



CHARTERED INSTITUTE OF BANKERS (GHANA)

ASSOCIATESHIP EXAMINATIONS

LEVEL 1

INTRODUCTION TO ACCOUNTING

APRIL 2023

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 of 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

Question 1

The following trial balance was extracted from the ledger of Adptrack Enterprise as at 31/12/21.

	Dr GH¢000	Cr GH¢000
Motor Vehicle at cost	350,000	
Factory Building at cost	700,000	
Provision for depreciation as at 1/1/2022		
On Motor Vehicle		150,000
On Factory Building		280,000
Purchases and sales	5,250,000	6,999,000
Stocks 1/1/2022	250,000	
Discounts	190,000	524,000
Returns	311,000	275,000
Wages and salaries	654,000	
Bad debts written off	56,000	
Other expenses	456,000	
Debtors and creditors	1,190,000	1,180,000
Bank and Cash	90,000	
Drawings	560,000	
Provision for doubtful debts		72,500
Capital		<u>576,500</u>
	<u>10,057,000</u>	<u>10,057,000</u>

The following additional information is also made available:

- a) Stocks at 31/12/2022 were valued at GH¢ 450,000,000
- b) Wages and salaries accrued amounted to GH¢ 9,560,000
- c) Other expenses prepaid amounted to GH¢ 1,800,000
- d) Provision for doubtful debts is to be made at 7% of debtors at 31/12/2022
- e) The factory plant and machinery was leased under an operating lease for a period of 7 years with a yearly payment of GH¢ 12,200,000. This has not been paid for the year ended 31/12/2022.
- f) Depreciation for the year is to be provided as follows:
 - Factory Building 2% on cost
 - Motor Vehicle 25% reducing balance method

You are required to prepare:

- i. Income Statement for the year ended 31/12/2022 (10 marks)
 - ii. Statement of Financial Position as at 31/12/2022 (10 marks)
- (Total: 20 marks)

SECTION B

Question 2

- (a) Write Short notes on the following:
- i. Purchases
 - ii. Sales
 - iii. Drawings
 - iv. Capital Expenditure
 - v. Revenue Expenditure
- (10 marks)
- (b) Briefly explain the five components of the financial statements.
- (10 marks)
(Total: 20 marks)

Question 3

- (a) Explain what Budgeting is along with two (2) objectives of Budgeting.
- (6 marks)
- (b) Identify and explain five (5) external users of the financial statements and their information needs.
- (10 marks)
- (c) What is the objective of general-purpose financial reporting?
- (2 marks)
- (d) What is the objective of financial statements?
- (2 marks)
(Total: 20 marks)

SECTION C

Question 4

The accounts clerk of Eat Well Ventures has completed the financial statements for the year ended 31/12/2022.

While checking the cash book against the bank statement and carrying out other audit checks, the following were discovered:

- a. A cheque for GH¢50,000 had been entered in the cash book but had not yet been presented.
- b. Cheques from customers totaling GH¢72,250 entered in the cash book on 31/12/2015 were credited by the bank on 3/1/2023.

- c. Bank charges of GH¢80 appear in the bank statement but had not been recorded in the books of Eat Well Ventures.
- d. A cheque for GH¢322,500 drawn by the business to pay for a new item of plant had been mistakenly entered into the cash book and the plant account as GH¢32,500.
- e. A cheque for GH¢24,500 from a credit customer paid on 23/12/2022 was dishonoured.
- f. A cheque for GH¢60,000 in payment for some motor repairs had mistakenly been entered in the cash book as a debit and posted to the credit of motor vehicle account.
- g. The total of the payments side of the cash book had been understated by GH¢25,000. On further investigation, it was found that the debit side of the purchases account had also been understated by GH¢25,000.
- h. The cash book showed a debit balance of GH¢420,250 before any correcting entries had been made.

You are required to:

- i. Prepare an adjusted cash book showing the revised balance which should appear in the balance sheet of Eat Well Ventures as at 31/12/2022. (7 marks)
 - ii Prepare the bank reconciliation statement of Eat Well Ventures as at 31/12/2022. (8 marks)
 - iii) State five causes of discrepancies between the bank balance shown by the bank statement and that shown by the cash book of the business. (5 marks)
- (Total: 20 marks)

Question 5

As a Loan officer for HBF Bank, you have received the below listed financial statements from a pharmacist requesting for a loan of GHS100,000.00. Using the financial statement presented below, compute the following accounting ratios for the years 2020 and 2021.

- a. Gross profit/(loss) margin
- b. Current Ratio
- c. Acid Test Ratio
- d. Debt to equity ratio
- e. Inventory period

(Total: 20 marks)

LYNMED PHARMACY LIMITED
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR
ENDED 31st DECEMBER 2021

	2021	2020
	GH ¢	GH ¢
Income	327,791	296,920
Direct Cost	(215,703)	(209,464)
Gross Profit	112,088	87,456
Administration Expenses	(104,629)	(91,183)
Net Profit /(Loss) Before Tax	7,459	(3,727)
Taxation	(1,423)	-
Profit After Taxation	6,036	(3,727)

INCOME SURPLUS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2021

1 st January 2021	(25,610)	(21,883)
Net Profit for the Year	6,036	(3,727)
31 st December 2021	(19,574)	(25,610)

LYNMED PHARMACY LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	2021	2020
	GH ¢	GH ¢
NON CURRENT ASSETS		
Property, Plant and Equipment	35,273	30,100
Total Non Current Assets	35,273	30,100
CURRENT ASSETS		
Inventories	10,120	32,500
Accounts Receivable	20,000	28,826
Taxation	577	1,000
Cash and Cash Equivalent	403	1,052
Total Current Assets	31,100	63,378
TOTAL ASSETS	66,373	93,478

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Account Payable	85,447	118,588
Taxation	-	-
Total Liabilities	85,447	118,588

SHAREHOLDERS' EQUITY

Stated Capital	500	500
Shareholders Account	-	-
Income Surplus	(19,574)	(25,610)
Total Shareholders' Equity	(19,074)	(25,110)

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

66,373	93,478
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Question 6

- Write down the three characteristics that distinguish fixed assets from current assets.
(6 marks)
- Explain three causes of depreciation.
(6 marks)
- Red and Black Ltd depreciates its forklift trucks using a reducing balance rate of 30 percent. Its accounting year end is 31 December. On 31 December 2022, it owned four forklift trucks:
(A) Purchased on 1 January 2019 for GHs 250,400
(B) Purchased on 1 May 2020 for GHs 200,500
(C) Purchased on 1 October 2020 for GHs 305,200
(D) Purchased on 1 April 2022 for GHS 300,600

You are required to calculate the depreciation provision for the year ending 31 December 2022.

(8 marks)

(Total: 20 marks)

Question 7

- Nana Nkrumah has been running a plantain chip production business for the past six months; his accounting records are limited to an analysed cash book, cheque book stubs and file of invoices. Both he and his accountant are happy with this for the preparation of the annual accounts for the tax authorities and the bank, but Nana now wants more information for controlling the business.

When talking to his accountant about setting up a suitable costing system, Nana was clear about the difference between management and financial accounts. However, he became very confused over different categories of cost and has asked you for some clarification.

You are required to explain the distinction between the following:

- i. Direct and indirect cost
- ii. Fixed and variable costs
- iii. Production and non-production costs
- iv. Committed and discretionary cost

(10 marks)

- b. Nana Nkrumah pays his workers in the production department on a piece work basis. The workers produce a standard item, and the standard time allowed for the purpose of calculating pay is five minutes per unit. The company also guarantees these workers 75% of a time-based rate of pay, based on the rate of GH¢ 24 per hour for 7.5 hours day and a five-day week. Piece work is paid at the rate of GH¢ 20 per standard hour.

You are required to compute the following.

The weekly pay for a worker who produces:

- i. 444 units per week
- ii. 400 units per week

(10 marks)

(Total: 20 marks)