



CHARTERED INSTITUTE OF BANKERS (GHANA)

ASSOCIATESHIP EXAMINATIONS – LEVEL 1

INTRODUCTION TO ACCOUNTING

JULY 2020

- N.B.**
1. Read carefully the instructions on the cover of the answer book
 2. Answer a total of **FIVE** questions
 3. Answer 1 question from **SECTION A** and **FOUR** other questions; at least **ONE** from **SECTION B** and at least **TWO** from **SECTION C**. Candidates must satisfy the examiner in question 1 by achieving a minimum of **10** marks to pass the paper as a whole
 4. Calculators, (silent non-programmable only) may be used in this examination. Whether candidates use them or not, it is essential to show the basic calculations from which their answers are derived
 5. Time allowed: **THREE HOURS**
 6. An additional **15** minutes reading time is allowed at the beginning of the examination when candidates may write on this paper but **NOT** in the answer book
 7. The total number of questions in this paper is **SEVEN**
 8. Candidates must ensure that they answer questions in the appropriate answer book and **NOT** on loose sheets which are used only as supplementary paper. Answers on such sheets will be cancelled
 9. **DO NOT WRITE YOUR NAME ON THE ANSWER BOOK**
 10. **DO NOT OPEN THIS PAPER UNTIL INSTRUCTED TO DO SO**

SECTION A

Answer this Question

QUESTION 1

a. On March 1, 2020, **KOFI CHINA** opened a small-scale mining business in the Atswea Forest. Kofi China was the sole owner of the Company, which he named **GALAMSEY LIMITED**. During the first month of its operations in March 2020,

GALAMSEY LIMITED engaged in the following transactions:

1. **GALAMSEY LIMITED** received cash of **GHS 4,000,000** from Kofi China as initial capital.
2. The Company paid **GHS 200,000** cash to the Traditional Council for the mining concession leased to it.
3. The business paid **GHS 2,000,000** cash to acquire excavators and other mining trucks.
4. The business purchased supplies of various mining materials costing **GHS 680,000** on credit.
5. The business produced and sold its first gold and received **GHS 300,000** cash; Cost of Sales was **GHS 120,000**.
6. The business sold another batch of gold for **GHS 400,000**. The client agreed to pay in April 2020; Cost of Sales was **GHS 160,000**
7. The business paid **GHS 80,000** cash toward the supplies of various materials purchased in Transaction 4.
8. The business paid employee salaries of **GHS 100,000** in cash.
9. Kofi China withdrew **GHS 150,000** cash for his personal use.
10. The business collected **GHS 260,000** from the client in Transaction 6.
11. Kofi China collected **GHS 10,000** cash from the business for his personal groceries.

You are required to: Analyze the above transactions in terms of their effects on the accounting of **GALAMSEY LIMITED**.

Note: Use the following table. (T represents Transaction; Bal. represents Balance)

	Assets					Liabilities	Owner's Equity
	Cash	Debtors	Stocks	Leasehold	Vehicles	Creditors	Capital
T.1	+ 4,000						+ 4,000
Bal.	4,000						4,000
T.2							
Bal.							
T.3							
Bal.							

(In GHS'000)

(10 marks)

- b. The following balances were extracted from the books of **CONSOLIDATED LIMITED** for the year ended September 30, 2019:

	GHS		GHS
Stock (October 1, 2018):		Depreciation:	
Raw Materials	105,500	Plant & Machinery	10,000
Finished Goods	347,000	Motor Van	8,000
Work-in-Progress	76,000	Sales	1,800,000
Purchases – Raw Materials	227,000	Wages	254,500
Motor Vehicle Expenses	11,000	Rent & Rates	40,000
Factory Expenses	50,000	Salaries	35,000
Selling Expenses	6,800	Administrative Expenses	65,000
Market Value of Goods Produced			700,000

Additional information:

1. 25% of Rent and Rates is for the office
2. 30% of Salaries is for the Foreman's Salaries in the factory.
3. Stocks as at September 30, 2019:
 - a. Raw materials **GHS 87,700**;
 - b. Finished goods **GHS 320,000**;
 - c. Work-in-Progress **GHS 65,000**.

You are required to:

Prepare **CONSOLIDATED LIMITED** Manufacturing section only of the Manufacturing, Trading, and Profit and Loss Accounts for the year ended September 30, 2019.

(10 marks)

Total Marks - 20

SECTION B

Answer at least ONE question from this section

QUESTION 2

- a. A number of accounting reporting situations are described below:
1. In preparing its financial statements, **GROUP NDOMIE** omitted information about an ongoing lawsuit which its lawyers advised that the company could very well lose when it gets to court.
 2. **RECEIVERSHIP COMPANY** believes its people are its most significant assets. It estimates and records their value on its Balance Sheet.
 3. **SME LIMITED** is carrying stock at its current market value of **GHS100,000**. The stock had an original cost of **GHS75,000**.
 4. **BREW CORPORATION** is in its fifth year of operations and has yet to issue financial statements.
 5. **Nana Appah**, President of **A1-GOLD COMPANY LIMITED** bought a computer for

his personal use. He paid for the computer with company funds and recorded it in the 'Computers' account.

You are required:

For each of the above situations, indicate the concept or convention that has been violated, and explain why the situation described violates this assumption or principle.

(10 Marks)

b.

1. Define the term "*working capital*". **(4 marks)**

2. State and explain any four (4) factors which determine the Working Capital requirements of a business enterprise. **(6 marks)**

Total Marks - 20

QUESTION 3

a. Explain the term '*accounting equation*'. **(15 marks)**

b. Distinguish the following terms Depreciation, Depletion and Amortization

(5 marks)

Total Marks - 20

SECTION C

Answer at least TWO questions from this section

QUESTION 4

The following shows extract of the Profit & Loss Account and the Balance Sheet of **AMBULANCE LIMITED**.

	GHS	GHS
Trading & Profit & Loss:		
Turnover (Sales Revenue)	16,555	23,220
Cost of Goods Sold	12,345	18,650
Gross Profit	4,210	4,570
General & Administration Expenses	2,540	3,275
Net Profit	1,670	1,295
Balance Sheet:	GHS	GHS
Capital	40,000	40,000
Retained Earnings (Net Profit)	6,000	9,000
Long-Term Loan	700	850
Fixed Assets	38,000	38,000
Current Assets	9,100	12,350
Current Liabilities	400	500

You are required to: Calculate any five (5) of the following ratios for both 2018 and 2019:

1. Gross Profit Margin
2. Net Profit Margin
3. Return on Capital Employed
4. Return on Shareholders' Fund
5. Return on Fixed Assets
6. Return on Total Assets
7. Current Ratio

(20 marks)

QUESTION 5

CORONAVIRUS LIMITED transactions for January, 2020 for stock purchases and sales were as follows:

Date	Particulars	Units	Unit Cost (GHS)
January 1	Stock-on-hand	500	250
January 1	Sales	100	
January 2	Purchases	200	260
January 8	Sales	200	
January 10	Purchases	300	300
January 17	Sales	300	
January 23	Purchases	100	270
January 25	Sales	200	

You are required to compute the January 31, 2020 closing stock using:

1. First-in, First-out (FIFO) based on a periodic inventory
2. Last-in, First-out (LIFO) based on a perpetual inventory
3. Moving Average based on perpetual inventory

(20 marks)

QUESTION 6

1. Mention any **three** (3) uses of a Cash Budget.

(3 marks)

2. **THE CATHEDRAL** commences business on January 1, 2020 and introduces GHS 1,000,000 cash as capital. He also borrows GHS 400,000 from his brother at 10% per annum interest, payable half-yearly in June and December. He makes the following estimates about the first six months of 2020:

Fixed Assets	GHS 1,000,000 purchases for cash in January 2020.
Sales	GHS 600,000 per month, two month's credit to be given to customers.
Purchases	GHS 800,000 in January and GHS 400,000 per month thereafter, suppliers will allow one month's credit.
Expenses	GHS 40,000 per month average, excluding interest payable in the month in which they are incurred.
Drawings	GHS 10,000 per month.

You are required to prepare a Cash Forecast for the business of **THE CATHEDRAL** for the first six month of 2020 which shows the Cash Balance at the end of each month.

(17 marks)

Total Marks - 20

QUESTION 7

a.

The following estimates have been drawn up by **AIRTROTRO LIMITED** that manufactures three products:

	Products		
	Engine GHS'000	Propeller GHS'000	Cabin GHS,000
Cost per unit:			
Materials	70	84	44
Labour	50	36	66
Packing	10	10	10
Fixed Costs per year	120,000	70,000	84,000
Selling Price per unit	170	150	150

You are required to determine:

- The units of each product that must be manufactured and sold by the factory to break-even.
- The total sales revenue of **AIRTROTRO LIMITED** at break-even point.

(10 marks)

- b. The accountant of **EXCAVATOR ASSEMBLY PLANT** determined the following allocation percentages for the various departments – Manufacturing, Selling, and Administration. The Company's annual sales turnover is **GHS 50,000,000**.

Expenditure Item	Expenditure GHS	% Allocation of Expenditure		
		Manufacturing (%)	Selling (%)	Administration (%)
Raw Materials	25,000,000	85	10	5
Labour	12,500,000	87.5	9.5	3
Insurance	750,000	35	45	20
Taxes	1,250,000	29.5	65	5.5
Depreciation	7,500,000	77	12	11

You are required to

1. Translate the percentages (%) into absolute figures (GHS) using the expenditure of each expenditure item as the base.
2. Calculate the profit after tax of **EXCAVATOR ASSEMBLY PLANT**.

(10 marks)

Total Marks - 20