



CHARTERED INSTITUTE OF BANKERS (GHANA)

ASSOCIATESHIP EXAMINATIONS

LEVEL 1

INTRODUCTION TO ACCOUNTING

APRIL 2024

N.B.

1. Read carefully the instructions on the cover of the answer book.
2. Answer a total of **FIVE** questions.
3. Answer Question 1 in **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 QUESTION PAPER UNTIL INSTRUCTED TO DO SO.**

**SECTION A - COMPULSORY
QUESTION 1**

- a) State any **FIVE (5)** users of Accounting Information and their information needs.
(5 marks)
- b) The following is a summary of the Final Accounts of Balance Ltd for the year ended 31st December 2023.

Statement of Profit or Loss Account for the year ended 31st December 2023

	GH¢	GH¢
Turnover		1,400,000
Cost of Sales		<u>(800,000)</u>
Gross Profit		600,000
Distribution Costs	64,000	
Administrative Expenses	<u>140,000</u>	<u>(204,000)</u>
Operating Profit		396,000
Interest Payable		<u>(22,000)</u>
Profit Before Tax		374,000
Company Tax		<u>(58,000)</u>
Profit After Tax		316,000
Profit and Loss Brought Forward		<u>40,000</u>
		276,000
Ordinary Dividend	200,000	
Transfer to Reserves	<u>50,000</u>	<u>(250,000)</u>
Retained Profit		<u>26,000</u>

Statement of Financial Position as at 31st December 2023

	GH¢	GH¢
Non-Current Assets (Net)		1,100,000
Current Assets		
Inventory	180,000	
Receivables	100,000	
Bank	<u>60,000</u>	
		<u>340,000</u>
		<u>1,440,000</u>
Equity and Reserves		
GH¢1 Ordinary Shares	450,000	
General Reserve	94,000	
Retained Earnings	26,000	570,000
Non-Current Liabilities		
Long Term Loans (4%)		550,000
Current Liabilities		
Payables	62,000	
Dividends	200,000	
Taxation	<u>58,000</u>	
		<u>320,000</u>
		<u>1,440,000</u>

You are required to:

Calculate each of the following Ratios (where appropriate calculations should be shown to two decimal places) and answer the question in **vii**:

- i) Sales to Capital Employed (2 marks)
- ii) Liquid (Acid Test) Ratio (1 mark)
- iii) Interest Cover (2 marks)
- iv) Dividend Cover (2 marks)
- v) Gearing Ratio (2 marks)
- vi) Earnings Per Share (2 marks)
- vii) Explain the implications of the level of Gearing for the Ordinary Shareholders of Balance Ltd. (4 marks)

(Total: 20 marks)

SECTION B – ANSWER AT LEAST ONE (1) QUESTION IN THIS SECTION

QUESTION 2

DG Ltd. had, among others, the following balances in its books at 1st January 2023.

	<i>Debit (GH¢)</i>	<i>Credit (GH¢)</i>
Machinery at Cost	750,000	
Machinery Accumulated Depreciation		301,000
Motor Vehicles at Cost	1,000,500	
Motor Vehicles Accumulated Depreciation		402,000

The following information relates to the Non-Current Assets for the financial year ended 31st December, 2023.

- a) On 1st July, 2023 DG Ltd. purchased machinery at a Cost Price of GH¢75,000, paying by cheque.
- b) On 1st December, 2023 DG Ltd purchased machinery at a Cost Price of GH¢27,600, on credit from BD Machinery Ltd.
- c) No disposal of machinery took place during the year ended 31st December, 2023.
- d) Machinery is depreciated at 20% per annum using the straight-line method, the rate being charged for each proportion of the year the machinery is owned. No allowance is made for any residual value. All machinery held as at 31st December, 2023 had been purchased within the previous four years.
- e) On 30th June, 2023 Motor Vehicles which originally cost GH¢ 40,000 and with a net book value of GH¢16,000 at the date of sale, were sold at a profit of GH¢ 600. The disposal receipt was paid into the bank account.
- f) No purchases of Motor Vehicles took place during the year ended 31st December, 2023.
- g) Motor Vehicles are depreciated at 25% per annum using the straight-line method, the rate being charged for each proportion of the year the Motor Vehicles are owned. No allowance is made for any residual value. All Motor Vehicles held as at 31st December, 2023 had been purchased within the previous three years.

You are required to:

Prepare the following Ledger Accounts of DG Ltd for the year ended 31st December, 2023, where appropriate showing the balance carried down to the next Financial Year. **Dates are not required.**

- a) Machinery **(4 marks)**

- b) Accumulated Depreciation of Machinery **(4 marks)**

- c) Motor Vehicles **(4 marks)**

- d) Accumulated Depreciation of Motor Vehicles **(4 marks)**

- e) Disposal of Motor Vehicles **(4 marks)**

[Total: 20 marks]

QUESTION 3

- a) Bank Reconciliation is a process that compares and matches the financial records of a business with the Bank Statements to ensure they are consistent and accurate. It verifies that transactions made align with those recorded by the bank for the same period.

You are required to:

- i) Explain **THREE (3)** reasons for carrying out a Bank Reconciliation. **(3 marks)**
- ii) State **THREE (3)** items which may appear in the bank Reconciliation Statement. **(3 marks)**
- b) Akoto is preparing his Bank Reconciliation for the month of February 2024. His bank statement shows a balance of GH¢1,824 cash at the bank. The balance on the Cash Book in his General Ledger is GH¢645 (Credit).

He has identified the following reasons for the difference.

1. The bank has credited the account in error with GH¢485 which belongs to another customer.
2. A cheque drawn, amounting to GH¢345, has been entered in the Cash Book as GH¢354.
3. Bank charges of GH¢320 on the Bank Statement have not been entered in the Cash Book.
4. Cheques totalling GH¢664 have been correctly entered on the debit side of the Cash Book, but have not been paid in at the bank.
5. A customer's cheque for GH¢460 was returned by Akoto's bank in February as the customer had insufficient funds in his account. Mensah has not recorded the return of the cheque in his records.
6. Six cheques have not yet been presented at the bank.

These are:

Cheque No.	GH¢
845763	550
845739	1,540 see note (7)
846435	480
846502	380
846548	269
846582	<u>200</u>
	<u>3,419</u>

7. Cheque number 845739 was lost and was cancelled. Mensah has not recorded the cancellation of the cheque.

You are required to:

- i) Prepare the Adjusted Cash Book for Akoto in a format which clearly indicates whether each entry is a debit or credit. **(7 marks)**
- ii) Prepare a Reconciliation of the Bank Statement Balance to the Adjusted Cash Book Balance. **(7 marks)**

[Total: 20 marks]

SECTION C – ANSWER AT LEAST TWO QUESTIONS

QUESTION 4

a) Explain each of the following characteristics of useful Accounting Information:

- i) Relevance (3 marks)
- ii) Understandability (3 marks)
- iii) Materiality (3 marks)
- iv) Completeness (3 marks)
- v) Neutrality (3 marks)

b) A Cash Budget is an estimation of the cash flows of a business over a specific period of time. This Budget is used to assess whether an entity has sufficient cash to continue operating over a given time frame. The Cash Budget provides a company with insight into its cash needs (and any surplus) and helps to determine an efficient allocation of cash.

You are required to:

Identify **THREE (3)** ways a business can address negative net monthly cash balances in a Cash Budget.

(5 marks)

[Total: 20 marks]

QUESTION 5

a) Inventory refers to the goods and materials that a business holds for the ultimate goal of resale, production or utilisation in the near future. Inventory could be in the form of raw materials, finished goods, work in progress, among others.

You are required to:

Identify **FIVE (5)** reasons why actual **inventory counted** may be different from the **balance in the inventory records**.

(5 marks)

- b) The following transactions have been recorded at the Stores of Kobo Kobo Ltd. for the month of January 2022 relating to material bx.

Date	Receipt	Issued
2/1	1,000 units at GH¢40 per unit	
5/1	600 units at GH¢45 per unit	
10/1		800 units
11/1		150 units
15/1	1,200 units at GH¢42 per unit	
18/1		850 units
24/1	900 units at GH¢48 per unit	

You are required to:

Prepare a statement clearly showing the closing balances at the end of each transaction using the FIFO method. **(12 marks)**

- c) Management Accounting Reports aid optimum decision making when information considered in preparing the report is reliable. Information is created when data is presented in a way that has meaning to the recipient. To turn data into information, it must be processed and organised.

You are required to:

State **TWO (2)** sources from where information can be obtained for Management Accounting Reports and give **ONE (1)** example of each source.

(3 marks)

[Total: 20 marks]

QUESTION 6

- (a) Describe the Budget Preparation Process. **(10 marks)**
- (b) List Three (3) advantages and Two (2) disadvantages of Activity-Based Budgeting. **(10 marks)**

[Total: 20 marks]

QUESTION 7

- a) The owner of Asprino Ventures, as part of the advice to a newly appointed Accountant said that she should focus on the preparation of the Year-End Financial Statements and not the preparation of Management Accounts. As a Chartered Banker you know that it is important for companies to prepare Management Accounts.

You are required to:

Explain to the owner of Asprino Ventures with **FIVE (5)** reasons why Management Accounts are important.

(15 marks)

- b) Explain **TWO (2)** reasons why a business entity will make Adjustments for Accruals and Prepayments in preparing its Final Accounts.

(5 marks)

[Total: 20 marks]