	352,000	
Finished goods	330,000	
Loose tools	100,000	
Freehold warehouse	570,000	
Furniture and Fittings	480,000	
Plant and machinery	530,000	
Provision for depreciation:		
Furniture and Fittings		32,000
Plant and machinery		36,000
Direct factory power	52,000	
Purchase of loose tools	212,000	
Factory supervisor's wages	38,000	
Administration expenses	63,000	
Advertisement	83,000	
Bad debt	15,000	
Drawings	46,000	
Accounts Receivables and Payables	155,000	560,000
Cash	160,000	
Bank	340,000	
Provision for bad debts		18,000
Plant hire (manufacturing overhead)	29,000	
Provision for unrealized profit		30,000
Lighting and heating	34,000	
Capital		1,594,000
	4,770,000	**4,770,000**

The following additional information is to be taken into consideration:

1. Inventories at 31 December 2013 were valued at cost: GHS
   a. Raw materials 220,000
   b. Work in progress 385,000
   c. Finished goods 550,000
   d. Loose tools 290,000
2. Expenditure on rent and rates and lighting and heating is to be apportioned between factory and office in the ratio of 6:1 and 9:1 respectively
3. Accrued at 31 December, 2013 were Rent and Rates GHS8,000 and Factory power GHS6,000.
4. The provision for bad debts is to be made equal to 6% on accounts receivables.
5. There were also prepayments of GHS5,000 for advertisement.

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8000

6. Debts worth GHS12,000 have proved irrecoverable since the trial balance was drawn up and must be written off.
7. Depreciation is charged on plant and equipment at 5% on cost and furniture and fittings 8% on the written down value.
8. Profit margin on manufactured goods is at the rate of 10% on cost of production.

REQUIRED:

a. Prepare Ghana Drunkards Limited's manufacturing and income statement for the year to 31 December, 2013. **(10 marks)**

b. Draw up the statement of financial position as at 31 December, 2013. **(10 marks)**

[Total: 20 marks]

Question 3

a. List any four methods of issuing shares in Ghana. **(4 marks)**

b. Distinguish between a Ghanaian company and a foreign company operating in Ghana. **(4 marks)**

c. Man-Atsu Limited, after incorporation in Ghana, invited applications for 60,000 ordinary shares of no par value payable on the following terms:

	GHS
Payable on Application	2.5
Payable on Allotment	2.0
Payable on First Call	1.5
Payable on Second and Final Call	1.0
	7.0

Applications were received for 87,000 shares. The finance house responsible for marketing the issue, in consultation with the directors, decided as follows:

- To reject applications for 7,000 shares for not meeting the application requirements.
- To give full allotment to a Strategic Investor who applied for 20,000 shares.
- To allot to SSNIT 30,000 shares out of the 40,000 shares applied for.
- To allot the remaining applications on pro-rata.

Surplus application monies are to be held to reduce the amount payable on allotment. The calls were made and paid in full by members with the exception of Mr. Brakemen who failed to pay the first and second calls on the 1,400 shares allotted to him. After the requisite action, the shares were forfeited by the directors. They were re-issued to Ms. Nana Adjoa at GHS7 per shares payable in full. Nana Adjoa paid for the shares on the same day.

REQUIRED:

Record the above transactions in the following ledger accounts of Man-Atsu Limited:

(i) Stated Capital Account
(ii) Application Account
(iii) Allotment Account
(iv) First call Account
(v) Second and Final Call Account
(vi) Share Deals Account

(12 marks)
[Total: 20 marks]

Question 4

The treasurer of the Best Brains Social Club has prepared the following receipts and payments account for the year ended 31 December 2014

Receipts and Payments Account

	GHS		GHS
Bank balance at 1 Jan. 2014	100	Bar steward's wages	1,000
Members subscriptions	1,500	Payment to creditors for bar supplies	7,000
Sales of competition tickets	385	Deposited into saving account	640
Savings account Interest	15	Stationary and postage	400
Bar takings	9,500	Miscellaneous expenses	50
Withdrawn from savings account	1,000	Competition price	290
		Purchases of equipment	1,200
		Extension to premises	1,800
		Bank balance at 31 Dec. 2014	120
	12,500		12,500

The treasurer has also provided the following additional information:

a. Details of non-current assets at 1 January 2014

	Cost	Depreciation	Book value
	GHS	GHS	GHS
Premises	60,000	–	60,000
Equipment	3,000	800	2,200

b. All the equipment owned by the club at 31 December 2014 is to be depreciated at 10% on cost price, but no depreciation is to be allowed on the premises.

c. The club has assets and liabilities as follows:

	On 1 Jan. 2014	On 31 Dec. 2014
	GHS	GHS
Bar inventory	400	450
Subscriptions due but not received	100	90
Subscriptions received in advance	150	130
Savings Account	500	140
Bar steward's wages owing	20	25
Creditors for bar supplies	200	100
Inventory of stationery	10	20

REQUIRED:

Prepare:

a. An income and expenditure account for the year ended 31 December 2014. **(10 marks)**

b. A statement of financial position as at that date. **(10 marks)**

[Total: 20 marks]