

# MARKING SCHEME FOR 2020 ACCOUNTING & FINANCE PAPER 3 2020 DIET CITG

## QUESTION 1

In Thomas Books

JOINT VENTURE WITH SAMUEL			
DR		CR	
Gh¢		Gh¢	
Bank:		Bank	
Cheque to Samuel	600	Cash collected	4,900.00
Advertisement	100		
Wages	550		
Vehicle running exps	500		
General service	200		
Balance c/d	2,950		
	4,900		4,900.00
		Balance b/d	2,950.00

5 marks

In Thomas Books

JOINT VENTURE WITH SAMUEL			
DR		CR	
Gh¢		Gh¢	
Bank:		Bank	
Purchases	700	Cheque from Thomas	600.00
Wages	1,950	Stock c/d	400.00
General service	200	Balance c/d	1,850.00
	2,850		2,850.00
Stock c/d	400		
Balance c/d	1,850		

5 marks

MEMORANDUM JOINT VENTURE ACCOUNT

DR		CR	
Gh¢		Gh¢	
Purchases	700	Sales	4,900.00
Advertisement	100	Stock of unused mat	400.00
Wages	2,500		
Vehicle running exp	500		
General services	400		
Profit c/d	1,100		
	5,300		5,300.00
Share of profit		Profit b/d	1,100.00
Thomas    2/5	440	CCC	
Samuel    3/5	660		
	1,100		1,100.00
		Total	<b>25 marks</b>

**15 marks**

**QUESTION 2**

If it can be accepted that inflation is perfectly even in its effects, then it would be legitimate to evaluate all capital projects in terms of current price level. Changing prices might then affect the figures describing the situation but would not affect profitability in real terms.

In practice, however, what is described as general inflation is an average of a large number of prices increases and they may be at widely differing rates.

Businesses will commonly find that their costs rise more quickly than they are able to increase selling prices. This put a squeeze on profits. They would also encounter differential increases within costs so that, for example, at one time material prices might be rising more quickly than labor costs and at another the reverse might be true.

Inflation will also have an effect on the cost of capital. Where borrowed funds are in use anticipated inflation may sometimes have been taken into account in establishing the rate of interest.

Unexpected inflation, however, will have the effect of reducing the burden of debt and thus, effectively, of reducing its real cost.

Where inflation is at unequal rates the following practical solution may be recommended.

- i Evaluate all cash flows in terms of money, i.e. taking account of price rises and the differential between one component of each flow and another
- ii Apply a general deflator to all cash flows to evaluate them in terms of the current price level. This deflator may be derived from expected movement of a general index such as the retail price index
- iii Discount the converted cash flow by reference to the real cost of capital. This should allow for any effect of inflation on the cost of debt.

**25 marks**

### **QUESTION 3**

A The two main methods are:

Method A

The customer's account is debited with cash sales price of the item and HP sales account is credited.

Interest is debited to the customer's account when each instalment is due and credited to HP interest received

Deposits and instalments are credited to the customer's account.

At the end of the period the balance on this account represents that part of cash sales not yet due or received.

In the balance sheet it is included under current assets as HP

debtors not yet paid.

**4 marks**

Method B

Same as method A except for the following:

The customer's account is debited with the HP sale price of the item

HP sales account is credited with the cash price and HP interest

suspense with the full amount of interest on the contract

Deposits and instalments received are credited to the customer's account.

but the balance on this account at the end of the period is represents

that part of the hire purchase sale price not yet due or received.

In the balance sheet it is included under current assets, minus the balance

on the HP Suspense, as HP Debtors not yet due.

**4 marks**

<b>B</b>		<b>Lord Mercy Haulage Transport Ltd</b>		
	<b>GH¢</b>			<b>GH¢</b>
<b>2018</b>		<b>2018</b>		
<b>1-Jan HP sales</b>	90,000.00	1-Jan Bank-deposit		30,000.00
<b>31-Dec HP Interest Rec</b>	18,000.00	31-Dec 1st Instal		33,000.00
<b>(30%*(90,000-30,000))</b>		Bal c/d		45,000.00
	<b>108,000.00</b>			<b>108,000.00</b>
<b>2019</b>		<b>2019</b>		
<b>1-Jan Balance b/d</b>	45,000.00	31-Dec 2nd Instal		33,000.00
<b>31-Dec HP Interest Rec</b>	13,500.00	31-Dec Balance c/d		25,500.00
<b>(30%*(45,000))</b>				
	<b>58,500.00</b>			<b>58,500.00</b>
<b>2020</b>		<b>2020</b>		
<b>1-Jan Balance b/d</b>	25,500.00	31-Dec Final Instal		33,150.00
<b>31-Dec HP Interest Rec</b>	7,650.00			
<b>(30%*(25,000))</b>				



$$\begin{aligned} P/E &= \text{GH}\text{¢} 1.77 \\ & 45.1\text{p} \\ & = 3.92 \end{aligned}$$

- iii The rate of return to the investor consists of a dividend and capital growth.  
The current dividend yield is:

$$\begin{aligned} & 22\text{p} \\ \text{GH}\text{¢}1.77 * 100 & = 12.43\% \end{aligned}$$

9 marks

- B Net asset cover is the net asset of the business divided by the number of shares in issue.  
Net assets is total assets less current liabilities, loan capital and preference capital. It equates with state capital and reserves.

The implication of net asset cover of 85p is that the assets appearing on the balance sheet and valued there account for only a small proportion of the market price of the share of GH¢1.77. Some discrepancy is usual for two reasons. One is that balance sheet values are conservative and do not purport to represent market values. The other is that most businesses possess valuable goodwill which does not, however, appear on the balance sheet. The value of the business as a going concern is normally in excess of its break up value.

The fact that the P.E ratio is low for this type of business suggests that the market is taking a cautious view of the business's prospects. The yield would appear to justify a higher price than at present obtains. Perhaps investors are put off by the low net asset cover or perhaps they feel that the performance of the past five years arises from circumstances which are unlikely to be maintained.

8 marks

- C On the face of it the debentures are not a good buy. They give a running yield of only just over 14% per annum which is lower than the equity yields and at the conversion rate given they imply a share price of GH¢2.12.5p per share which compares unfavorably with the market price of GH¢1.77

These figures are calculated as follows:

$$\begin{aligned} \text{Running yield} &= 12\% * 100/85 \\ &= 14.12\% \end{aligned}$$

$$\begin{aligned} \text{Implied share price} &= \text{GH¢}85/40 \\ &= \text{GH¢}2.12.5 \end{aligned}$$

The uncertainty about the position of the business may however, suggest that the convertible debentures could be a good investments. If they are held a decision on the equity can be postponed until three years have elapsed when matters may be clearer. A reasonable rate of return is earned on the investment in the mean time and this is likely to be maintained even if conversion does not take place.

8 marks

Total

**25 marks**

END OF SCHEME

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# MARKING SCHEME FOR 2020 ACCOUNTING & FINANCE PAPER 3 2020 DIET CITG (QUESTION BANK)

## Question 1

The Trading and profits and Loss account can conveniently be prepared in columnar form with separate columns for HO and branch. An adjustment column is used to convert the sum of the HO and branch columns into a total business figure where appropriate. The Goods from HO in the branch trading account plus the Goods in transit are a contra item to the Goods in transit are a contra item to the Goods to branch in the HO trading account.

### Trading and Profit and Loss Accounts for the year ended 31

	Accra Mile 7 (HO)	C	C	Obomeng- Kw (Branch)
	C			C
Sales	194,012.00			
Goods to Branch	71,540.00			
			265,560.00	
Less:				
Opening Stock	28,000.00			17,000.00
Purchases	195,900.00			
Goods from HO				69,940.00
	223,900.00			86,940.00
Less				
Closing Stock	25,400.00			9,600.00
Cost of Sales			198,500.00	
Gross Profit			67,060.00	
Less				
General Expenses	34,000.00			20,000.00
Depreciation	7,600.00			3,080.00
			41,600.00	
Net Profit			25,460.00	

\*(Transfer profit, one ninth of cost, is equal to 10% of transfer price)

	Stock at transfer price	C	C	
Branch - Opening	1,700.00			
Branch - Closing	9,600.00			

Stock in Transit	1,600.00
	<u>11,200.00</u>
Increase/(decrease)	<u>(5,800.00)</u>

The effect of maintaining the provision for unrealised profit is that total business stocks are reduced to cost to the business thus leaving a credit of only the realised portion of transfer profit.

Gross profit for the total business comprise:

	¢
HO	67,060.00
Branch	42,060.00
Decrease in provision for unrealized profit	<u>580.00</u>
	<u>109,700.00</u>

The Balance Sheet can be prepared in a similar format to the Trading and Profit and Loss Account. An adjustment column is used to convert the sum of the HO and the branch columns into a total business figure where appropriate.

### Balance sheets as at 31st March 19 - 1

	<b>Accra Mile 7 (HO)</b>		<b>Obomeng- Kw (Branch)</b>
	¢	¢	¢
<b>Fixed Assets(at wdv)</b>		30,400.00	
(¢38,000 - ¢7,600)			
(¢15,400 - ¢3,080)			
<b>Current Assets</b>			
Stocks	25,400.00		9,600.00
Debtors	17,448.00		3,904.00
Bank and Cash	<u>30,614.00</u>		<u>5,768.00</u>
	<u>73,462.00</u>		<u>19,272.00</u>
<b>Less current liabilities</b>			
Creditors	<u>16,234.00</u>		<u>540.00</u>
	<u>16,234.00</u>		<u>540.00</u>
Working Capital		<u>57,228.00</u>	
Net Assets Employed		<u>87,628.00</u>	

Financed by:

Capital 1st April 19 - 0

Add Net Profit For year

The complete Current Accounts would appear thus:  
HULL (HO) Ledger

### Head Office Current Account

	¢
Balance b/d	126,532.00
Profit and loss	18,980.00
	145,512.00
Balance b/d	31,052.00
Cash in transit b/d	480.00
Stock in transit b/d	1,600.00

### Branch Current Account

	¢
Remittances HO	112,860.00
Balance c/d	31,052.00
	143,912.00

The profit (or loss) made by the branch is transmitted to Ho via the current Account.  
On completion of the Current Account, not only are the closing balances equal and opposite:

	¢
HO ledger - Grimsby Current Account	31,052.00
Grimsby ledger - Hull Current Account	31,052.00

but they also agree with the Net Asset Employed at the Grimsby branch as disclosed by the Balance Sheet ¢31,052.

### Question 3

- (a) Total rental over life of lease {5 x ¢60,000}  
less Initial fair value  
Gross earning

(b) Extract from balance sheet as at 1 January 19 - 5

#### Current Assets

Debtors: amounts due in more than one year  
Net investment in finance leases  
[(4 x 60,000) - (50,000 - 28,000)]

## NOTES

Cost of assets acquired for letting under finance leases  
Net investment in finance leases

©	At 1st January: (after rental received)	NO. of years outstanding
	19 - 5	4
	19 - 6	3
	19 - 7	2
	19 - 8	1
	19 - 9	0
		<hr/>
		10
		<hr/> <hr/>

(d)	Year	Fraction	Gross earning allocation
	19 - 5	4/10	20,000.00
	19 - 6	3/10	15,000.00
	19 - 7	2/10	10,000.00
	19 - 8	1/10	5,000.00
	19 - 9		Nil
			<hr/>
			50,000.00
			<hr/> <hr/>

These sums would appear as gross earnings (turnover) in the profit and loss accounts for their years.

### (e) Extract from balance sheet as at 31st December 19 - 5

#### Current Assets

Debtors: amounts due in less than one year

Net investment in finance leases

[60,000 - 15,000]

Debtors: amounts due in more than one year

Net investment in finance lease s

[3 x 60,000) - (10,000 + 5,000)]

#### Notes

Cost of assets acquired for letting under finance leases

Net investment in finance leases

[equivalent to 45,000 + 165,000 above]

### 1st March 19 - 1

<b>Adjustment by HO</b>		<b>Total Business</b>	
C	C	C	C
119,400.00			313,420.00
	(71,540.00)		
	<u>(71,540.00)</u>		
	(1,700.00)	43,300.00	
	Proven for	195,900.00	
	U/P		
	(69,940.00)		
	<u>(71,640.00)</u>	<u>239,200.00</u>	
	Provn U/P	35,480.00	
	(1,120.00)		
	Stock in Transit		
	1,600.00		
77,340.00	<u>(72,120.00)</u>		<u>203,720.00</u>
<u>42,060.00</u>	580.00		<u>109,700.00</u>
		54,000.00	
		10,680.00	
23,080.00		<u>64,680.00</u>	
<u>18,980.00</u>	<u>580.00</u>		<u>45,020.00</u>

Provision for unrealised profit (10%)

C
1,700.00
<u>960.00</u>

160.00
<u>1,120.00</u>
<u>(580.00)</u>

counts.  
total

[

	<b>Adjustment by HO</b>		<b>Total Business</b>	
C	C	C	C	C
12,320.00				42,720.00
	Provn for U/P (1,120) 1,600 Stock in transit		35,480.00	
	Cash in transit 480		21,352.00	
	<u>960.00</u>		<u>36,862.00</u>	
			<u>16,774.00</u>	
			16,774.00	
<u>18,732.00</u>				<u>76,920.00</u>
<u>31,052.00</u>	<u>960.00</u>			<u>119,640.00</u>
			74,620.00	
			<u>45,020.00</u>	
			<u>119,640.00</u>	

10 marks

count

	¢
Remittances from branch	112,380.00
Cash in transit c/d	480.00
Stock in transit c/d	1,600.00
Balance c/d	<u>31,052.00</u>
	<u>145,512.00</u>

:

	¢
Balance b/d	124,932.00
Profit and Loss	<u>18,980.00</u>
	<u>143,912.00</u>
Balance b/d	31,052.00

Debit  
Credit

¢
300,000.00
<u>250,000.00</u>
<u>50,000.00</u>

2 marks

218,000.00

250,000.00

218,000.00 **4 marks**

Fraction

$\frac{2}{5}$

$\frac{3}{10}$

$\frac{2}{10}$

$\frac{1}{10}$

6 marks

respective

6 marks

¢

45,000.00

165,000.00

250,000.00

210,000.00

7 marks

Total

25 marks