

CHARTERED INSTITUTE OF TAXATION, GHANA

PROFESSIONAL EXAMINATIONS

FEBRUARY, 2020

PROFESSIONAL LEVEL

PAPER 3 – ACCOUNTING AND FINANCE

ATTEMPT ALL QUESTIONS. TIME ALLOWED: 3 HOURS

QUESTION 1

Thomas and Samuel entered into a joint venture, from 1st January 2019, to carry on servicing of IT installation equipment.

It was agreed that Thomas should secure the orders, receive the IT faulty equipment from the customers, convey them to Samuel who would carry out the required repairs, deliver them to the customers and receive the money.

Each party was to charge his expenses against the Joint Venture and any profits and losses were to be shared in the following proportion: Thomas 2/5 and Samuel 3/5, settlement to be made quarterly. In arriving at any profit and loss, work in progress was to be disregarded.

During the first quarter of 2019, the following transactions took place, Thomas assisted in financing Samuel by remitting him a cheque for GH¢600.00.

Samuel bought a stock of parts, components and other materials for GH¢700.00 of which Ghc400.00 worth were still in stock at 31st March 2019.

Thomas placed advertisement in Kwahu Newspaper at a cost of GH¢100.00, collected cash from a customer amounting to GH¢4,900.00.

Salaries and Wages paid to part-time staff by Samuel totaled GH¢1,950.00 and by Thomas was Ghc550.00; an allowance of GH¢500.00 was made to Thomas for vehicle running expenses and Ghc200.00 to each party for use of their respective services.

Required:

Prepare for the first quarter ended 31st March 2019:

- a) Joint venture accounts in the books of each venture

10 marks

b) Memorandum joint venture account

15 marks

TOTAL

25 MARKS

QUESTION 2

“Inflation affects everybody equally. There is, therefore, no need to take it into account in evaluating capital projects”.

Required:

Discuss the above statement with reference to the evaluation of capital projects in an inflationary economy

25 MARKS

QUESTION 3

The Lords Mercy Haulage Transport Limited acquired two new 50 ton articulator units' trucks on 1st January 2018 for GH¢129, 150.00 the cash price of these units was GH¢90, 000.00

The deal was financed by Adehye Finances Limited and the terms of the hire purchase contract required a deposit of GH¢30,000.00 on delivery, followed by three instalments on 31st December 2018, 2019 and 2020 of GH¢33, 000.00, GH¢33, 000.00 and GH¢33,150.00 respectively.

The true rate of interest was 30% per annum.

The depreciation policy of the Lords Mercy Haulage Limited was to write off 20% per annum on a straight line basis assuming a residual value of nil.

Required:

- a) Identify the two main methods of dealing with hire purchase transactions and state three characteristics of each method **8 marks**
- b) Prepare the appropriate accounts in the books of the Lords Mercy Haulage Limited to record the above transactions using method “A”. **11 marks**
- c) Show the provision for unrealized profit **6 marks**

TOTAL

25 MARKS

QUESTION 4

Graphic and Times Limited, is a quoted company on the Ghana Stock Exchange and you as an investor you are interested in investing in the company. Relevant information concerning the ordinary shares of the company for the past five years is shown below. Year 5 is the most recent year.

Years	Share Price (Average)	Dividend per Share GH¢1.00	Dividend Cover
1	GH¢1.20	14 pesewas	2.14
2	GH¢1.30	14 pesewas	2.29
3	GH¢1.35	16 pesewas	2.38
4	GH¢1.65	18 pesewas	2.22
5	GH¢1.77	22 pesewas	2.05

Graphic and Times Limited also has in issue some convertible debentures. These have a coupon rate of 12% per annum and currently stand at GH¢85 per GH¢100 of stock. They are convertible into ordinary shares at the rate of 40 shares per GH¢100 stock on a single occasion in three years' time.

Required:

a) Calculate:

i. Earnings per share,

ii. The P/E ratio,

iii. The rate of return which you, as an investor, could expect from the ordinary shares

9 marks

b) You have read that the “net asset cover for the shares of Graphic and Times Limited is only 85 pesewas but the P/E ratio is low for this type of company”. State what you understand by this comment and set out its implications.

8 marks

c) Comment briefly on whether you think that the purchase of a convertible debentures would be a good way into an equity

8 marks

TOTAL 25 MARKS

END OF PAPER