AKENTEN APPIAH-MENKA UNIVERSITY OF SKILLS TRAINING AND ENTREPRENEURIAL DEVELOPMENT

FACULTY OF BUSINESS EDUCATION

DEPARTMENT OF ACCOUNTING STUDIES EDUCATION

END OF SECOND SEMESTER EXAMINATION 2020/21 ACADEMIC YEAR

TIME: THREE (3) HOURS

COURSE CODE	ACC 241
COURSE TITLE	INTERMEDIATE ACCOUNTING II
LEVEL	200
PROGRAMME	B. SC ACCOUNTING EDUCATION
NAME OF LECTURER	OFORI DEBRAH
INSTRUCTIONS	ATTEMPT ALL QUESTIONS. ALL QUESTIONS SHOULD BE ANSWERED IN THE ANSWER BOOKLET. INDICATE YOUR INDEX NUMBER ON THE QUESTION PAPER. YOU WILL SUBMIT BOTH THE QUESTION PAPER AND THE ANSWER BOOKLET.

Question 1

River, Stream and Lake have been in partnership for many years. Owing to the stiff competition in the industry, they have decided to dissolve the firm. The partnership deed provides that the profit or loss of whatever nature should be divided in the ratio of 5:3:2 respectively.

The statement of financial position as at 31st December, 2020 was as follows:

Non-Current Assets:	**GH¢**	**GH¢**	**GH¢**
Business Premises			50,000
Equipment			25,000

Motor Vehicles			15,000
			90,000
Current Assets:			
Inventories		40,000	
Accounts Receivables		18,000	
		58,000.	
Current liabilities			
Accounts Payables	22,000		
Sundry Payables	15,000		
Bank Overdraft	13,000	50,000	
Net Current Assets			8,000
			98,000
Loan: River			(15,000)
Stream			(12,000)
Net Assets			**71,000**
Financed by:			
Capital accounts : River		25,000	
Stream		22,000	
Lake		18,000	65,000
Current accounts: River		4,500	
Stream		3,000	
Lake		(1,500)	6,000
			71,000

In connection with the dissolution, the partners wish to take out the maximum cash possible as and when it becomes available.

In January, 2021, the partners took over all the motor vehicles and shared equally. The agreed valuations for each of the partner was GH¢4,000. Also the inventories were sold for GH¢42,000 and equipment was sold for GH¢23,000. The professional fees paid in connection with the sale amounted to GH¢5,000. During February 2021, the business premises was sold to a competitor for GH¢ 75,000 cash.

In March 2021, all the accounts receivables had been paid in full

Required:

Show the amount paid to each partner at each distribution under Maximum / Assumed Loss Method. **(12 marks)**

Question 2 a.

All Is Well Ltd, a listed company invited applications for 15, 000,000 ordinary shares of no par value at an issue price of GH¢ 10 per share payable as follows:

	GH¢
Application	3
Allotment	4
First Call	2
Final Call	1

Applications were received for 24, 000,000 shares. The directors rejected applications for 4,000,000 shares for not meeting the application requirements and application monies were refunded to the applicants. The rest of the applications were allotted pro-rata. Surplus application monies are to be held to reduce the amount payable on the allotment. The balance of the allotment monies and monies due on the calls were duly paid except Mr. Broke who failed to pay on his first and final calls on 100,000 shares allotted to him. The shares were later forfeited and reissue to Mr. Richman at GH¢10 per share who paid in full on application.

Required:

Show the Journal entries to record the above. **(8 marks)**

Question 2 b.

The statement of financial position of Happy Ltd as at 31st December, 2020 was as follows:

	GH¢	GH¢
Property, Plant and Equipment		75,000
Current Assets:		
Inventory	20,000	
Trade Receivables	19,000	
Bank	31,000	
	70,000	
Current Liabilities:		
Trade Payables	(35,000)	
Net Current Assets		35,000
		110,000
Financed by:		
Stated Capital:		
50,000 Ordinary Shares		50,000
20,000 Redeemable Preference Shares		20,000
		70,000
Share Deals		3,000
Income Surplus		37,000
		110,000

The following took place in January 2021:

1. 12,000 ordinary shares were issued for GH¢1 each payable in full on application. The proceeds are to be used in redeeming the preference shares which are due for redemption.
2. All the redeemable preference shares are to be redeemed. The preference shares were redeemed on the due date,

Required: Prepare the relevant Ledger entries to give effect to the above and to prepare the statement of Financial Position after the transactions. **(12 marks)**

Question 3 a.

Several years ago, Suronipa company Ltd issued 20, 000 15% Redeemable Debentures of GH¢10 each at 98. The issue was payable in full on application and interest is payable yearly in arrears.

A Sinking Fund has been established by annual appropriations of GH¢16, 000 and has been invested in marketable and high yielding financial securities.

At 31 December 2019, the account balances were:

	GH¢
15% Redeemable Debentures	200,000
Sinking Fund	98,000
Sinking Fund Investments	82,000

During 2020, the following transactions took place:

2020	**GH¢**
Jan. 16 Investments purchased (at cost)	16,800
July 10 Investment Income received	4,000
July 30 Investments costing GH¢50,000 sold	66,000
August 1 Debentures redeemed (nominal GH¢80,000)	68,000
September 30 Investments costing GH¢22,000 sold	18,000
September 30 Investments purchased (at cost)	21,200
December 31 Investment Income received	3,000
December 31 Annual appropriation	16,000
December 31 Paid interest on 15% Red. Debentures	?

Required: Post and balance the appropriate ledger accounts for the year 2020. **(15 marks)**

Question 3 b.

Young Guy who has been in business as a general merchant for several years, decided to convert his business into a private company limited by shares on 1st January, 2021.

Question 4

Nhyira and Adoma have been in partnership for many years sharing profits and losses equally. The partners agreed to admit Nyamekye into the firm effective 31st September 2020. The new partnership agreement provides for profits and losses to be shared in the ratio 2:2:1 for Nhyira, Adoma and Nyamekye respectively.

Nyamekye introduced GH¢4,200 cash into the partnership. The goodwill figure at 31st August, 2020, was agreed at GH¢6,000 and goodwill is not to be retained in the books of accounts. Each partner is entitled to a salary of GH¢1,200 per annum and interest on drawings at 10% per annum. Interest on capital was agreed at 12% per annum.

Trial balance as at 31st December, 2020

	DR	CR
	GH¢	GH¢
Capital accounts balance (1/1/2020)		
Nhyira		4,500
Adoma		3,000
Current Accounts balance (1/1/2020)		
Nhyira	900	
Adoma		570
Motor Vehicles at cost (1/1/2020)	4,800	
Fixtures and Fittings at cost (1/1/2020)	1,200	
Provisions for depreciation (1/1/2020)		
Motor vehicles		1,920
Fixtures and Fittings		600
Gross Profit		34,200
Selling and Distribution expenses	7,500	
Administrative expenses	3,300	
General Expenses	8,250	

Purchasing of Business Premises	18,000	
Closing Stock-in-trade	3,420	
Trade Debtors	5,100	
Trade Creditors		9,430
Bank overdraft		4,380
Drawings: Nhyira	2,130	
Adoma	2,400	
Nyamekye	1,600	
	58,600	**58,600**

On 1st July 2020, the partners purchased a new business premises. The estimated useful life of the building was 25 years at the date of acquisition.

Motor vehicles and Fixtures and Fittings are depreciated at the rates of 20% and 10% per annum respectively on cost. Assume that revenue and expenditure accrued evenly throughout the year.

You are required to prepare:

a. The Profit or Loss Account for the year ended 31st December, 2020
b. Profit or Loss Appropriation Account for the year ended 31st December, 2020

(15 marks)

Question 5

Never Give Up Co. Ltd. was incorporated as a private company with an authorized capital of 2,000,000 shares (1,200,000 equity shares and 800,000 20% preference shares) of no-par value. 800,000 equity shares were issued for a consideration of GH¢ 400,000 and 400,000 20% preference shares for a consideration of GH¢ 200,000. The company has been in the retail trade for several years. The following trial balance was extracted by the accounts officer for the year ended 31st May, 2021.

	DR	CR
	GH¢	GH¢
Stated capital: Equity shares		400,000
20% preference share		200,000
Income surplus (1/6/2020)		198,800
Capital Surplus (1/6/2020)		20,000
Business premises	480,000	48,000
Motor vehicles	320,000	80,000
Plant and machinery	400,000	126,400
Sales		1,638,000
Carriage inwards	36,000	
Carriage outwards	56,000	
Director's emolument	120,000	
Discounts	40,000	39,200
Returns	18,000	10,000
Dividend paid: Preference shares	40,000	
Equity shares	30,000	
Office expenses	81,600	
Purchases	900,000	
Debenture interest paid	12,500	
Rent and rates	22,700	
Motor running expenses	47,000	
Trade receivable and payable	57,200	67,000
Inventories (1/6/2020)	120,000	
Trade Investment	80,000	
Bills Receivable/Payable	45,000	58,000
Insurance	40,000	

Investment income	-	21,000
Provision for doubtful debts (1/6/2020)	-	2,400
25% Debentures		150,000
Bank balance	112,800	
	3,058,800	3,058,800

The following additional information is made available to you to enable you **prepare** the final accounts of the company for internal use:

i. The inventory as at 31st May, 2021 was valued at GH¢140,000.

ii. A bad debt of GH¢ 1,200 has not been recorded in the books.

iii. The policy of the company is to ensure that the provision for bad and doubtful debts is 3% of the trade receivables at the end of each year

iv. The depreciation of property, plant and equipment is to be charged as follows:

Business premises- 5% on cost

Motor vehicles -25% on the reducing balance

Plant and machinery- 20% on cost

There were no purchases or sales of property, plant and equipment during the year under view.

v. The following outstanding expenses had not been paid as at 31st May, 2021:
Office expenses GH¢3,620; Motor running expenses GH¢2,400

vi. Investment Income of GH¢4,000 has not been received in respect of the trade investment for the year under consideration.

vii. Prepayments as at 31st May, 2021 were as follows

Unexpired rent	GH¢6,000
Insurance on the building	GH¢3,600

viii. A provision of GH¢10,000 is to be made for audit fees

ix. A provision of 25% on net profit is required for company tax for the year

x. The directors recommended to transfer GH¢25,000 to the Capital Surplus account.

(23 marks)