MINISTRY OF EDUCATION

GHANA ASSOCIATION OF BUSINESS EDUCATION TEACHERS

Accounting

for Senior High Schools

Year 3

Josephine Kyei-Baffour

Alex Nsoh

Emmanuel Asante Koree

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Ghana Education Service (GES)

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CONTENTS

FOREWORD 6

SECTION 1 IMPLICATIONS AND THREATS OF ETHICAL PRINCIPLES 7

FINANCIAL ACCOUNTING 8

Conceptual Framework 8
INTRODUCTION TO ETHICAL PRINCIPLES AND THE THREATS TO THESE PRINCIPLES 9
DISCUSS THE IMPLICATIONS/IMPORTANCE OF ETHICAL PRINCIPLES IN THE PREPARATION OF FINANCIAL STATEMENTS 12

SECTION 2 FINANCIAL ACCOUNTING RATIO ANALYSIS 15

FINANCIAL ACCOUNTING 16

INTRODUCTION TO ACCOUNTING RATIOS 16
IMPORTANCE AND LIMITATIONS OF ACCOUNTING RATIOS 19
COMPUTE PROFITABILITY RATIOS AND INTERPRET THE RESULTS 20
COMPUTING LIQUIDITY RATIOS AND INTERPRETING THE RESULTS 22
COMPUTE EFFICIENCY / MANAGEMENT/ACTIVITY RATIOS AND INTERPRET THE RESULTS 24

SECTION 3 INTRODUCTION TO THE PREPARATION OF PARTNERSHIP AND COMPANY ACCOUNTS 29

FINANCIAL ACCOUNTING 30

PARTNERSHIP BUSINESS - MEANING AND PARTNERSHIP DEED 31
PARTNERSHIP BUSINESS – ADVANTAGES AND DISADVANTAGES 35
DISCUSS THE CONTENTS OF APPROPRIATION, CURRENT AND CAPITAL ACCOUNTS OF PARTNERSHIP 37
PREPARE APPROPRIATION, CURRENT AND CAPITAL ACCOUNTS OF PARTNERSHIP 39
PREPARE THE STATEMENT OF PROFIT/LOSS, APPROPRIATION AND STATEMENT OF FINANCIAL POSITION OF PARTNERSHIP 41
ADMISSION OF A NEW PARTNER AND TREATMENT OF GOODWILL 43
RETIREMENT OF AN OLD PARTNER 46
ADMISSION OF A NEW PARTNER AND RETIREMENT OF AN OLD PARTNER 49
COMPANY AS A FORM OF BUSINESS, ITS FEATURES AND TYPES OF COMPANY 51
DISCUSS THE ADVANTAGES AND DISADVANTAGES OF FORMING A COMPANY 54
DISCUSS THE TERMINOLOGIES USED IN COMPANY ACCOUNTING 56
PREPARE INCOME STATEMENTS OF COMPANIES 60
PREPARING STATEMENT OF PROFIT OR LOSS, STATEMENT OF CHANGES IN EQUITY AND STATEMENT OF FINANCIAL POSITION OF COMPANIES 62
PREPARE STATEMENT OF PROFIT/LOSS, STATEMENT OF CHANGES IN EQUITY AND STATEMENT OF FINANCIAL POSITION OF COMPANIES 64

SECTION 4 PREPARE STORE LEDGER CARDS, COMPUTE LABOUR REMUNERATIONS, PREPARE PAYROLL AND ASSIGN COST DRIVER RATES TO PRODUCTS AND SERVICES 69

COST ACCOUNTING 70

Controlling Cost to Improve Organisational Performance 70
PREPARE STORE LEDGER CARD USING FIRST - IN - FIRST OUT (FIFO) METHOD OF PRICING ISSUES FROM STORES 71
SIMPLE AVERAGE METHOD 75
REVISION OF METHODS OF LABOUR REMUNERATION 77
PAYROLL COMPUTATION - EXPLANATION OF TERMS 78
COMPUTATION OF PAYROLL 80
COMPUTATION OF LABOUR TURNOVER AND IDLE TIME 81
COMPUTATION OF COST DRIVER RATES 83
ASSIGN OVERHEADS TO PRODUCTS OR SERVICES USING COST DRIVER RATES 84

SECTION 5 BUDGETS AND BUDGETARY CONTROL, STANDARD COSTING AND VARIANCE ANALYSIS 87

COST ACCOUNTING 88

Determining the Cost of Operations for Pricing and Controlling 88
PREPARATION OF SALES AND PRODUCTION BUDGETS 88
PREPARATION OF MATERIAL USAGE AND MATERIAL PURCHASES BUDGETS .. 90
PREPARATION OF CASH BUDGET 92
PREPARATION OF CASH BUDGETS 94
CAUSES OF VARIANCES AND COMPUTATION OF MATERIAL VARIANCES 95
CAUSES AND COMPUTATION OF LABOUR VARIANCES 98

SECTION 6 APPLY BREAK EVEN ANALYSIS IN PLANNING FOR PRODUCTION AND PROFITS AND COMPUTE COSTS FOR RELEVANT DECISION MAKING102

COST ACCOUNTING 103

Analysing Information for Control and Decision Making 103
COMPUTATIONS IN BREAK-EVEN ANALYSIS 104
PLOTTING OF BREAK-EVEN CHART 105
COMPUTE RELEVANT COSTS TO MAKE PRICING DECISIONS 107
SHUT DOWN OF A DEPARTMENT / REMOVAL OF A PRODUCT DECISIONS .. 108
ACCEPTANCE OR REJECTION OF A SPECIAL ORDER PRICING 110
ACCEPTANCE OR REJECTION OF A SPECIAL ORDER PRICING 111
REFERENCES 136
GLOSSARY 137

FOREWORD

Ghana's new Senior High School Curriculum aims to ensure that all learners achieve their potential by equipping them with 21st Century skills, knowledge, character qualities and shared Ghanaian values. This will prepare learners to live a responsible adult life, progress to further studies and enter the world of work. This is the first time that Ghana has developed a Senior High School Curriculum which focuses on national values, attempting to educate a generation of Ghanaian youth who are proud of our country and can contribute effectively to its development.

The Ministry of Education is proud to have overseen the production of these Learner Materials which can be used in class and for self-study and revision. These materials have been developed through a partnership between the Ghana Education Service, teacher unions (Ghana National Association of Teachers-GNAT, National Association of Graduate Teacher -NAGRAT and the Pre-Tertiary Teachers Association of Ghana- PRETAG) and National Subject Associations. These materials are informative and of high quality because they have been written by teachers for teachers with the expert backing of each subject association.

I believe that, if used appropriately, these materials will go a long way to transforming our Senior High Schools and developing Ghana so that we become a proud, prosperous and values-driven nation where our people are our greatest national asset.

Haruna Iddrisu MP
Minister for Education

SECTION

1

IMPLICATIONS AND THREATS OF ETHICAL PRINCIPLES

FINANCIAL ACCOUNTING

CONCEPTUAL FRAMEWORK

INTRODUCTION

This is the first section of the third-year business accounting programme. In this section, we will focus on the conceptual framework of accounting. We will delve into the implications and threats of ethical principles of accountants in both personal life and business. The main goal is to equip you with the understanding of how to avoid fraudulent activities, which will lay the groundwork for trust and transparency in financial statements.

Consequently, this can help to ensure improved employee morale and sustainable financial growth. Emphasis will be placed on the practical application of ethics, enabling you to effectively use them not only to produce reliable and transparent financial statements, but also to apply them in daily life.

By the end of this section, you will be expected to understand and explain ethical principles, discuss how these principles are applied in daily life and within the accounting profession and demonstrate the ability to avoid threats to these ethical principles.

Before continuing, reflect on some areas you studied in Year 1 and Year 2 that relate to implications and threats of ethical principles. These include areas such as accounting standards and the accounting concepts and conventions.

KEY IDEAS

- **Commitment** is sticking to a goal and putting in the effort over time.
- **Compliance** is following the rules that apply to you.
- **Ethical Principle** is a basic moral rule that guides behaviour.
- **Integrity** is doing the right thing even when no one is watching.
- **Sustainability** is using resources so they last for future generations.

INTRODUCTION TO ETHICAL PRINCIPLES AND THE THREATS TO THESE PRINCIPLES

EXPLANATION OF ETHICAL PRINCIPLES

Ethics can be defined as what is right and wrong and the values that guide how we act and make decisions. It is a set of rules to help us behave properly.

In accounting, ethics means the core rules and values that guide how accountants work. So an accountant should not only try to satisfy one client or employer, but they should also act in the public interest. The basic ethical principles show the standard of behaviour expected from a professional accountant.

The Fundamental Ethical Principles

The fundamental ethical principles include

1. Integrity
2. Objectivity
3. Professional competence and due care
4. Confidentiality
5. Professional behaviour

Explanation of Fundamental Ethical Principles

1. Integrity – Be honest and straightforward in all work and business deals.
2. Objectivity – Make judgments fairly, without being influenced by bias, conflicts of interest or other people pushing you.
3. Professional Competence and Due Care – Keep up with the knowledge and skills you need, so you give clients or employers good, up-to-date service. Work carefully and follow the right rules and standards.
4. Confidentiality – Respect and keep the information you learn because of your work. Confidentiality is an ethical ideal that demands that a person keep private information private and not share it with others without proper authority or consent.
5. Professional Behaviour – Follow laws and rules and avoid actions that could bring the accounting profession into disrepute.

Activity 1.1 Ethical Principles

1. In groups, read the case below

SHS Accounting Club

A Senior High School Accounting Club runs a small fundraising project to support school activities. You are the clerk responsible for recording the club's financial transactions in the ledger and preparing the Statement of Profit or Loss report.

One day, the club president asks you to "make the books look better" by:

- *Recording a donation of GH¢200 as "revenue from events" even though it came from one sponsor who supported the club's general activities.*
- *Inflating total donations by double-counting a receipt from a sponsor.*
- *Excluding a small loss from a purchasing error in the expenses section to show a cleaner profit.*

2. Answer the questions below.
   a. Identify the ethical issues in this scenario.
   b. Which ethical principles of accounting are being violated?
   c. List at least three prudent actions.
   d. What could be the potential consequences if the club changes the books as requested?
   e. If the president insists, what are your options, and which would you choose? (e.g., refuse, report to a higher authority in the school, seek guidance from a teacher/mentor.)
   f. How can the club prevent similar issues in the future? Provide at least two preventive measures.
3. Present your answers to the whole class for discussion and correction.

THREATS TO ETHICAL BEHAVIOUR

Ethical threats are things, factors or situations that can tempt you to do the wrong thing and make it hard to keep your good moral standards. Threats may arise as a result of any of the following:

1. **Self-Interest threat:** This occurs when an accountant has a personal financial stake/interest that could affect their judgment. For example, if their bonus depends on how profitable the company looks, they might try to boost profits by changing numbers.
2. **Lack of Scrutiny:** This occurs when an accountant checks his or her work or the firm's work instead of having someone independent check it. Mistakes or false figures can be missed.
3. **Conflict of Interest:** This arises when a close relationship or loyalty to someone (like a client or boss) makes it hard to be objective. For example, being too lenient with a long-time client who does questionable accounting.
4. **Intimidation or Threat:** This happens when an accountant or auditor feels pressured or threatened. They might give in to pressure and break ethical rules.
5. **Advocacy Threat:** The threat arises when the accountant is asked to push for a specific position or outcome. It can compromise their objectivity and fairness.

Activity 1.2 Threats to Ethical Behaviour

1. In pairs, read the case below and answer the questions that follow.

The Kyei Baffour Family-Owned Car Repair Shop

A small family-owned car repair shop by the Kyei-Baffour has been profitable for several years. You are a senior student helping with the shop's accounting as part of a school project. The owner, Mr Kyei-Baffour (who is also the father of the shop manager), asks you to help prepare the monthly financial statements. You notice a few concerns:

- *Some small expenditures (tools and supplies) are recorded as "miscellaneous" instead of specific expense accounts.*
- *The owner asks you to record GH¢2,000 of accounts receivable as if it will be collected in the next month, even though several customers are late and you have doubts about collectability.*
- *The owner requests that revenue for a significant repair project, completed in the following month, be recognised in the current month, explaining that the timing does not affect the total amount received, only the reporting period.*
- *The owner frequently reminds you that the business needs to show higher profits because a bank loan will soon be due, and the owner wants to "keep the bank happy."*
- *You notice the owner sometimes asks you to approve petty cash withdrawals without receipts, saying,* "Don't worry, I'll cover it."

Questions

a. Identify the different threats to ethical behaviour that are present in this scenario.

b. Which fundamental ethical principles of accounting are at risk in this case? Explain briefly.

c. For each inappropriate action you identified in (i), explain why it is a problem from an ethical and accounting perspective.

d. What steps should the student (you) take to handle these situations safely and ethically? Consider both short-term and long-term actions.

e. If you were advising the shop's owner, what would you tell them to do differently to protect the business and its stakeholders? Include at least three concrete recommendations.

DISCUSS THE IMPLICATIONS/IMPORTANCE OF ETHICAL PRINCIPLES IN THE PREPARATION OF FINANCIAL STATEMENTS

IMPLICATIONS/ IMPORTANCE OF ETHICAL PRINCIPLES

1. Ensuring legal compliance - Making sure the business follows all laws and rules in Ghana.
2. Preserving financial reporting integrity and building trust - Keeping honest, accurate financial records and showing them honestly to earn people's trust.
3. Preventing fraud and unethical practices - Stopping cheating, theft and any bad or unfair actions in the business.
4. Enhancing corporate reputation and image - Improving how the company is seen by customers, workers and the community.
5. Supporting long-term sustainability - Helping the business stay strong and survive for many years.

Why Ethical Principles are Important to the Preparation of Financial Statements

1. **Ensuring legal compliance**

   Doing the right thing in accounting helps accountants follow rules from the law and the profession. Ethical practices protect accountants from trouble and rule-breaking.

2. **Preserving financial reporting integrity and building trust**

Accountants must present true and reliable financial information. Being honest, fair and open makes the reports believable. Investors and others rely on these numbers to make smart choices. When we stay ethical, trust in the data and in the profession grows.

3. **Preventing fraud and unethical practices**

   Ethical accounting helps stop fraud and other bad acts. People are less likely to steal or bend the numbers. Being honest protects the company, owners and stakeholders from financial harm.

4. **Enhancing corporate reputation and image**

   Doing the right thing in accounting improves how people see the company. When a business is known for ethics, clients, investors and the public view it as trustworthy and responsible. That strengthens its name and builds long-term relationships.

5. **Supporting long-term sustainability**

   Ethical accounting helps a business last longer. By following good practices, resources are managed effectively, finances remain stable, and operations remain solid over time. Avoiding unethical behaviour creates a healthy environment for growth and ongoing success.

Activity 1.3 Implications/Importance of Ethical Principles in the Preparation of Financial Statements

1. In your groups, pick the questions presented by the resource person.
2. Listen attentively to the resource person's presentation.
3. Discuss the questions each group picked.
4. Groups make presentations to the whole class in turns.

EXTENDED READING

- Adomako, R. K. (2019). Contemporary Financial Accounting. Tamale: Zeal Publishing. pp. 62-68, pp. 200-215
- Andoh, C. A. (2020). Principles of Financial Accounting. Accra: Best Books Ltd. pp 25-30, 45-53
- Any Financial Accounting book approved by NaCCA
- Boateng, A. A. (2018). Essentials of Financial Accounting. Tamale: Northern Publications. Pp 42-50, 65-70
- Owusu, P. Y. (2021). Financial Accounting Made Simple. Cape Coast: Coastal Press pp 10-15, 55-60
- Tetteh, M. A. (2020). Financial Reporting and Analysis. Accra: Bloom Publications. pp. 40-47, pp. 110-125

REVIEW QUESTIONS

1. What are the core ethical principles in accounting?
2. Define the integrity principle in accounting.
3. What does the professional competence and due care principle require?
4. How does confidentiality apply to accounting?
5. Why is faithful representation important in FS preparation from an ethics viewpoint?

SECTION

2 FINANCIAL ACCOUNTING RATIO ANALYSIS

FINANCIAL ACCOUNTING

FINANCIAL DATA ANALYSIS

INTRODUCTION

In this section, we will look at the calculation and interpretation of accounting ratios, which are crucial for analysing financial statements. You will develop a thorough understanding of how to analyse financial statements and evaluate the performance of companies. Emphasis will be placed on the practical application and interpretation of financial statements and on relating the analysis to real-life scenarios.

By the end of this section, you will be expected to understand and explain financial ratios, discuss how these financial ratios are applied and demonstrate the ability to evaluate the performance of companies using this information.

Let's reflect on a topic you studied in Year 1 that relates to accounting ratios. You prepared the income statement to ascertain the net profit of the sole proprietor and the statement of financial position to determine the total assets, liabilities and equities. The table below shows the area.

KEY IDEAS

- **Financial stability** refers to how secure a business is over time. It indicates whether the company can continue operating even in the face of unexpected problems.
- **Investment** involves putting money into a business or project, expecting to earn a profit in the future.
- **Liquidity** is about how quickly a business can turn its assets into cash to pay its immediate bills.
- **Profitability** shows whether a business is making money. It tells us if the company is earning more than it spends.
- **Ratio Analysis** is a way of looking at a company's financial information using ratios. These ratios help us understand how well a business is doing, its strengths and areas that might need improvement.

INTRODUCTION TO ACCOUNTING RATIOS

RATIO ANALYSIS

Accounting ratios are a group of formulas that help to assess how well a company is doing financially, based on its financial reports. They are useful tools for shareholders, creditors

and other stakeholders to understand how efficient, profitable, strong and financially healthy a company is. These ratios make it easier to summarise and interpret difficult financial information.

The accounting ratios can be grouped into five categories

1. Profitability Ratios
2. Liquidity Ratios
3. Efficiency/ Management/Activity Ratios
4. Long-Term Solvency Ratios
5. Investment Ratios

Explanation of Categories of Ratios

1. **Profitability Ratios**

   These are ratios that help us see how much money a business made during the year. They show how well a business can earn a profit. Profitability ratios tell us if a business can make enough money to stay in operation and grow. Examples of Profitability Ratios include

   a. Gross Profit as a percentage of Sales
   b. Net Profit as a percentage of Sales
   c. Return on capital employed
   d. Asset Turnover Ratio

2. **Liquidity Ratios**

   These are ratios that show how well a business can pay its short-term debts or liabilities when they are due. Liquidity is about how easily an asset can be converted into cash or another form of asset without losing much of its value. Examples of Liquidity Ratios are

   a. Current Ratio
   b. Acid Test / Quick Ratio

3. **Efficiency/ Management/ Activity Ratios**

   These are referred to as Activity or Management Ratios. They show how effectively management is using the business's resources to generate profits. Efficiency ratios measure how efficiently the business generates revenue and profits. They also look at how many days it takes to sell inventory, collect money owed by customers (receivables), and pay what is owed to suppliers (payables). Examples of Efficiency ratios are

   a. Receivable Days
   b. Trade payables Days
   c. Inventory/ Stock Turnover days

4. **Long-Term Solvency Ratios**

   They focus on a business's long-term financial health. They show how much of the company's money comes from owners' (equity) funds compared to borrowed funds (debt). They also analyse the components of the company's capital, especially the balance between debt and owners' investments. Examples of Solvency ratios are

   a. Debts to Equity Ratio
   b. Interest Cover

5. **Investment Ratios**

   These are the ratios investors use to decide whether to invest in a company. Investors use these ratios to decide whether to buy shares in a company. They also show the potential profits or returns that shareholders can earn from their investment. Examples include

   a. Dividend per Share
   b. Earnings per Share (EPS)
   c. Price Earnings Ratio (P/E Ratio)

Activity 2.1 Meaning and Categories of Accounting Ratios

1. Recall what you learnt in year 1 on the preparation of the income statement and statement of financial position of a sole proprietorship.
2. Share your reflections with a friend by answering the following questions
   a. Write the format of the income statement and the statement of financial position.
   b. List one importance of each of the Statement of Profit or Loss and the Statement of Financial Position to businesses.
3. In pairs, define accounting ratios.
4. Share your answer with another pair for feedback
5. In groups, explain the following categories of accounting ratios with three examples each
   a. Profitability Ratios
   b. Liquidity Ratios
   c. Efficiency/ Management Activity Ratios
   d. Long Term Solvency Ratios
   e. Investment Ratios
6. Present your findings to another group for discussion and feedback.

IMPORTANCE AND LIMITATIONS OF ACCOUNTING RATIOS

IMPORTANCE OF RATIO ANALYSIS

1. **For Trend Analysis**

   Ratios are tools that help to understand how well a company is doing over time. They take information from the company's financial statements and turn it into simple numbers for comparison. This helps managers assess if their decisions are working and if the company is improving.

2. **For inter–firm comparison**

   Ratios are used to compare one company's performance with other companies in the same industry. This helps to analyse how well a company is doing compared to its competitors and understand the industry's overall health in the economy.

3. **For investment decisions**

   Investors use ratios to decide whether to buy or sell shares in a company. By looking at ratios, investors can determine whether the company's sales, profits and growth are improving or declining, helping them make informed choices.

4. **Helps to determine the financial health of a business**

   Ratios give important information about a company's ability to pay its debts (liquidity), profits (profitability), and how much debt (liabilities) it has compared to its assets. This helps determine whether the business is financially healthy.

Limitations of Ratio Analysis

1. **Historical Information**

   Ratios are calculated using information from previous periods. They show what happened in the past, so they might not predict what will happen in the future.

2. **Differences in accounting policies**

   Companies may use different accounting policies and methods to prepare their financial statements. This can make it hard to compare ratios accurately because the methods affect the figures.

3. **Manipulation of financial statements**

   Sometimes, companies may alter or manipulate their financial reports to make them look better than they really are. This means ratios might not always show the true picture, so analysts need to be careful and check the information thoroughly.

4. **Inflationary effects**

   When prices go up over time (inflation), the financial figures might not reflect the true value of money. This makes it difficult to compare figures from different periods unless adjustments are made for inflation.

Activity 2.2 Importance and Limitations of Accounting Ratios

1. Recall what you learnt in the previous lesson on the meaning and categories of accounting ratios. Share your reflections with another group.
2. In groups, read the scenario below and answer questions (a) and (b) that follow.

   JosKBaff Company, a Ghanaian textile company, is seeking a loan to expand its operations. The banks request financial statements, and the accountant calculates key ratios, including the current ratio (1.8:1), the debt-to-equity ratio (0.5:1), and the return on equity (18%). The industry averages are: current ratio – 1.5:1, debt to equity ratio - 0.8:1, and return on equity 15%.

   a. Briefly explain three reasons why the accounting ratios of JosKBaff are important to the bank.

   b. Discuss three limitations of accounting ratios.
3. Share your answers with another group for feedback and discussion.

COMPUTE PROFITABILITY RATIOS AND INTERPRET THE RESULTS

PROFITABILITY RATIOS

These are ratios that help us see how much money a business made during the year. They show how well a business can earn a profit. Profitability ratios indicate whether a business can generate sufficient income to remain in operation and grow.

Examples of Profitability Ratios

1. **Gross Profit Ratio: (Gross Profit as a percentage of sales)**

   This ratio shows how much gross profit is generated per sale. It is calculated by dividing gross profit (sales revenue minus cost of goods sold) by sales revenue, then multiplying by 100 to get a percentage. A higher percentage means the company is keeping more of its sales revenue. It is calculated as

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales Revenue}} \times 100\%$$

2. **Net Profit as a percentage of sales**

   This ratio shows how much profit a company earns from its total sales after all expenses (such as administrative expenses, selling and distribution expenses) have been deducted. It is calculated by dividing net profit (total revenue minus total expenses) by sales revenue, then multiplying by 100. A business with high expenses will have a low net profit margin. A higher net profit margin indicates better profitability. It is calculated as:

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Sales Revenue}} \times 100\%$$

3. **Return on Capital Employed (ROCE)**

   This ratio measures a company's efficiency and profitability relative to the capital it has invested in the business. Capital employed is the capital used to finance the business, that is, funds provided by shareholders (share capital plus reserves) and funds advanced by financial institutions (non-current liabilities).

$$\text{ROCE} = \frac{\text{Profit before Interest and tax}}{\text{Capital employed}} \times 100\%$$

   Where capital employed = Shareholders' fund + long-term liabilities or Total assets-current liabilities

Importance of ROCE

1. ROCE helps assess how efficiently a company is using its capital to generate profits. A higher ROCE indicates better performance and effective capital utilisation.
2. Investors and stakeholders use ROCE to evaluate the potential return on their investments. It aids in comparing the profitability of different companies or projects.
3. ROCE provides insights into a company's financial health by showing how well it is managing its capital. It can highlight operational efficiency and profitability.
4. Companies can use ROCE to benchmark their performance against industry standards or competitors, helping identify areas for improvement.
5. ROCE reflects how well a company is managing its debt and equity, offering insights into its capital structure and financial strategy.
6. By analysing ROCE over time, businesses can make informed decisions regarding capital investments, resource allocation and strategic planning.

4. **Asset Turnover Ratio**

   The asset turnover ratio is a financial metric that measures how efficiently a company uses its assets to generate sales revenue. It is calculated by dividing the company's total sales or revenue by its average total assets over a specific period.

   Asset Turnover Ratio= Net Sales /Revenue

   Net assets or Capital employed

A higher asset turnover ratio indicates that the company is using its assets more effectively to produce revenue, while a lower ratio may suggest inefficiencies in asset utilisation.

Activity 2.3 Computation and Interpretation of Profitability Ratios

1. In groups, explain the meaning of profitability ratios with two important aspects.
2. Study the data below extracted from the books of Olumba Brothers Ltd.

	GH¢'000
Revenue for the year	6,245
Gross Profit	1,443
Operating profit	546
Non-current assets	2,767
Current assets	5,561
Current Liabilities	3,821
Opening Inventory	50
Closing Inventory	60

3. Calculate and interpret the following ratios based on the data:
   a. Gross Profit Ratio
   b. Net Profit Ratio
   c. Return on Capital Employed
   d. Asset Turnover Ratio
4. Explain two reasons why each of the ratios in (2) is important.
5. Present your answers to the teacher for marking.

COMPUTING LIQUIDITY RATIOS AND INTERPRETING THE RESULTS

LIQUIDITY RATIOS

These are ratios that indicate how well a business can meet its short-term debt or liability obligations when they are due. Liquidity is about how easily an asset can be converted into cash or another form of asset without losing much of its value. These ratios are important because they indicate a business's financial health, especially during economic uncertainty.

Examples of Liquidity Ratios

1. Current Ratio

The current ratio measures a company's ability to pay its short-term liabilities with its short-term assets. This ratio is also known as the working capital ratio.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \quad : 1$$

A ratio above 1:1 is considered healthy, but it should probably exceed 2:1 to safely indicate that short -term liabilities can be met. Note that this will vary by industry. It is not necessarily true that the "the higher the better" approach applies to this ratio, as it could indicate that a business is too liquid.

2. Quick Ratio / Acid-Test Ratio

The quick ratio is a more stringent measure of liquidity than the current ratio. It excludes inventory from current assets since inventory may not be as easily converted to cash.

$$\text{Acid Test Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}} \quad : 1$$

A higher acid test ratio means a business is liquid and can meet its obligations. A ratio below 1 can indicate liquidity problems.

Activity 2.4 Computation and Interpretation of Liquidity Ratios

1. Your previous lesson introduced you to profitability ratios. Identify the difference between profitability and liquidity ratios.
2. In groups, study the data below extracted from the books of JosKBaff Ltd.

	GH¢'000
Revenue for the year	1,260
Gross Profit	420
Operating profit	315
Non – current assets	1,120
Current assets	300
Current Liabilities	240
Opening Inventory	60
Closing Inventory	140

Calculate and interpret the following ratios

a. Current Ratio

b. Acid Test Ratio

3. Explain two uses of the acid test ratio.
4. Discuss the use of the current ratio.
5. Share your answers with another group for discussion.
6. Present your work to your teacher.

COMPUTE EFFICIENCY / MANAGEMENT/ ACTIVITY RATIOS AND INTERPRET THE RESULTS

EFFICIENCY OR MANAGEMENT RATIOS

These ratios help assess how well a company uses its assets and manages its operations to generate revenue. These ratios provide insights into the operational efficiency of a business. They look at the length of time the business uses to sell inventories, collect receivables and pay payables.

Types of Efficiency Ratios

1. **Trade Receivables (Debtors) Collection Days /Period**

This ratio shows the number of days required to collect goods sold on credit. This ratio measures how effectively a company collects its trade receivables or money owed by customers. The shorter the trade receivables' collection period, the better it is for the business.

$$\text{Trade Receivables Collection Days/Period} = \frac{\text{Trade Receivables}}{\text{Credit Sales}} \times 365 \text{ days}$$

2. **Trade Payables Payment Days/Period**

This explains how long a business takes to pay its suppliers or trade payables after receiving goods or services. It helps to measure how efficiently a company manages its payments. The longer the number of trade payables payment days, the better it is for the business.

$$\text{Trade payables Payment Period} = \frac{\text{Trade Payables}}{\text{Credit Purchases}} \times 365 \text{ days}$$

3. **Inventory Days/ Period**

This measures the average number of days a company takes to sell its entire inventory during a specific period. It provides insights into how efficiently a business manages

its inventory and how quickly it converts stock (inventory) into sales. The fewer the days, the better it is for the business.

$$\text{Inventory Days/Period} = \frac{\text{Average Inventory}}{\text{Cost of Sales}} \times 365 \text{ days}$$

$$\text{Average inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

Activity 2.5 Computation and interpretation of Efficiency or Management Ratios

1. In groups, explain the importance of a shorter trade receivables collection period.
2. Explain the use of trade payables payment days.
3. Discuss the use of inventory turnover days
4. Study the Statement of Profit or Loss for the year ended 31st December 2024, of JosKBaff Ltd, as given below

	GH¢	GH¢
Sales Revenue		182,500
Opening inventory	15,000	
Purchases	28,500	
Closing inventory	(18,000)	(25,500)
Gross Profit		157,000
Expenses		(70,000)
Net Profit		**87,000**

Also stated below is the statement of financial position of DB Ltd as at 31st December, 2024 is

	GH¢	GH¢
Non – Current Assets		247,810
Current Assets		
Inventory	18,000	
Trade Receivables	25,000	
Cash	300	43,300
Total Assets		**291,110**
Equity and Liabilities		
Current Liabilities		
Trade payables	6,000	
Bank	2,500	8,500
Capital		
Opening Balance	195,610	
Net Profit	87,000	282,610
		291,110

JosKBaff Ltd has also obtained industrial averages for the year ended 31st December 2024

Trade Payables Payment Days	30 days
Inventory Days	95 days
Debtors Collections Days	Days

a. Calculate the following and explain the performance of the company with respect to the industrial averages.

   i. Trade Receivables Collections Days (to the nearest day)

   ii. Trade Payables Payment Days (to the nearest day)

   iii. Inventory Days (to the nearest day)

   b. Present your work to the class for discussion and feedback.

EXTENDED READING

- Boadi, R. O. (2021). *Essentials of Accounting*. Tema: National Publishing.
- Ofori, D., & Boateng, R. (2019). *Introduction to Accounting Systems.* Takoradi, Ghana: Silver Line Publishing.
- Owusu-Ansah, K. (2020). *Financial Accounting for Beginners*. Cape Coast: University Press.
- Quartey, S. K. (2020). *Accounting Techniques: A Practical Approach.* Cape Coast, Ghana: Wisdom Press.

REVIEW QUESTIONS

1. Explain Accounting Ratios
2. Explain five reasons why Accounting Ratios are important in financial analysis.
3. Explain three limitations of accounting ratios
4. Discuss three reasons why the Return on Capital Employed (ROCE) ratio is important.
5. Explain three uses of profitability ratios.
6. Explain why the asset turnover is an important accounting ratio.
7. The following financial statements relate to Jossy PLC and Vinso PLC. Both companies are in similar retail business.

Statement of profit or loss for the year ended 31st December, 2023

	Jossy PLC		Vinso PLC	
	GH¢	GH¢	GH¢	GH¢
Revenue		80,000		120,000
Less: Cost of sales:				
Opening inventory	25,000		22,500	
Purchases	50,000		91,000	
	75,000		113,500	
Less: Closing inventory	15,000	60,000	17,500	96,000
Gross Profit		20,000		24,000
Less: Expenses		10,000		9,000
Net Profit		10,000		15,000

Statement of financial position as at 31st December, 2023

	GH¢	GH¢	GH¢	GH¢
Non – Current Assets:				
Equipment (at cost)	15,000		25,000	
Less: Depreciation	8,000	7,000	6,000	19,000
Current Assets:				
Inventory	15,000		17,500	
Receivables	25,000		20,000	
Bank	5,000	45,000	2,500	40,000
Total Assets		**52,000**		**59,000**

Equity and Liabilities		
Stated Capital	32,000	29,000
Retained Earnings	15,000	20,000
	47,000	49,000
Current Liabilities:		
Payables	5,000	10,000
Total equity and liabilities	**52,000**	**59,000**

a. You are required to calculate the following ratios for both companies (present to 2 decimal places)
   i. Gross profit margin
   ii. Net profit margin
   iii. Inventory period
   iv. Current ratio
   v. Quick ratio
   vi. Trade Receivable collection period
   vii. Trade Payables payment period

b. Comment on the implications of the following ratios on both companies:
   i. Net profit
   ii. Current ratio
   iii. Receivable collection period

SECTION

3

INTRODUCTION TO THE PREPARATION OF PARTNERSHIP AND COMPANY ACCOUNTS

FINANCIAL ACCOUNTING

FINANCIAL REPORTING

INTRODUCTION

In this section, you will learn how to prepare financial statements for partnerships and companies. You will explore what makes each type of business unique, understand key accounting terms, and practise the steps involved in preparing their financial statements. You will also learn how partners share profits, how to treat goodwill, and how to present financial information accurately. Through discussions and practice tasks, you will build confidence and skills in preparing financial statements for different types of businesses.

In this section, you will explore:

1. The concept of partnership, its features, the partnership deed, and the advantages and disadvantages of partnership business.
2. The Preparation of appropriation, capital, current accounts and statement of financial position for partnerships.
3. The discussion on the treatment of goodwill in the admission and retirement of a partners
4. The Explanation of the company as a form of business, the types, its advantages and disadvantages.
5. The discussion of terminologies in company accounts.
6. The Preparation of the Statement of Profit or Loss and Statement of Financial Position for companies.

   You have already learned how to prepare financial statements for a sole proprietorship and a not-for-profit organisation. This knowledge will help you connect past learning to your new study on partnerships and companies.

KEY IDEAS

- **A company** is a business organisation formed by people who come together to carry out economic activities for profit or achieve specific objectives t. It is registered under the Companies Act of Ghana and has a separate legal identity from its owners.
- **Goodwill** is the extra value a business has because of its good name, loyal customers, and good reputation. It is an intangible asset that cannot be touched but adds to the business's total value.
- **Limited liability** means that the owners of a company are not personally responsible for the company's debts. They can only lose the amount of money they invested in the company, not their personal property.
- **Partnership deed** is a written agreement that shows the rules and terms under which partners operate their business. It states how profits and losses will be shared, how much each partner

contributed, and what happens if a partner leaves.

- **Partnership** is a business owned by two or more people not exceeding twenty who share profits and losses according to an agreement. Partners usually combine their skills, money, and effort to run the business together.

PARTNERSHIP BUSINESS - MEANING AND PARTNERSHIP DEED

MEANING OF PARTNERSHIP

A partnership is a type of business formed by two or more people (no more than 20) who come together to run a business and share in the profits. In Ghana, a business can be called a partnership only when it is registered under the Incorporated Private Partnership Act, 1962 (Act 152).

Business Relationships that are not Considered to be Partnerships

The Incorporated Private Partnership Act, 1962 (Act 152) in Ghana does not consider the following as partnership businesses.

a. A company registered under the Companies Act, 2019 (Act 992), even if it has two or up to twenty members.
b. Any company or organisation formed under another law.
c. A foreign company or organisation, whether or not it operates in Ghana.
d. A joint venture without a firm name created for one or more specific projects.
e. A family business or joint ownership of property, even if profits are shared, does not automatically make it a partnership.

This means that not every group working together for profit qualifies as a partnership under Ghanaian law.

Features of a Partnership

1. **Membership**

   A partnership is formed by at least two people and usually not more than 20, except for professional firms like law or accounting firms. These people agree to run a business together.

2. **Agreement**

   The partners make an agreement known as a partnership deed that sets out how the business will be run, such as how profits are shared, the duties of partners, and what happens if someone leaves.

3. **Capital contribution**
   Each partner contributes money, property or skills to start and run the business. All partners work together for a common goal, which is usually to make a profit.

4. **Unlimited liability**
   Partners are largely personally responsible for the business's debts. If the business cannot pay its debts, partners may use their personal property to pay.

5. **Sharing of Profits and Losses**
   Profits and losses are shared among partners according to the partnership agreement or equally if there's no agreement.

6. **Management and Decision-Making**
   Usually, all partners take part in management, unless the agreement gives special powers to some.

7. **No Separate Legal Existence**
   The partnership and its partners are treated as a single legal entity; it is not a separate legal entity, such as a limited liability company.

PARTNERSHIP DEED/AGREEMENT

A Partnership Deed (or Partnership Agreement) is a written document that outlines the rules and conditions agreed upon by all partners to guide how the business is run. It helps prevent misunderstandings and ensures fairness among partners.

The agreement usually includes the following.

1. The name and purpose of the business.
2. The amount of capital each partner contributes.
3. How profits and losses will be shared.
4. How a new partner can join the business.
5. How an existing partner can retire or leave.
6. The process for dissolving (ending) the partnership.
7. Whether interest will be charged on partners' loans, drawings, or capital.

Rules that Apply in the Absence of a Partnership Agreement

According to the Incorporated Private Partnership Act, 1962 (Act 152), if partners do not prepare a Partnership Deed or Agreement, certain default rules will automatically guide the operation of the business. These rules are listed below;

1. All partners shall contribute equal capital to the business.
2. Profits and losses shall be shared equally.

3. No interest shall be charged on partners' drawings or capital.
4. A partner who gives a loan to the partnership is entitled to 5% interest on that loan.
5. A partner shall be reimbursed for any expenses made on behalf of the business.
6. No new partner shall be admitted without the consent of all existing partners.
7. Business disputes shall be decided by a majority of the partners.
8. Every partner has the right to take part in managing the business.
9. The books of accounts shall be kept at the firm's place of business, or at the main office if there is more than one.

Cessation of Membership of a Firm

A member shall cease to be a partner in the firm in the event of

a. his or her death
b. his or her becoming an alien enemy during a time of war
c. an insolvency order being made against him or her.

Winding up of Partnership Firm

Winding up refers to the official closure of a business. A winding up of a partnership may be either:

a. As a result of insolvency proceedings against all the partners jointly; or
b. Under an order of the Court, or
c. By voluntary liquidation by the partners.

Activity 3.1 Definition of Partnership

1. Recall what your learnt in Year 1 about sole proprietorship. Share your reflections with a colleague by answering the following:
   a. What is a sole proprietorship?
   b. Mention some of the sole proprietorship businesses in your community.
   c. What are the other forms of business entities?
2. In pairs, discuss the meaning of partnership, how this differs from other forms of business relationships and the features of partnership.
3. Share your answers with the larger class for discussion and feedback

Activity 3.2 Partnership Deed

1. In your groups, discuss the partnership deed, the key contents of a partnership deed and the rules that apply when partners fail to prepare a deed under Act 152.
2. Groups organise the work in the format below.

Partnership deed refers to.....

.....

.....

S/N	Content of Partnership Deed	Rules in the Absence of a Deed
1		
2		
3		
4		
5		

Each group presents their findings to the class for feedback.

Activity 3.3 Cessation of a Partner and the Winding up of a Partnership

1. In your groups, discuss the cessation of a partner and the winding up of a partnership.
2. Answer the following questions.
   a. What would cause the cessation of a partner?
   b. How should the remaining partners handle the partner's share or interest?
   c. What could cause the winding up of a partnership?
   d. What steps are involved in winding up a partnership?
3. Each group writes the responses on manila cards.
4. Each group presents their findings to the class for feedback.

PARTNERSHIP BUSINESS – ADVANTAGES AND DISADVANTAGES

ADVANTAGES OF PARTNERSHIP

1. **Shared Resources and Expertise**

   In a partnership, people come together to combine their money, ideas, skills, and business connections. This helps the business grow stronger and more successful. Each partner brings something special — for example, one may be good at handling money, another at marketing, and another at building useful contacts. Working together makes the business more effective.

2. **Shared Responsibility and Reduced Individual Burden**

   Partners share the work and management duties, so no one person has to do everything. This helps reduce stress and makes it easier for partners to balance work and personal life. For example, one partner can handle customers while another focuses on record keeping.

3. **Potential Tax Advantages**

   Partnerships may pay less tax because profits are taxed in the partners' names rather than as a separate business like a company. This means they avoid double taxation (being taxed twice). Partners may also enjoy certain tax reliefs or benefits allowed under Ghana's tax laws.

4. **Flexibility and Ease of Setup**

   Starting a partnership is usually simple and inexpensive. There are fewer legal processes and less paperwork than forming a company. Partners also have the freedom to decide how to share profits, divide responsibilities, and manage the business according to their own agreement, rather than following strict corporate rules.

5. **Increased Access to Capital and Funding**

   Since there are several partners, it is easier to raise money for the business. The partners' combined savings, assets, and reputations can help them secure loans from banks or attract investors.

6. **Enhanced Business Opportunities**

   When partners work together, they can expand the business faster and explore new markets. Each partner's skills and networks can bring in more customers and growth opportunities.

DISADVANTAGES OF PARTNERSHIP

1. **Unlimited Liability**

   In most partnerships, all partners are responsible for the debts of the business. This means if the business owes money or faces a lawsuit, partners may have to use their own personal money or property to pay the debt — even if the problem was caused by another partner's mistake.

2. **Loss of Autonomy**

   Partners must make decisions together. This means one partner cannot always do what they want without agreement from others. Sometimes, this shared decision-making can slow down progress or cause frustration if partners have different ideas.

3. **Potential for Conflicts**

   Since people have different ideas and working styles, disagreements may occur about how to run the business, share profits, or handle finances. These conflicts can affect the partnership's success or even cause it to break up.

4. **Instability**

   A partnership may not last long as a company. If one partner dies, retires, or leaves, the partnership may need to be dissolved or restructured. This can cause interruptions or losses for the business. Also, serious disagreements among partners can make the partnership unstable and difficult to manage.

Activity 3.4 Advantages and Disadvantages of Partnership

1. Share with a colleague why there is a need for a partnership deed

Case Study: ABM Fashion Designers

Three friends, Ama, Baah, and Mariam, decided to start a clothing business called ABM Fashion Designers in Kumasi after completing their vocational training.

Ama was talented in sewing and design. Baah had good business management and record-keeping skills. Mariam was creative in marketing and had many social media followers. They agreed to form a partnership, contribute money to buy sewing machines, and rent a small shop. They also agreed to share profits equally.

At first, things went well. Their combined skills helped them attract many customers. Mariam's advertising on TikTok and Instagram increased sales, and Baah managed the accounts properly. Their teamwork and shared resources made the business successful within the first year.

However, after some time, problems began to appear

Mariam wanted to use some profits to open another branch in Accra, but Ama and Baah disagreed. Baah complained that Ama often made decisions about fabric purchases

without consulting them. When the business took a loan to buy new equipment, sales dropped, and they struggled to repay it.

Later, Mariam decided to leave the partnership to study fashion design abroad, causing confusion about how to share profits and pay debts.

The partners realised that while the partnership had helped them grow quickly, it also brought disagreements and financial risks that affected their friendship and business.

2. In your groups study the case and discuss the following
   a. Identify three advantages that helped ABM Fashion Designers succeed at the beginning.
   b. Identify three challenges that later affected the business.
   c. Suggest two ways the partners could have solved their disagreements.
   d. In your opinion, was forming a partnership a good decision? Explain your answer.
3. Groups write their findings.
4. Make group presentations to the class for feedback.

DISCUSS THE CONTENTS OF APPROPRIATION, CURRENT AND CAPITAL ACCOUNTS OF PARTNERSHIP

ACCOUNTING FOR PARTNERSHIP

In year 1, you learned how to prepare the financial statements of a sole proprietorship, and in year 2, you learned how to prepare financial statements for Not-for-Profit-Making Organisations (NPOs) such as schools, churches, clubs, and associations. Now that you understand how to prepare financial statements for sole traders and non-profit organisations, you are ready to learn about accounting for partnerships.

Because a partnership is owned by multiple people, separate accounts are kept for the business and the partners.

The following accounts discussed below are kept for a partnership

Appropriation Account

Because more than one person owns the Partnership, any profit or loss arising from the business operation needs to be shared between the owners.

It must be noted that a Statement of Profit / Loss Account is prepared for the Partnership before an Appropriation Account is prepared. The appropriation account is debited with the partner's salary, interest on capital, and share of profit. The account is credited with net

profit from the income statement, interest on drawing and share of loss. A sample of the Appropriation Account is given below:

Table 3.1: Profit or Loss Appropriation Account

	GH¢	GH¢
Net Profit for the year		xxx
Add interest on drawings:		
Partner A	xxx	
Partner B	xxx	xxx
		xxx
Less Partners' Salaries:		
Partner A	xxx	
Partner B	xxx	
Interest on capital		
Partner A	xxx	
Partner B	xxx	(xxx)
Profit/(loss) to be shared		xxx
Share of profit (loss):		
Partner A	xxx	
Partner B	xxx	(xxx)

Current Accounts

This account is used when partners keep fixed capital accounts. The current account is used to record items of recurring nature which relate to the partners, such as drawings, interest on capital, interest on drawings, interest on partners' loan, partners' salary, partners' commission and share of profit/(loss). The monies received and drawings made by the partners are recorded in the current accounts. Below is the format of the current account.

Table 3.2: Partners' Current Account

	A	B		A	B
Balance b/f	x	-	Balance b/f	-	x
Drawings	x	x	Interest on capital	x	x
Interest on drawings	x	x	Partners' salary	x	x
Balance c/d	x	x	Partners' Commission	x	x
			Interest on loan		x
			Share of Profits	x	x
	xx	xx		xx	xx
			Balance b/d	x	x

Capital Accounts

This account is credited with the amount of capital of the partners. In some cases, fixed capitals are kept, and where this is done, no other item is recorded in the capital account unless there is an addition or withdrawal of capital.

With a floating or fluctuating capital account, items such as drawings and interest on drawings are debited to the capital account. It is credited with interest on partner's loan, interest on capital, partner's salary, partner's commission and share of profits.

See below the format of the fixed capital account.

Table 3.3: Partners' Capital Account (Fixed Capital Account)

	A	B		A	B
Balance b/f	x	-	Balance b/f	-	x
Withdrawal of capital	x	x	New capital introduced	x	
	xx	xx		xx	xx
			Balance b/d	x	x

Activity 3.5 Appropriation Account Format

1. Ask a colleague to mention one advantage of partnership, and after answering, he/she in turn asks another colleague to either mention an advantage or a disadvantage of partnership.
2. In pairs, identify the items that are contained in the appropriation account
3. In groups, draw the format of the appropriation account on Manila cards and discuss why those items are entered in the appropriation account.
4. Present your work to the whole class for feedback.

PREPARE APPROPRIATION, CURRENT AND CAPITAL ACCOUNTS OF PARTNERSHIP

In this lesson, you should be able to apply your understanding of the relevant accounts to prepare appropriations, current and capital accounts based on given financial data.

Activity 3.6 Preparation of Appropriation and Current Accounts

1. Carefully study the scenarios below.

Scenario 1

The following information relates to the activities of a partnership of three people: David, Evelyn and Francis.

i. Account balances of Partners

Partners	Capital Account 01/01/23 GH¢	Current Account 01/01/23 GH¢	Drawings Account 31/12/23 GH¢
David	9,000	3,000	6,000
Evelyn	15,000	1,500	7,200
Francis	24,000	1,500	7,200

ii. Interest is chargeable at 10% per annum on both capital and drawings.

iii. David and Evelyn are to be credited with salaries of GHGH¢3,600 and GH¢2,400, respectively.

iv. The net profit before adjusting for the year ended 31 December 2023 was GH¢29,400.

v. Profits and losses are split in the ratio 5:4:3, respectively.

You are required to prepare

a. The Profit and Loss Appropriation Accounts of David, Evelyn and Francis for the year ended 31/12/23.

b. The Current Account of each partner in columnar form as at 31/12/23.

Scenario 2

Andrew, Alex and Anto are in partnership selling general goods. The profit for the year ended 31 December 2024 is GH¢212,240, and the profit-sharing ratio is 4:3:3.

Their annual salaries are as follows

Andrew	GH¢36,000
Alex	GH¢32,000
Anto	GH¢26,000

Cash drawings in the year were;

Andrew	GH¢76,000
Alex	GH¢60,000
Anto	GH¢58,000

Balances on their capital and current at the beginning of the year were

	Capital Accounts	Current Accounts
Andrew	GH¢56,000 (Cr)	GH¢5,000(Cr)
Alex	GH¢52,000(Cr)	GH¢4,320(Cr)
Anto	GH¢44,000(Cr)	GH¢3,740(Cr)

Note that interest on capital is charged at 12% while interest on drawings is at 10%; all per annum.

You are required to prepare

a. the partners' Profit or Loss Appropriation Accounts for the year ended 31/12/24.

b. The Current Account of each partner in columnar form as at 31/12/24.

2. Discuss the scenario that your group picked.
3. Present your solution to the class for feedback.

PREPARE THE STATEMENT OF PROFIT/ LOSS, APPROPRIATION AND STATEMENT OF FINANCIAL POSITION OF PARTNERSHIP

In this lesson, you will have more opportunities to practice using financial data to prepare partnership financial statements.

Activity 3.7 Preparation of Statement of Profit/Loss, Appropriation and Statement of Financial Position of a partnership

Kofi and Dudimah are in a partnership sharing profits or losses in the ratio 2:1, respectively.

The trial balance of the firm as at 31st December 2023 is as follows.

	DR - GH¢000	CR - GH¢000
Inventory at 1 January, 2023	480	
Discount Allowed and Received	50	80
Purchases / Sales Revenue	4,800	7,660
Wages and Salaries	720	
Rent	250	
Cash	200	

	DR - GH¢000	CR - GH¢000
20% Long term Bank loan		200
Capital Accounts:		
Kofi		300
Dudimah		200
Current Accounts		
Kofi		130
Dudimah		70
Drawings:		
Kofi	400	
Dudimah	260	
Bank loan interest	40	
Administrative Expenses	440	
Receivables / Payables	440	400
Fixtures at cost	1,200	
Electricity	60	
Depreciation on Fixtures		300
	9,340	**9,340**

Additional information

i. The inventory at 31st December 2023 has been valued at GH¢600,000

ii. The prepayment for rent at 31st December 2005 is GH¢40,000.

iii. Administrative expenses accrued were GH¢5,000.

iv. Depreciation on fixtures is to be provided at the rate of 20% per annum using the reducing balance method.

v. Interest on capital and drawings was agreed at 10% and 5% respectively.

1. In your groups, prepare the following financial statements for the partners.
   a. Statement of Profit or Loss and Appropriation Accounts for the year ended 31st December 2023
   b. The Partners' Current Account in columnar form up to 31 December 2023
   c. Statement of Financial Position as at that date
2. Present your work for discussion and feedback.

ADMISSION OF A NEW PARTNER AND TREATMENT OF GOODWILL

GOODWILL

Goodwill is an intangible asset recognised when a firm is purchased as a going concern. It reflects the premium the buyer pays over the net value of its other assets.

Goodwill is often understood to represent the firm's intrinsic ability to acquire and retain customers or business.

Goodwill refers to the value a company gets from its brand, customer base and reputation associated with its intellectual property. Goodwill is a long-term asset that generates value for a company over time.

Factors Affecting the Value of Goodwill

The major factors affecting the value of goodwill are

1. **Location of the Firm:** If the business unit is located in the prime market area, then the firm enjoys the attention of more customers, which may result in more profit. When the firm's profit rises, the value of goodwill also rises. Similarly, if the firm is located in a less popular area or is a part of an undeveloped market area, fewer customers will visit the place, which will result in the firm's profits being less, thereby decreasing the value of the firm's goodwill.
2. **Life Span of the Firm:** A firm that has been serving society for a number of years has more satisfied customers, a strong brand name, and experienced customer service. Therefore, an older business unit is likely to have a strong customer base and a higher reputation in the market than newly established units. So, the older the business, the greater the value of the goodwill.
3. **Efficient Management:** The development of any business unit depends upon the efficiency of the management. A business operated under the supervision of efficient managers will earn more profit and is likely to command a high market value of goodwill. If a manager fails to properly execute management plans, the business's financial position is hampered, ultimately decreasing the value of the firm's goodwill.
4. **Trend in profits:** A firm's goodwill is determined by its earning capacity. If the trend in profit is constantly rising, the firm will have goodwill. However, instability in profits will affect the value of goodwill adversely.
5. **Nature of business:** Nature of business refers to the type of products manufactured by the firm, the demand for those products, accessibility of raw materials, the competition faced by the firm, and government regulations that affect firm's activities; all these factors are considered to determine the value of goodwill. If these conditions work in favour of the firm and it has some kind of monopoly in the market, it will earn more and have more goodwill.

6. **Owner's reputation:** A firm's goodwill is influenced by the goodwill of its owner. If the owner is truthful and trustworthy, they would have a good reputation in the market; this, in turn, would attract more customers to the business.

Admission of a New Partner - Ledger Entries

1. **Creation of goodwill**
   a. Where goodwill is maintained

      Dr.: Goodwill a/c
      Cr: Partners' Capital a/c
      With the value of goodwill

   b. Where goodwill is written off:

      Dr.: Partners' Capital a/c
      Cr: Goodwill a/c
      With the value of goodwill

2. **Revaluation of assets**
   a. When there is an increase in the value of non – asset

      Dr.: Non – current Asset a/c
      Cr: Revaluation a/c

   b. When there is a decrease in the value of non – current asset

      Dr.: Revaluation a/c
      Cr: Non – current Asset a/c

   c. Any profit or loss on revaluation is shared between the pre-change (before change) partners in their pre-change profit and loss sharing ratio.

3. **Introduction of capital**

   Dr.: Cash/Bank a/c
   Cr: Partners' Capital a/c

Activity 3.8 Understanding Goodwill

1. Recall what your learnt in the previous lesson about items in the appropriation account and the balance sheet of a partnership. Share your reflections with a colleague.
2. Discuss in your groups goodwill and the factors affecting goodwill
3. Match the following terms or keywords to their respective descriptions in the table.

Terms/Key words	Owner's reputation, Nature of business, Efficient Management, Location of the Firm, Life Span of the Firm
Descriptions	The type of products manufactured by the firm, the demand for those products, accessibility of raw materials, the competition faced by the firm, and government regulations that affect firm activities ……. The firm is situated in the prime market area, and as such, enjoys the attention of more customers ……. A business operated under the supervision of good managers …….. A firm has been serving society for some years and has more satisfied customers, a strong brand name …… The owners of Jay & Jee Ventures are influential people in the society ……

4. Present your work for discussion and feedback

Activity 3.9 Admission of a New Partner

1. In your groups, carefully study the question below.

Araba and Barnswaa are partners sharing profits in the ratio of 3:2. Their statement of financial position as at June 30 2024, is given below

	GH¢	GH¢
Non – current assets		2,625,000
Investments		437,500
Long Term Receivables		875,000
Current Assets		1,750,000
		5,687,500
Capital & Liabilities		
Capital accounts:		
Araba	1,050,000	
Barnswaa	700,000	1,750,000
Long Term Loan		1,750,000
Current Liabilities		2,187,500
		5,687,500

They agreed to admit Arthur as a new partner with effect from July 1, 2024, on the following terms:

a. Goodwill was valued at GH¢650,000, and this will be maintained in the books.

b. Arthur will bring in cash of GH¢1,500,000 as capital.

c. The assets of the firm were revalued as follows

i. Non – current assets – GH¢3,100,000

ii. Long Term Receivables – GH¢875,000

iii. Current assets – GH¢1,575,000

iv. Investments - GH¢400,000

d. The new profit ratio is to be 7:5:8.

2. Prepare the following ledger accounts

a. Revaluation Account

b. Goodwill Account

c. Partners' Capital Account

d. Statement of Financial Position of the new firm as at July 1, 2024.

3. Share your answers with another group for discussion and feedback

RETIREMENT OF AN OLD PARTNER

When an existing partner retires or resigns, all his interests in the partnership firm are determined and paid to the partner. Sometimes, part of the retiring partner's interest is left in the partnership as a loan. The entitlement of the retiring partner includes:

a. A share of profit/loss for the period to the date of retirement or resignation.

b. A share of the value of goodwill.

c. A share of revaluation surplus or deficit.

d. Balances in his/her current and capital accounts.

The remaining partners make a new partnership agreement to continue the business, often with a new profit and loss sharing ratio.

RETIREMENT OF AN OLD PARTNER - LEDGER ENTRIES

1. **Creation of goodwill**

a. Where goodwill is maintained

Dr.: Goodwill a/c
Cr: All Partners' Capital a/c
With the value of goodwill

b. Where goodwill is written off:

Dr.: The remaining Partners' Capital a/c
Cr: Goodwill a/c
With the value of goodwill

2. **Revaluation of assets**

a. When there is an increase in the value of non – current asset

Dr.: Non – current Asset a/c
Cr: Revaluation a/c

b. When there is a decrease in the value of non – current asset

Dr.: Revaluation a/c
Cr: Non – current Asset a/c

c. Any profit or loss on revaluation is shared between the pre-change (before change) partners in their pre-change profit and loss sharing ratio

3. **Withdrawal of capital**

Dr.: Cash/Bank a/c
Cr: Partners' Capital a/c

4. **Asset taken over by a partners**

Dr.: Partners' Capital a/c
Cr: Asset a/c

Activity 3.10 Retirement of a Partner

1. You have been given the following information

Patrick, Mensah and Reginald have been partners in a detergent business, sharing profits in the ratio of their capital contributions. Their statement of financial position as at 31 December, 2024 was as follows:

	GH¢	GH¢
Land & Building		450,000
Motor Vehicles		350,000
Equipment		95,000
Inventories		500,000

	GH¢	GH¢
Receivables		340,000
Investments		300,000
Bank		515,000
		2,550,000
Capital & Liabilities		
Capital Accounts:		
Patrick	640,000	
Mensah	320,000	
Reginald	480,000	1,440,000
Long from Mensah		625,000
Current Liabilities		485,000
		2,550,000

On 1 January 2025, Reginald retired after taking into account the following adjustments

a. Inventories were to be written down by 5%.

b. Investments are to be written down to GH¢435,000

c. Reginald will take his official motor vehicle home at an agreed value of GH¢160,000.

d. Goodwill was valued at GH¢648,000 and this will not be maintained in the books.

e. Patrick and Mensah will continue the business and share profits in their capital contributions.

2. In your groups, prepare the following

a. Revaluation Account.

b. Goodwill Account

c. Partners' Capital Account

d. Statement of Financial Position of the new firm as at 1st January 2025.

3. Share your answers with another group for discussion and feedback.

ADMISSION OF A NEW PARTNER AND RETIREMENT OF AN OLD PARTNER

This lesson offers you an opportunity to apply the accounting principles to preparing the accounts involving the retirement of an old partner and, at the same time, the admission of a new partner in a partnership firm.

Activity 3.11 Retirement of an Old Partner and Admission of a New Partner

1. In pairs, recollect what you previously learnt about admission and retirement of partners and answer the following questions:
   a. What steps should a business take to admit a new partner?
   b. What process would be followed if a partner in a business retires?
   c. How is the revaluation of assets treated on the retirement of a partner?
2. Share your answer with the next pair for discussion and feedback.
3. Study the following data presented by the Agbeko and Musah partnership.

Agbeko and Musah had been in partnership for several years, sharing profits or losses in the ratio 5:3. On 1 January 2025, Musah decided to retire as a result of old age. They agreed to admit Osei, who will replace Musah. The Statement of Financial Position of the partnership before the admission of Osei was as follows:

Non-current assets	GH¢	GH¢
Plant and machinery		110,000
Furniture and Fittings		70,450
Motor Vehicles		55,000
		235,450
Current assets		
Inventory	46,200	
Receivables	76,450	
Bank	15,000	137,650
Total assets		**373,100**
Capital and liabilities		
Capital accounts:		
Agbeko	111,250	
Musah	83,750	195,000

Current accounts:		
Agbeko	26,650	
Musah	20,450	47,100
Non-current liabilities:		
Loan		75,000
Current liabilities:		
Payables		56,000
Total capital and liabilities		**373,100**

Additional Information

a. The assets were revalued as follows.

   i. Plant and machinery - GH¢98,200.

   ii. Inventory - GH¢40,500.

   iii. Trade Receivables - GH¢62,000.

   iv. Furniture and fittings - GH¢50,400.

b. Motor vehicles were taken over by Musah at an agreed value of GH¢40,800.

c. A discount of GH¢4,320 was received when trade payables were paid off.

d. The loan was repaid in full on 1 January 2025.

e. Osei is to bring in a capital of GH¢100,000, while Agbeko is to bring extra cash of GH¢20,775 to top up his capital. The new partners decided to maintain fixed capital accounts.

f. The balance on Musah's capital account should be kept as a loan to the business.

4. In your groups, prepare the following:

   a. Revaluation Account

   b. Partners' capital accounts.

   c. Bank account.

   d. Statement of financial position of the new firm

5. Make a presentation to the class for discussion and feedback.

COMPANY AS A FORM OF BUSINESS, ITS FEATURES AND TYPES OF COMPANY

WHAT IS A COMPANY?

A company is a type of business organisation that is created by law to carry out business activities to make a profit or achieve specific objectives.

In Ghana, companies are formed and regulated under the Companies Act, 2019 (Act 992). When a company is registered under this law, it becomes a separate legal person different from the people who own or manage it.

Types of Companies

An incorporated company may be one of the following.

a. a company limited by shares;
b. a company limited by guarantee;
c. an unlimited company; or
d. an external company.

1. **Company limited by shares**

   This is a company whose liability of its members is limited to the amount unpaid on the shares respectively held by them. This means that the owners (shareholders) are only responsible for the company's debts up to the amount they invested.

2. **Company limited by guarantee**

   It refers to a company whose liability of its members is limited to an amount that the members may respectively undertake to contribute to the assets of the company in the event of its being wound up. Companies limited by guarantee do not use shares.

3. **An unlimited company**

   This is a company which does not have a limit on the liability of its members. This means that if the business run up into debts and is unable to pay, the owners become personally liable for the unpaid debts and will be required if necessary to sell their private possessions to repay the debts.

4. **An external company**

   An external company is a company a body corporate formed outside the Republic which, has an established place of business in the country.

Forms of Companies

The types companies above may be a private company or a public company.

1. **Private company**

   A private company, other than a company limited by guarantee, is a company which by virtue of its constitution.

   a. restricts the right to transfer the shares of the company,
   b. limits the total number of the members and debenture holders to fifty,
   c. prohibits the company from making an invitation to the public to acquire shares or debentures of the company; and
   d. prohibits the company from making an invitation to the public to deposit money for fixed periods or payable at call, whether bearing or not bearing interest.

2. **Public company**

   A company which is not a private company, is a public company with the exception of a company limited by guarantee which has a membership of fifty or less.

Features of a Company

A company typically has the following characteristics.

1. **Separate Legal Entity**

   A company is considered a separate legal entity from its owners. It can own assets, enter into contracts, sue or be sued, and be held liable for its actions or debts.

2. **Limited Liability**

   In certain types of companies, such as corporations or limited liability companies (Plc), the liability of the shareholders or members is limited to their investment in the company. Their personal assets are generally protected in case the company faces financial difficulties or legal issues.

3. **Shareholders or Members**

   A company is owned by its shareholders or members, who contribute capital or other resources to the company in exchange for ownership interests or shares. The shareholders or members typically have the right to participate in decision-making processes and share in the profits and losses of the company.

4. **Management Structure**

   Companies have a management structure that oversees the day-to-day operations and strategic direction of the business. This may include directors, officers, or managers who are responsible for making decisions and managing the company's affairs.

5. **Perpetual Existence**

   Unlike partnerships or sole proprietorships, companies have perpetual existence. This means that the company can continue to exist and operate even if there are changes in ownership or there is a departure of shareholders or members.

Activity 3.12 Types of Companies

1. In pairs, state two things that happen when a partner dies in a partnership business
2. Show your response to the next pair for discussion
3. In your groups, discuss the meaning of a company, types of companies and the distinction between a private company and a public company.
4. Write your response in the following format

A company can be explained as .....

.....

S/N	Type of Company	Description
1		
2		
3		
4		

The distinction between a private company and a public company

S/N	Private Company	Public Company
1		
2		
3		
4		
5		

5. Exchange your work with another group for discussion and feedback

Activity 3.13 Features of a Company

1. In your groups, discuss what makes companies different from other forms of business ownership
2. Identify the scenario that fits the feature of the company

Scenario	Feature
Mr. Ayine only lost amount he invested in XYZ company when the company collapsed	
MR. Mensah sued the ABC company for breach of contract that he entered with the company regarding supply of goods. The case did not involve the owners of the company.	
Miss Zakli wanted to joint her friend who is one of the owners of a certain company and she was advised to purchase shares of the company which she did.	
Zaklele company continues to operate even when 5 of its shareholders died through an accident after attending the annual general meeting of the company	
The owners of the company appoint a board of directors, who also employ competent people to run the day-to-day affairs of the company.	

3. Present your work to the class for discussion and feedback.

DISCUSS THE ADVANTAGES AND DISADVANTAGES OF FORMING A COMPANY

ADVANTAGES OF FORMING A COMPANY

1. **Limited Liability:** One of the most significant benefits is that owners (shareholders) are generally not personally liable for the company's debts and obligations. This means their personal assets are typically protected from business debts and legal issues.
2. **Separate Legal Entity:** A company is recognised as a separate legal entity, distinct from its owners. This allows it to own property, enter into contracts, sue and be sued, and generally operate independently.
3. **Easier Access to Funding:** Companies can raise capital more readily through the sale of shares, attracting investors who may be hesitant to invest in unincorporated businesses.
4. **Enhanced Credibility:** A formal company structure, particularly a limited company, can be perceived as more credible and trustworthy by clients, partners, and financial institutions.
5. **Ownership Flexibility:** Shares can be easily transferred, allowing for changes in ownership and attracting investors. This ensures continuity as a company can continue to exist even if owners change or if some members leave or pass away.

Disadvantages of Forming a Company

1. **Higher Costs**

   Incorporating a company often involves higher initial expenses compared to other business structures like sole proprietorships or partnerships. These costs can include legal fees, accounting fees, and registration fees. Companies also face higher ongoing costs for accounting, legal compliance, and other administrative tasks.

2. **Record Keeping and Reporting**

   Companies need to maintain detailed records and file regular reports with government agencies. There are ongoing obligations to adhere to corporate governance rules and regulations.

3. **Loss of Control**

   In a company structure, the business owner may share control with other shareholders, potentially leading to conflicts or disagreements about management and decision-making. Decision-making may require the approval of a board of directors, which can slow down the process and limit the owner's autonomy.

4. **Complex Legal Requirements**

   The process of incorporating a company can be complex and time-consuming, requiring legal and administrative expertise. The winding up or dissolving a company is also a complex process that can take considerable time and resources.

Activity 3.14 Advantages and Disadvantages of Companies

1. Study the case in your groups and answer the questions that follow.

Bright Drinks Ghana Ltd.

Bright Drinks Ghana Ltd is a registered company that produces fruit juices made from local fruits such as mango, pineapple, and orange. It was started by five young entrepreneurs who contributed capital and decided to operate as a limited liability company to enjoy the benefit of limited risk. This has given them protection over their personal assets, even when the company faces financial difficulties.

Over the years, the company has expanded its operations and employed many workers. It has gained a good reputation for producing high-quality fruit juices and for supporting local farmers by buying their produce. The company has also been able to raise additional capital through the sale of shares, which helped it to purchase modern machines and improve production.

However, Bright Drinks Ghana Ltd has also faced some challenges. The cost of running the business has become very high due to taxes, electricity bills, and maintenance expenses. Recently, there have been disagreements among the directors about how profits should be shared and which markets to enter. The company also finds it difficult to make quick decisions because of the many procedures involved in

management. Moreover, as a registered company, it is required to publish its financial statements, which reduces the level of privacy in its operations.

a. Identify the type of company.

b. Discuss the disadvantages faced by the company.

c. If you were one of the directors, what steps would you take to reduce the effects of these demerits?

d. In your opinion, do the merits of forming a company outweigh the demerits? Explain your answer.

2. Present your work to the class for discussion and feedback.

DISCUSS THE TERMINOLOGIES USED IN COMPANY ACCOUNTING

TERMS USED IN COMPANY ACCOUNTING

Authorised Shares

This refers to the maximum number of shares a company is legally allowed to issue as stated in its registration documents. It represents the limit of shares the company can sell to raise money. The company cannot issue more shares than the authorised amount unless it changes this through legal approval. For instance, if a company's authorised shares are 100,000, it cannot issue more than 100,000 shares without permission.

Issued Shares

These are the actual shares that the company has sold or given out to shareholders. Issued shares are part of the authorised shares. The number of issued shares can never be more than the authorised shares. For example, if a company has 100,000 authorised shares but has sold 60,000 to the public, then 60,000 are issued shares.

Stated Capital

This is the total amount of money the company actually receives from issuing its shares.

It includes shares that were;

a. Sold for cash, or

b. Given in exchange for other assets or services, or

c. Transferred from any surplus or reserve.

Capital Structure

The Capital Structure of a company can be made up of the following listed.

a. Stated Capital – Ordinary shares and Preference shares;
b. Loan Stock;
c. Surpluses

Preference Shares

Preference shares are a type of share that gives their holders certain privileges over ordinary shareholders. Preference shareholders receive a fixed dividend each year, usually stated as a percentage of the share's value. Example: A 5% Preference Share of GH¢2 means the holder will receive a dividend of 5% × GH¢2 = GH¢0.10 per share each year.

Preference dividends must be paid before any dividend is paid to ordinary shareholders.

Preference shareholders do not have voting rights in the company. Some preference shares are cumulative, meaning that if the company cannot pay dividends in a particular year, the unpaid dividends are carried forward and paid in the future when the company has enough money.

Classification of Preference Shares

1. **Redeemable Preference Shares:** These are shares that the company promises to buy back (redeem) at a future date. The company pays back the nominal value of the share at the agreed time. After redemption, the shares are cancelled and no longer earn dividends. For example, A 6% Redeemable Preference Share of GH¢1, redeemable in 20X5, means the company will pay GH¢1 back to the shareholder in 20X5.
2. **Irredeemable Preference Shares:** These shares are not repaid by the company. Holders continue to receive dividends every year for as long as the company exists.
3. **Cumulative Preference Shares:** There are shares in which, if the company is unable to pay dividends in a particular year, the unpaid amount is carried forward to the next year. The company must pay all arrears of dividends before paying any to ordinary shareholders.
4. **Non-Cumulative Preference Shares:** These are the opposite of cumulative preference shares. If the company cannot pay dividends in a given year, the right to that year's dividend is lost. There are no arrears to be paid in the future.
5. **Participating Preference Shares:** The holders of this type of shares receive their fixed dividend first, and then they may also share in extra profits with ordinary shareholders. This type of share allows holders to participate in additional profits beyond their fixed rate. For instance, participating preference shareholders receive a fixed dividend first, such as 5% (depending on the terms of issue), and if the company performs very well, they may also receive a bonus dividend.
6. **Non-Participating Preference Shares:** These shareholders receive only their fixed dividend and do not share in any extra profits.

They have no claim beyond the fixed rate.

7. **Convertible Preference Shares:** These are shares that can be changed (converted) into ordinary shares after a certain period or under certain conditions. The conversion gives the shareholder voting rights and the chance to earn variable dividends in the future.
8. **Non-Convertible Preference Shares:** These cannot be converted into ordinary shares. The holder will remain a preference shareholder for life or until the shares are redeemed.

Ordinary Shares

Ordinary shares, also called equity shares, constitute the company's main capital.

Ordinary shareholders are the company's real owners and have voting rights. They receive dividends after preference shareholders have been paid. The dividends for ordinary shareholders are not fixed and depend on the company's profits

Market Value of Shares

The market value of a share is the price at which it is bought or sold on the stock market. In some countries, companies issue shares at a fixed value (par value).

However, in Ghana, companies issue shares at no par value, meaning there is no fixed price for shares. The price is determined by demand and supply in the market.

Surplus Accounts

Surpluses are funds set aside for future use. Surpluses are profits earned by the company that have not been appropriated or distributed as dividends to shareholders. Surpluses are sometimes referred to as Reserves or Accumulated Profits. In Ghana, surplus is described as Retained Earnings or Income Surplus. Income Surplus is a distributable surplus, which means it is borne out of profits and is available for distribution as dividends.

Dividends

Dividends are the returns that a shareholder gets for investing in a company. Dividends are paid out of the company's after-tax profit and are usually approved by shareholders at a general meeting.

Capital Surplus

Capital Surplus, also called Revaluation Surplus or Reserve, arises when a company revalue its non-current assets (like buildings or land) and the value increases. It is a non-distributable reserve, meaning it cannot be shared as dividends. If the asset's value decreases in the future, the capital surplus will also reduce.

Difference between Surplus and Provisions

A surplus is the part of profit that is retained (kept) in the business instead of being shared as dividends, while a provision is an amount set aside out of profit to cover an expected

expense or possible loss in the future. Surplus is a form of profit kept in the business, but Provision is a form of expense or charge against profit.

Bonus (Capitalisation) Issue

A bonus issue (also called a capitalisation issue or scrip issue) happens when a company gives extra shares free of charge to its existing shareholders. The shareholders do not pay for these new shares. The bonus shares are given in proportion to the number of shares a person already owns. For example, A 1-for-5 bonus issue means a shareholder receives 1 free share for every 5 shares already held.

A bonus issue is usually made by converting retained earnings or reserves into share capital.

It is often used as an alternative to paying cash dividends, meaning that instead of giving shareholders cash, the company gives them more shares.

Rights Issues

A rights issue is when a company offers its existing shareholders the right to buy additional shares for cash. It helps the company to raise extra money for expansion or other needs.

Rights issues are usually offered at a lower price (discount) than the market price of the shares to encourage shareholders to buy them. Each shareholder is given the first option (right) to buy new shares before the company offers them to the public.

Activity 3.15 Terminologies in Company Accounting

1. Mention one feature of a company.
2. Discuss in your groups the following terminologies of companies.
   a. The difference between preference shares and ordinary shares
   b. The difference between surpluses and provisions
   c. bonus issue and right issue of shares
   d. authorised shares and issued shares
3. Shares your points with another group for discussion and feedback.

PREPARE INCOME STATEMENTS OF COMPANIES

FORMAT FOR FINAL ACCOUNTS

The final accounts of a company can be prepared for publication (for external purposes) or for internal use. At this level, we shall concentrate on the preparation of accounts for internal use only.

Statement of Profit/ Loss Account

Statement of Profit/ Loss Account or Statement of Comprehensive Income is a measure of the financial performance of the business. It shows the items of income and expenses recognised in a period. International Accounting Standard 1 (IAS 1) gives the format for the Statement of Profit/ Loss Account of a company as follows:

Name of Company

Format for Statement of profit or loss account / Statement of Comprehensive Income

	GH¢
Revenue	XX
Cost of Sales	(XX)
Gross Profit	XX
Selling General & Administrative expense	(XX)
Operating Profit	XX
Other Income	XX
Profit before Interest and Tax	XX
Finance Cost	(XX)
Profit before Tax	XX
Income Tax Expense	(XX)
Gains on property revaluation	XX
Profit/Loss for the year from discontinued operations	XX
Profit for the year	XX
Other Comprehensive Income	XX
Total Comprehensive Income for the year	XX

Statement of Changes in Equity

The Statement of Changes in Equity looks at the equity section of financial statements. It shows any changes that have occurred within the financial year.

Table 3.4: Format for Statement of Changes in Equity

	Stated Capital	Capital Surplus	Income Surplus	Total
Balance on January 01	XXX	XXX	XXX	XXX

Net Profit after tax			XXX	XXX
Divided paid			(XXX)	(XXX)
Shares issued	XXX			XXX
Revaluation of asset		XXX		XXX
Balance on 31 December	XXX	XXX	XXX	XXX

Table 3.5: Format of Statement of Financial Position

Non – current Assets	**Cost**	**Depreciation**	**NBV**
	GH¢	GH¢	GH¢
Buildings	XX	XX	XX
Plant & Equipment	XX	XX	XX
Motor Vehicles	XX	XX	XX
Furniture & fittings	XX	XX	XX
	XX	XX	XX
Current Assets			
Closing inventory		XX	
Receivables		XX	
Cash at bank		XX	
Cash in hand		XX	XX
Total Assets			**XX**
Capital & Liabilities			
Stated Capital			XX
Income Surplus			XX
Capital Surplus			XX
Shareholders fund			XX
Non – current Liabilities:			
Debenture			XX
Current Liabilities:			
Trade payables		XX	
Accruals		XX	XX
Total Capital & Liabilities			**XX**

Activity 3.16 Formats of Final Accounts of a Company

1. State two final accounts of a company and share it with a colleague

2. Discuss the format of the financial statement chosen by your group and answer the following questions:
   a. What account has your group picked?
   b. What items are debited and why?
   c. What items are credited and why?
   d. What is the main reason for preparing the account?
3. Present your work to the class for discussion and feedback

PREPARING STATEMENT OF PROFIT OR LOSS, STATEMENT OF CHANGES IN EQUITY AND STATEMENT OF FINANCIAL POSITION OF COMPANIES

In this lesson, you will apply your understanding of the composition of financial statements to prepare the Statement of Profit or Loss and Statements of Financial Position for companies.

Activity 3.17 Preparation of Final Accounts of a company – I

1. Study the question below.

The following balances were extracted from the books of Mokola PLC on 31 December 20X8.

	Dr.	Cr
	GH¢	GH¢
Purchases	283,000	
Sales		495,000
Inventories at 1 January 20X8	18,000	
Distribution costs	33,100	
Irrecoverable debt expense	1,200	
Allowance for receivables at 1 January 20X8		840
Administration expenses	157,380	
Dividends paid	5,200	
Equity Share capital (GH¢1 shares)		50,000
5% Loan stock		25,000

	Dr.	Cr
	GH¢	GH¢
Retained Earnings at 1 January 20X8		23,700
Fixtures and Fittings at cost	98,200	
Accumulated Depreciation - Fixtures and Fittings		43,700
Motor vehicles at cost	64,000	
Accumulated Depreciation - Motor Vehicles		18,500
Trade Receivables	55,400	
Trade Payables		57,300
Bank		1,600
Cash	160	
	715,640	715,640

Additional information

a. Inventories at 31 December 20X8 was valued at GH¢20,000.

b. Administrative expense for the year ended 31 December 2018, GH¢1,100 have not been accounted for.

c. Distribution costs include a payment of GH¢3,700.

d. The company's depreciation policies are as follows:

Fixtures and Fittings – Straight line over 5 years.

Motor vehicles – Reducing balance method at 20% per annum.

e. Irrecoverable debts of GH¢450 in addition to those already written off.

f. General allowance of 3% against the remaining receivables.

g. The interest on the loan stock is outstanding at the year – end.

2. In your groups, prepare the following.

a. Statement of Profit or Loss account for Mokola PLC for the year ended 31 December 20X8.

b. Statement of Changes in Equity for the year ended 31 December 20X8.

c. Prepare a Statement of Financial Position for Mokola PLC as at 31 December 20X8.

3. Each group should make a presentation to the class for discussion and feedback

PREPARE STATEMENT OF PROFIT/LOSS, STATEMENT OF CHANGES IN EQUITY AND STATEMENT OF FINANCIAL POSITION OF COMPANIES

In this lesson, you will apply the understanding of the composition of financial statements to further prepare income statements and statements of financial position for companies.

Activity 3.18 Preparation of Final Accounts of a company – II

1. Identify the key accounts prepared by a company and share them with the class
2. In your groups, study the Kakro Ltd information below and answer the questions.

The following trial balance relates to Kakro Ltd at 31 July 20X2.

	Dr. GH¢	Cr. GH¢
Sales revenue		211,820
Cost of sales	84,600	
Inventory at 31 July 20X2	38,400	
Administrative expenses	12,500	
Rent received		39,000
Land	40,000	
Building cost	100,000	
Accumulated depreciation at 1 June 20X1		28,000
Plant and equipment: Cost	128,000	
Accumulated depreciation on 1 June 20X1		32,000
Allowance for receivables		12,000
Trade receivables	68,200	
Trade payables		56,000
12% Loan		60,000
Loan interest	4,600	
Cash at bank	15,100	
Retained earnings		12,580
Ordinary shares		40,000
	491,400	**491,400**

Additional Information

a. The cost of inventory was GH¢ 38,400 for the year ended 31 July 20X2.

b. Trade receivables totalling GH¢4,000 are to be written off, and allowance for receivables is to be adjusted to GH¢8,000. The irrecoverable debt expense is to be included in administrative expenses.

c. Depreciation is to be provided for as follows:

- Buildings 2.5% per year on cost.
- Plant and equipment 25% per year on cost
- 70% of the depreciation is to be charged in cost of sales, and 15% each in distribution costs and administrative expenses.

d. Current year income tax charged was GH¢18,100.

3. Prepare for Kakro Ltd

a. The Statement of Profit and Loss for the year ended 31 July 20X2.

b. The Statement of Financial Position as at 31 July 20X2.

4. Show your solution to the class for discussion and feedback

EXTENDED READING

- Adomako, R. K. (2019). Contemporary Financial Accounting. Tamale: Zeal Publishing. pp. 62-68, pp. 200-215
- Andoh, C. A. (2020). Principles of Financial Accounting. Accra: Best Books Ltd. pp 25-30, 45-53
- Any Financial Accounting book approved by NaCCA
- Boateng, A. A. (2018). Essentials of Financial Accounting. Tamale: Northern Publications. Pp 42-50, 65-70
- Owusu, P. Y. (2021). Financial Accounting Made Simple. Cape Coast: Coastal Press pp 10-15, 55-60
- Tetteh, M. A. (2020). Financial Reporting and Analysis. Accra: Bloom Publications. pp. 40-47, pp. 110-125

REVIEW QUESTIONS

1. Explain partnership and why partnership is important
2. Explain the forms of businesses that the Incorporated Private Partnership Act, 1962 (Act 152) does not consider as partnerships.
3. Explain how a partnership business will operate smoothly without a partnership agreement.
4. Discuss the advantages and disadvantages of partnership and how to overcome the challenges.
5. Suggest the type of company to establish for five young university graduates and why
6. How different are private companies from public companies in Ghana?
7. Discuss the features that distinguish companies from other forms of business ownership
8. a. As a consultant, explain to a potential investor the type of shares to invest in and why.

   b. Explain the classifications of preference shares.
9. Avoole, Baffour and Cudjoe are partners engaged in retail business, sharing profits or losses in the ratio 2:1:2, respectively. The following are the details of the extracts from their books as at 31st December 2023.

	Avoole	*Baffour*	*Cudjo*
	GH¢	*GH¢*	*GH¢*
Capital Accounts	*50,000*	*45,000*	*60,000*
Current Accounts	*20,800*	*(5,000)*	*8,500*

Additional information

i. The firm's sundry assets were valued at GH¢431,000.

ii. The firm was cash-strapped, and on 01/07/2023, Baffour advanced a loan of 100,000 to the partnership at the rate of 5% per annum. Interest was payable every six months and was to be credited to his account.

iii. Interest on capital is 10% per annum.

iv. Avoole and Cudjo were to receive salaries of GH¢25,000 each

v. The profit for the partnership before charging loan interest was GH¢158,000 for the year ended 31st December 2023. The loan was not repayable until after the year 2026.

You are required to prepare the following.

a. Statement of Profit or Loss Appropriation for the year ended 31st December 2023

b. Partners' Current Accounts in columnar form.

10. Below is the Trial Balance of Golden Foods Ghana Ltd as at 31st December 2024:

	Debit	Credit
	GH¢	GH¢
Stated Capital		80,000
Retained Earnings (1st January 2024)		15,000
Sales		250,000
Purchases	120,000	
Salaries and Wages	36,000	
Rent and Rates	12,000	
Electricity and Water	8,000	
Insurance	3,000	
Office Equipment	40,000	
Motor Vehicles	60,000	
Accounts Receivable	25,000	
Accounts Payable		20,000
Bank	39,000	
Cash in Hand	22,000	
Inventory (1st January 2024)	15,000	
Accumulated depreciation (1st January, 2024):		
Office Equipment		10,000
Motor Vehicle		15,000
Dividend Paid	10,000	
Totals	**390,000**	**390,000**

Additional Information

a. Closing inventory on 31st December 2024 was valued at GH¢18,000.

b. Depreciation is to be provided as follows:

Office Equipment – 10% per annum on cost

Motor Vehicles – 20% per annum on reducing balance method

c. Outstanding Rent amounts to GH¢1,000.

d. Prepaid Insurance amounts to GH¢500.

e. 40,000 new ordinary shares were issued at GH¢0.50 each on 1 December 2024. The shares were subscribed and fully paid for. This transaction has not been recorded at all in the books.

f. Corporation tax for the year is estimated at GH¢16,000.

You are required to do the following.

i. Prepare the Statements of Profit or Loss for the year ended 31st December 2024.

ii. Prepare the Statement of changes in equity

iii. Prepare the Statement of Financial Position as at 31st December 2024.

SECTION

4

PREPARE STORE LEDGER CARDS, COMPUTE LABOUR REMUNERATIONS, PREPARE PAYROLL AND ASSIGN COST DRIVER RATES TO PRODUCTS AND SERVICES

COST ACCOUNTING

CONTROLLING COST TO IMPROVE ORGANISATIONAL PERFORMANCE

INTRODUCTION

This section looks at how to price materials from stores, calculate labour remuneration, and assign overheads to products and services. In Year 2, you were introduced to types of inventories and the purchase and receipts of materials into stores, as well as types of labour and the methods of labour remuneration. Furthermore, you were taken through the preparation of Overhead Analysis Sheets. This section seeks to build on what you know from the previous year.

Emphasis will be placed on the computation of labour remuneration and the assignment of overheads to translate theory into practice.

By the end of this section, you should have a solid understanding of how to cost materials issued out of stores, prepare payroll and assign overhead cost to products and services using Activity Based Costing.

You will explore the following in this section:

1. Prepare store ledger card using FIFO, LIFO, Weighted Average and Simple Average methods of pricing issues.
2. Compute labour remuneration, including cost of idle time and prepare a payroll sheet to show gross wages, allowances, deductions and net wages.
3. Compute cost driver rates for cost pools as applied in activity-based costing and assign overheads to jobs/services/products using cost driver rates.

Your previous knowledge will help you connect past learning to your new study on the methods of pricing issues, labour remuneration and cost driver rates for cost pools.

KEY IDEAS

- **Allowance** is a specific amount of money set aside for a particular purpose, often used in budgeting or accounting.
- **Overhead** costs are ongoing expenses that are not directly tied to the production of goods or services.
- **Payslip** is a document given to workers showing their pay details for a specific period, usually each month.

- **Remuneration** refers to the total compensation or payment received by an employee for their work or services.
- **Weighted Average method** values inventory by calculating the average cost per unit. To do this, divide the total value of materials in stock by the total quantity.

PREPARE STORE LEDGER CARD USING FIRST - IN - FIRST OUT (FIFO) METHOD OF PRICING ISSUES FROM STORES

In year 1, you explored the composition of cost of products, services and operations, and in year 2, the process of purchasing, storage and issue of materials were explained with the documents used in these processes, as well as explanation of inventory, types of inventories, inventory control and compute inventory control levels – Maximum, minimum, re-order level, EOQ. This previous knowledge will be applied in this lesson.

Businesses purchase materials at various prices and dates, storing them until they are needed for production. To determine the cost of these materials, a pricing method is necessary to value the materials issued to production.

Some common methods for pricing issues are First–In–First–Out (FIFO); Last–In–First–Out (LIFO); Weighted Average Cost Method (AVCO); and Simple Average Cost Method.

FIRST – IN – FIRST – OUT (FIFO)

The FIFO method assumes that materials are used in the order they were received. In other words, the oldest items in inventory are issued first. To calculate the cost of materials using FIFO, we need to keep track of the following.

a. Date and quantity of materials received, including their cost
b. Date and quantity of materials issued to production.

Advantages

1. Easy to understand and use.
2. Materials are issued at their actual cost.
3. Logical pricing method that reflects real-life inventory management.

Disadvantages

1. During inflation, costs may not reflect current market prices
2. It can be challenging to track each batch of materials separately

Activity 4.1 First - In -First Out (FIFO) method of pricing issues from stores

1. Recall what you learnt in year two on the issue of materials and the documents used in these processes.
2. Share your observations with another group by answering the following questions:
3. List five documents used in issuing material with their uses.
4. In groups, explain the FIFO method of issuing inventory.
5. Discuss two advantages and two disadvantages of using the FIFO method of issuing inventory.
6. Read the transactions recorded by Ogun Ltd in the first week of December 2024.

Date	Receipts/Issues	Quantity
01/12/24	Opening Balance	200 units @GH¢4 each
03/12/24	Purchases	300 units @ GH¢6 each
05/12/24	Issues	300 units
06/01/24	Purchases	400 units @ GH¢8 each
07/01/24	Issues	350 units

Prepare a Store Ledger Card using the FIFO method of issuing inventory.

7. Discuss the two effects of using the FIFO Method of pricing issues on the profits of the business.
8. Present your work to your teacher.

LAST-IN-FIRST-OUT (LIFO)

The LIFO method assumes that the newest items received are the first ones to be used. This means that the most recent materials are issued first, and the older ones are left in stock. At any time, the units in store would be made of materials purchased some time ago. Issues are therefore made in the reverse order of the FIFO method.

Advantages

1. It is easy to understand and use
2. Materials are issued at their actual cost

Disadvantages

1. Stock values may reflect old prices.
2. Production costs may be higher because materials are valued at newer, often higher prices.
3. Stock values can reflect current market prices of materials when they are sold or used later.

Activity 4.2 Last-In-First-Out (LIFO) Method of Pricing Issues from Stores

1. In pairs, explain three reasons why users of accounting information are not confident in the use of the LIFO method of issuing inventory.
2. Study the transactions recorded by Ogun Ltd in the first week of December 2024.

Date	Receipts/Issues	Quantity
01/12/24	Balance	200 units @GH¢8 each
03/12/24	Purchases	300 units @ GH¢5 each
05/12/24	Issues	250 units
06/01/24	Purchases	400 units @ GH¢6 each
07/01/24	Issues	350 units

3. Prepare a Store Ledger Card using the LIFO method of issuing inventory.
4. Share your work with another pair for discussion and feedback.

Activity 4.3 FIFO and LIFO Methods of Pricing Issues from Stores

1. In your groups, study the case below:

   Thrive Enterprise is a wholesaler of soaps, which are sold in boxes. The stock on hand on 1st February 2025 was 1,380 boxes valued at GH¢63,480. The purchases and sales of soap during February 2025 were as follows:

   Purchases February 02 460 boxes @ GH¢48

   February 06 180 boxes @ GH¢49

   Sales February 04 920 boxes @ GH¢60

   February 10 900 boxes @ GH¢60

2. Compute the profit for the month of February, using the LIFO method of issuing inventory.
3. Compute the profit for the month of February, using the FIFO method of issuing inventory.
4. Compare the profit using the FIFO method to the profit using the LIFO method and explain the difference between the two methods.
5. Present your answers to the whole class for discussion.

WEIGHTED AVERAGE METHOD

The following areas will help you in today's lesson.

- Year 1 – Week 15: Explain the composition of the cost of products, services and operations
- Year 2 – Week 13: Explain the process of purchasing, storage and issue of materials and identify the documents used in these processes.
- Year 2 – Week 14: Explain inventory, types of inventory, inventory control, and compute inventory control levels – Maximum, minimum, re-order level, EOQ

The Weighted Average method values inventory by calculating the average cost per unit. To do this, divide the total value of materials in stock by the total quantity. This average cost is used to determine the issue price of materials. Whenever new materials are received, the average cost is recalculated as follows:

- Calculate the total value of materials in stock.
- Divide by the total quantity
- Use this average cost to value materials issued
- Recalculate the average cost when new materials are received.

Formula for Weighted Average price: $\dfrac{\text{Total cost of inventory in store at the date of issue}}{\text{Number of units in store on the date of issue}}$

Example: An inventory store has 200 units with a total value of 10,000.

The price per unit of a unit issued from store can be calculated as 10,000/200 = 50 per unit.

Advantages

1. **Smooths out price fluctuations**: Weighted Average method averages out the cost of materials, reducing the impact of price fluctuations.
2. **Simple to calculate**: The calculation is straightforward, making it easy to implement.
3. **Easy to understand**: The method is easy to comprehend, even for those without extensive accounting knowledge.
4. **Reduces volatility**: Weighted Average method reduces the volatility in cost of goods sold and inventory valuation.
5. **Practical for large inventories**: This method is suitable for businesses with large inventories, as it simplifies the valuation process.

Disadvantages

1. **May not reflect current market prices**: The weighted average cost may not reflect current market prices, potentially leading to inaccurate valuation.
2. **Can be affected by old inventory**: Old inventory can skew the weighted average cost, making it less representative of current prices.
3. **Requires frequent recalculations**: The average cost needs to be recalculated whenever new materials are received, which can be time-consuming.

4. **May not be suitable for all types of inventory**: Weighted Average method may not be suitable for inventory with significant price fluctuations or unique items.
5. **Can lead to overvaluation or undervaluation**: If not properly managed, the weighted average method can lead to overvaluation or undervaluation of inventory.

Activity 4.4 Weighted Average Method

1. In year 2, you explored the inventory control levels.
2. Share your idea on the inventory control level with another group.
3. In your groups, explain two advantages and two disadvantages of using the Weighted Average method of issuing inventory.
4. Study the transactions recorded by Thrive Ltd in the first week of January 2025.

Date	Receipts/Issues	Quantity
01/01/25	Balance	100 units @GH¢30 each
02/01/25	Purchases	300 units @ GH¢50 each
04/01/25	Issues	200 units
06/01/25	Purchases	400 units @ GH¢60 each
07/01/25	Issues	350 units

Prepare a Store Ledger Card using the Weighted Average method of issuing inventory.

5. Present your answers to another group for discussion and then to your teacher for feedback.

SIMPLE AVERAGE METHOD

In this method, the issue price is calculated as the average of all previous purchase prices of items still in stock. The simple average price considers all previous prices, regardless of the quantity of items remaining.

When items are issued, they are removed from stock in a First-In-First-Out (FIFO) manner, but the price used is the simple average of all remaining items' prices.

Formula for Simple Average cost: $\dfrac{\text{List of prices available in stores}}{\text{Number of prices available}}$

Advantages

1. **Smooths out price fluctuations**: The Simple Weighted Average method helps to average out price variations, providing a more stable cost.
2. **Easy to understand**: The method is straightforward and easy to comprehend.
3. **Simple to calculate**: Calculations are relatively simple, making it easy to implement.
4. **Reduces accounting complexity**: Simple Weighted Average method simplifies inventory valuation and costing.
5. **Useful for similar items**: Suitable for businesses with similar items or products.

Disadvantages

1. **May not reflect current prices**: The method may not reflect current market prices, leading to inaccurate valuation.
2. **Ignores price trends**: The Simple Weighted Average method does not account for price trends or changes in market conditions.
3. **Not suitable for all inventory types**: May not be suitable for inventory with significant price fluctuations or unique items.
4. **Lacks precision**: The Simple Weighted Average method may not provide precise costing, potentially leading to overvaluation or undervaluation.

Activity 4.5 Simple Average Method

1. In pairs, explain the Simple Average Method of issuing inventory.
2. Discuss two advantages and two disadvantages of using the Simple Average method of issuing inventory.
3. Study the transactions recorded by Nviso Ltd in the first week of January 2025.

Date	Receipts	Quantity
01/01/25	Balance	100 units @GH¢30 each
02/01/25	Purchases	300 units @ GH¢50 each
04/01/25	Issues	200 units
06/01/25	Purchases	400 units @ GH¢60 each
07/01/25	Issues	350 units

4. Prepare a Store Ledger Card using the Simple Average method of issuing inventory.
5. Present your answers to another pair for discussion and then to your teacher for feedback.

REVISION OF METHODS OF LABOUR REMUNERATION

LABOUR REMUNERATION/COST

It is the money given to workers for the work they do. This payment can come in different forms, such as wages or salaries (regular pay), allowances (extra money for specific needs), commission (extra pay based on sales or performance) and bonuses (additional rewards for good work).

Bases of Labour Remuneration

1. Time rate
2. Piece rate

Time Rate

This method of remuneration is a method where workers are paid based on the time worked in hours, days or weeks.

It is calculated as the rate multiplied by the time worked.

Time rate = Hours worked X Rate per hour/day

Piece Rate

This method of remuneration is a way of paying workers based on how much they produce. Workers earn money for each unit they complete, and the payment is calculated by multiplying the rate per unit by the total number of units produced.

The main types of Piece Rate methods are:

a. Straight Piece Rate
b. Differential Piece Rate
c. Piece Rate with a guaranteed minimum wage

1. **Straight Piece Rate**

   Under this method the amount earned is based on the number of units produced multiplied by the rate per unit.

2. **Differential Piece Rate**

Under this method, the rate per unit of output changes at different levels of production.

3. **Piece Rate with a guaranteed minimum wage**

   This is a payment system where workers are paid based on the number of units or pieces they produce. However, to make sure that workers do not earn very low wages when production is low, the employer sets a guaranteed minimum wage. This means

that even if a worker produces less than the required output, they will still receive a fixed minimum amount of pay. This system encourages workers to work harder to earn more while also protecting them from earning too little during times of low production or when work is slow.

For instance, if a worker earns GH¢5 for each item made, but during the week he only produces 10 items (GH¢50), and the guaranteed minimum wage is GH¢80, the employer will pay GH¢80 instead of GH¢50.

Activity 4.6 Labour Remuneration

1. In your groups, read the passage below.

Afia Nyamekye Enterprise employs three workers who are paid GH¢4 per unit produced. Each worker is expected to produce 20 units a day for 25 days in a month. Any extra units produced are paid for at GH¢5 per unit.

All workers receive a rent allowance of 20% of basic wages and a transport allowance of GH¢8 per day. Production for 3 workers for the month is as follows:

Name of worker	Units produced
Amoah	520
Emmanuel	400
Kelvin	560

1. Prepare a schedule to determine the wages of the workers.
2. Present your work to the whole class for discussion.

PAYROLL COMPUTATION - EXPLANATION OF TERMS

PAYROLL

A payroll is a record or list of all the workers in a company showing how much each person earns for the work they do. It also includes details such as bonuses, allowances, deductions, and taxes. In simple terms, it is like a payment book that helps the business keep track of how much money is paid to employees every month or week.

The Purpose of a Payroll

1. **Ensure correct and timely payment**: It helps the business make sure that all workers are paid the right amount at the right time.

2. **Manage tax deductions**: Payroll keeps track of taxes and other deductions that must be paid to the government on behalf of workers.
3. **Keep accurate records**: It helps the company maintain proper payment records for reference, audits, and future planning.

Basic Wage/Salary

A basic wage or salary is the main or fixed amount of money a worker earns for doing their normal job, without adding any extra payments such as bonuses, overtime, or allowances. It is the agreed amount an employer pays an employee regularly such as weekly or monthly for their normal hours of work.

Allowance

An allowance is extra money paid to a worker in addition to their basic wage. It can be for things like:

1. Transport allowance (to help with transportation costs)
2. Housing allowance (to help with rent or housing costs)
3. Meal allowance (to help with food costs)

Gross Wage/Income

This is the total amount of money a worker earns before any deductions are made. It includes their basic wage, allowances and any other payments.

Gross Income = Basic Wage + Allowances + Other Payments

Deductions

These are amounts of money subtracted from a worker's gross income. Common deductions include:

1. Taxes (like income tax)
2. Social Security contributions (SSNIT contributions)
3. Loan repayments
4. Health insurance premiums

Statutory Deductions are the deductions that are backed by law and are compulsory. They include Social Security and income tax.

Non - Statutory Deductions are the deductions that are not legal requirements. Examples are Union Dues, Loan Deductions, Insurance, Provident Fund, etc.

Net Pay/Income

This is the amount of money a worker takes home after all deductions have been subtracted from their gross income. It is the actual amount they receive in their bank account or as cash.

Net Pay = Gross Income - Deductions

Payslip

A payslip is a document given to workers showing their pay details for a specific period, usually each month. It includes:

1. Gross income (basic wage, allowances, etc.)
2. Deductions (taxes, SSNIT, etc.)
3. Net pay (the amount they take home)

A payslip helps workers understand how their pay is calculated and what deductions were made.

Activity 4.7 Payroll Computation - Explanation of Terms

1. In pairs, explain payroll.
2. Explain the following terms:
   a. Basic salary/wage
   b. Allowance
   c. Deductions
   d. Payslip
   e. Net salary/wage
3. Discuss the difference between statutory deductions and non-statutory deductions.
3. Share your work with another pair for discussion.

COMPUTATION OF PAYROLL

You have been introduced to payroll and the terms involved in the preparation of payroll. Also, you have been taught how to compute the wages of employees in the previous lessons.

In this lesson, you will be guided to prepare payroll, making the necessary deductions to reinforce the theories that have been learnt.

Activity 4.8 Computation of Payroll

1. In groups, study the case below:

Thrive Plc employs three workers who are paid a monthly salary according to their rank and experience. Salaries payable in January 2025 are as follows:

Name	Salary - GH¢
Wilson	12,000
Yellman	15,000
Zulee	9,000

a. Each worker receives a rent subsidy of 10% of the base salary and a transport allowance of GH¢500 per month.

b. All workers contribute 5.5% of their base salary to the Social Security Fund and another 5% to a Provident Fund.

c. The rates of tax are given below:

Base	Rate
First GH¢ 2,000	0%
Above GH¢ 2,000	10%

2. Prepare a payroll for January 2025, showing the net income receivable by each worker.
3. Present your answers to the whole class for discussion.

COMPUTATION OF LABOUR TURNOVER AND IDLE TIME

LABOUR TURNOVER

Labour turnover refers to the number of employees who leave an organisation over a specific period, either voluntarily or involuntarily and are replaced by new workers

$$\text{Labour Turnover rate} = \frac{\text{Average number of workers replaced}}{\text{Average number employed}} \times 100$$

Causes of Labour Turnover

Avoidable Causes

1. Low wages and salaries
2. Inadequate job security and retirement benefits
3. Unsatisfactory working conditions
4. Harassments, intimidations and unhappy working relations

Unavoidable Causes

1. Retirements and death

2. Illness and accidents
3. Resignations or change of jobs

Idle Time

Idle time is the period when a worker is paid but not actually working, and it is not the worker's fault. This happens when there are delays or interruptions that prevent work from continuing. For example, when machines break down, there is no electricity, or materials are not available.

Causes of idle time include

1. Machine break down
2. Power outage
3. Shortage of materials
4. Time spent commuting between departments
5. Routine maintenance of machines
6. Natural disasters like floods

Activity 4.9 Computation of Labour Turnover and Idle Time

1. In groups, study the case below.

Thrive Plc started the year 2024 with 2,640 workers and ended with 3,260 workers on 31st December. During the year

a. 20 workers went for greener pastures abroad.

b. 10 workers retired.

c. 25 resigned, while 6 others left to join their partners.

d. 14 workers were dismissed.

2. Calculate the following.

a. Number of new workers employed.

b. Average number of workers for the year 2024

c. Number of workers who left the organisation.

d. The rate of labour turnover.

3. Share your answer with another group for discussion and then with the whole class.

COMPUTATION OF COST DRIVER RATES

In year 1, you learned Activity Based Costing, its importance, assumptions and limitations. And in year 2, you prepared the Overhead Analysis Sheet and computed overhead absorption rates. In this lesson, you will be guided to prepare the compute cost driver rates by applying these principles.

Examples of Cost Pools and their Cost Drivers (recap year 1)

Cost Pool	Cost Driver
Material Procurement	Number of Orders
Material Handling	Number of material movements
Production Control	Number of set-ups
Maintenance	Number of maintenance hours,
Quality Control	Number of Inspections
Customer Order Processing	Number of Orders, Number of Customers, Order sizes
Production Control	Number of Machine layouts, Number of work order
Material / Inventory Control	Number of deliveries, Number of receipts, Material volume
Engineering Support	Number of set ups, production hours, Number of break machine downs
Inspections	Number of Inspections, Batch sizes, Number of supplies
General Accounting	Number of suppliers/customers, frequency of dispatches

Activity 4.10 Computation of Cost Driver Rates

1. In pairs, explain the relationship between the Cost pool and Cost Driver.
2. Discuss why Activity-Based Costing is a preferred method of absorbing overheads
3. Compute the cost driver rates for the Cost Pools with the information below.

Enso Nyame Ye Manufacturing uses Activity-Based Costing to charge overheads to products.

Cost Pool	Cost Driver	Overhead cost - GH¢
Procurement	180 orders	45,000
Quality Control	600 inspections	36,000
Production Control	15 set–ups	3,000
Material Handling	25 movements	5,500

4. Share your work with another pair for feedback.

ASSIGN OVERHEADS TO PRODUCTS OR SERVICES USING COST DRIVER RATES

You have been taught how to compute cost driver rates in the previous lesson. In this lesson, you will be guided on how to absorb overhead costs into the price of products and services.

You will be guided by your teacher through scenarios to assign overheads to products or services using cost driver rates.

Activity 4.11 Assignment of Overheads to Products or Services Using Cost Driver Rates

1. In groups, study the case below.

Thrive Manufacturing uses Activity-Based Costing to charge overhead to products. The following details are given below:

Cost Pool	*Cost Driver*	*Overhead cost - GH¢*
Procurement	*180 orders*	*45,000*
Quality Control	*600 inspections*	*36,000*
Production Control	*15 set–ups*	*3,000*
Material Handling	*25 movements*	*5,500*

The following costs were incurred on an order from Mr Mensah.

a. *Raw Materials GH¢14,900*

b. *Direct Labour GH¢8,600*

c. *The order incurred overheads as follows:*

i. *5 orders*

ii. *2 inspections*

iii. *4 set-ups*

iv. *3 material movements.*

2. Use activity-based costing to calculate the total cost of Mr Mensah's order.
3. Present your answer to the class for discussion.

EXTENDED READING

- Dadzie B. (2024), Costing for 'U'
- Eric Oduro (2001), Principles of Cost Accounting for Senior High Schools 3rd Edition.

REVIEW QUESTIONS

1. Explain the two methods of Labour Remuneration: Time Rate and Piece Rate
2. Explain the following terms:
   a. Basic salary/wage
   b. Allowance
   c. Deductions
   d. Payslip
   e. Net pay/income
3. Buah Industries employs 4 workers who are paid GH¢6,400 each for 20 days of 8 hours a day. Details of the activities of the business are as follows:
   a. Overtime is paid at time and a quarter.
   b. Workers are also given a clothing allowance of 10% of their basic salary and a data allowance of GH¢320 per month.
   c. During the month, the workers worked for the following hours.

Name	Hours worked
Senyo	200
Adoma	180
Tieku	160
Osman	220

   You are required to prepare a schedule to show the details of the gross earnings of each worker.
4. Discuss the causes of labour turnover
5. Explain the LIFO method with three advantages and two disadvantages.
6. Samina Enterprise is a wholesaler of soaps, which are sold in boxes. The stock on hand on 1st February 2025 was 1,380 boxes valued at GH¢63,480. The purchases and sales of soap during February 2025 were as follows:

Purchases	February 02	460 boxes @ GH¢48
	February 06	180 boxes @ GH¢49
Sales	February 04	920 boxes @ GH¢60
	February 10	900 boxes @ GH¢60

   a. You are required to compute the profit for February, using the Last – In – First Out (LIFO) method of issuing inventory.
   b. You are required to compute the profit for February, using the First-In-First-Out (FIFO) method of issuing inventory.

c. Compare the profit using the FIFO method to the profit using the LIFO method and explain the difference between the two methods.

7. Tanko Plc has 10 workers who are paid a monthly salary of GH¢3,200 each for an 8–hour day for 20 days a month. The following took place:

   a. During the month of May 2025, there was a machine breakdown for 5 hours during which 6 workers did not work.

   b. There was a shortage of materials during which 4 workers did not work for 3 hours.

   c. There was a power failure for 2 hours. This caused all the workers to be idle.

   d. During the month, waiting for instructions from their boss caused 4 workers to be idle for 6 hours.

      i. Calculate the wage per hour of each worker.

      ii. The number of idle time hours.

      iii. The cost of idle time for the month of May 2025.

SECTION

5

BUDGETS AND BUDGETARY CONTROL, STANDARD COSTING AND VARIANCE ANALYSIS

COST ACCOUNTING

DETERMINING THE COST OF OPERATIONS FOR PRICING AND CONTROLLING

INTRODUCTION

In this section, you will learn how to prepare functional budgets, control expenses, and compare actual results with budgets to identify and explain variances. This builds on what you learned in previous years and focuses on practical computation and analysis, helping you apply budgeting and variance concepts to real-life business situations. You will use learner-centred activities, group discussions, and problem-solving tasks to understand how budgets help control costs and improve performance.

KEY IDEAS

- **A budget** is a financial plan that shows the expected income and expenses of a business for a specific period. It helps to plan and control business activities.
- **Adverse (Unfavourable) Variance** is the difference that is not good for the business, such as when actual costs are higher than budgeted or actual revenue is lower.
- **Favourable Variance** is the difference that benefits the business, such as when actual costs are lower than budgeted or when actual revenue is higher than expected.
- **Functional Budgets** are budgets prepared for different parts (functions) of a business, such as sales, production, materials, labour, and cash.
- **Variance Analysis** is the process of comparing actual results with budgeted or standard results to find out the differences (variances) and their causes.

PREPARATION OF SALES AND PRODUCTION BUDGETS

SALES BUDGET

The Sales Budget is the starting point of all other budgets. It shows the types of products to be sold, quantities, selling prices, and the expected revenue for a period. It helps a business estimate its future income and decide on strategies for increasing sales. For example, if

demand for a product is expected to rise, the sales budget will guide how much stock or production is needed.

Factors that Affect Sales Budget

1. **Past Sales Records:** Previous sales data provide a useful basis for forecasting future sales. Trends, patterns, and seasonal variations from past years help in estimating expected sales.
2. **Market Conditions:** The general state of the economy (inflation, employment levels, income levels, etc.) influences customers' purchasing power and demand. A booming economy may increase sales, while a recession may reduce them.
3. **Sales Forecast:** This is an estimate of future sales based on data analysis, market research, and management judgment. It serves as the foundation for the sales budget.
4. **Advertising and Promotion Plans:** The level and effectiveness of advertising, sales promotions, and marketing campaigns can significantly affect sales volume. More promotions often lead to higher sales.
5. **Market Competition:** The number and strength of competitors, their pricing, and marketing strategies influence expected sales. Strong competition may require price reductions or more promotions.

PRODUCTION BUDGET

The Production Budget is based on the sales budget. It shows the number of units to be produced to meet the expected sales and maintain the desired stock levels. It takes into account opening and closing inventories and any expected production losses. This budget helps management plan for materials, labour, and machinery needs to ensure production runs smoothly and efficiently.

Factors to Consider When Preparing a Production Budget

1. **Sales Forecast:** It is the starting point for preparing a production budget because production depends on how much the business plans to sell. If you produce more than you can sell, goods will pile up in stock. If you produce less, you may lose customers.
2. **Stock of Finished Goods:** The amount of goods already in stock at the beginning and the desired stock at the end of the period. Example, if you want to keep some goods in store for next month, you must produce more.
3. **Production Capacity:** The ability of the factory or machines to produce goods. This includes the number of workers, machines, and working hours available.
4. **Availability of Raw Materials:** You must make sure enough raw materials are available for production.
5. **Availability of Labour:** There should be enough workers with the right skills to meet the production target.
6. **Availability of Equipment and Machinery:** Machines must be in good condition and enough to handle the planned level of production.

7. **Availability of Funds:** There must be enough money to buy materials, pay workers, and cover other production costs.

Activity 5.1 Sales and Production Budgets

1. In your groups, state types of budgets other than the sales budget and production budget and share them with the next group for feedback.
2. Discuss the uses of sales and production budgets.
3. Study the scenario below

   Kumah Ltd sells a product that has the following sales volume

   January ------ 26,000 units February --------- 34,000 units

   March --------28,000 units April ----------22,000 units

   The closing stock for December was 2,850 units.

   The closing stock for each month should be at 10% of the sales volume for the next month.

   Each product sells for GH¢500.
4. In your groups, prepare
   a. Sales Budget; and
   b. Production Budget for the first quarter of the year.
5. Present your work for discussion and feedback.

PREPARATION OF MATERIAL USAGE AND MATERIAL PURCHASES BUDGETS

MATERIAL USAGE BUDGET

The Material Usage Budget shows the quantities of each type of material that will be used in production. It is prepared based on the number of units the business plans to produce. This budget helps ensure that enough materials are available for smooth production without interruptions or waste. It also allows management to plan how efficiently materials are being used to control costs.

DIRECT MATERIAL PURCHASES BUDGET

The Direct Material Purchases Budget shows the quantity and cost of materials that need to be bought to meet production requirements. It is prepared after the material usage budget

and considers opening and closing stock levels. This budget helps the business plan when and how much material to buy, ensuring there are no shortages or excessive stock that could tie up cash.

Activity 5.2 Material Usage and Material Purchase Budget

1. In pairs, identify the first two functional budgets and explain why those budgets must be prepared first. Share your answers with the class for feedback.
2. In your groups, discuss the uses of the Material Usage and Material Purchases budgets.
3. Study the case below and answer the questions therein

   Akosua Foods Ltd produces one product called ChocoBisc.

   Budget Period: January – March 2025

Month	Budgeted Production (units)
January	4,000
February	5,000
March	6,000
April	7,000

   Additional Information

   i. Each unit requires: 3 kg of Material X and 2 kg of Material Y

   ii. Cost per kg of Material X GH¢10

   iii. Cost per kg of Material Y GH¢8

   iv. Opening stock on 1st January 2025: Material X – 900 kg; Material Y – 700 kg

   v. Desired closing stock each month is 10% of next month's production (in kg)

   a. Prepare the Material Usage Budget for each month

   b. Prepare the Material Purchases Budget for each month
4. Present your group work to the class for discussion and feedback.

PREPARATION OF CASH BUDGET

CASH BUDGET

A Cash Budget is prepared to show the expected cash receipts and payments for a budgeted period. It focuses on the business's short-run cash management.

Importance of Cash Budget

1. **Helps identify cash surpluses and shortages**

   The cash budget shows when the business will have extra money or when it may run short of cash. This helps the management plan to invest extra funds or arrange loans when needed.

2. **Ensures regular payment of expenses**

   It helps the business plan for payments such as wages, rent, electricity, and suppliers, so bills are paid on time, and the business maintains a good reputation.

3. **Improves financial control**

   A cash budget allows management to monitor how money is received and spent. This helps to prevent waste and overspending.

4. **Assists in decision-making**

   It provides useful information for management to decide whether the business can afford new investments, expansion, or needs to cut costs.

5. **Helps in obtaining loans**

   Banks and lenders use the cash budget to check if the business will be able to repay borrowed money. A well-prepared cash budget builds trust and makes it easier to get loans.

6. **Prevents cash problems and business failure**

   By planning, the business avoids running out of money. This ensures smooth operations and reduces the risk of failure.

Cash Inflows (Receipts)

These are the amounts of money coming into the business. They include:

Cash sales

a. Payments received from debtors (customers who owe)
b. Sale of fixed assets (e.g. selling an old vehicle)
c. Issue of new shares
d. Loans received

e. Interest and dividends received
f. Any other cash received during the period

Cash Outflows (Payments)

These are the amounts of money going out of the business. They include:

a. Purchase of goods or raw materials
b. Payment of wages and salaries
c. Payment to creditors (suppliers)
d. Payment of expenses (water, electricity, rent, telephone, etc.)
e. Payment of interest, taxes, and dividends
f. Purchase of new assets (machines, vehicles, etc.)
g. Repayment of loans or debentures

Non-Cash Items

These are items that are not included in a cash budget because they do not involve actual cash movement. They include:

a. Depreciation
b. Discounts allowed or received
c. Bad debts written off
d. Provision for doubtful debts
e. Bonus issue of shares
f. Repayment of loans or debentures

Activity 5.3 Importance of Cash Budget, Inflow and Outflow of Cash

1. In your groups, discuss the importance of a cash budget.
2. Discuss the inflow and outflow of cash, giving examples in the format below.

S/N	Inflow of cash	Outflow of Cash

3. Make a group presentation for discussion and feedback.

Activity 5.4 Preparation of Cash Budget – I

1. In your groups, discuss the steps involved in the preparation of a cash budget.
2. Study the scenario below

   Kaba Ventures Ltd makes and sells school bags in Navrongo. The following information is provided for the cash budget for the months of July to September.

Month	June	July	August	September
Sales (units)	5000	600	800	700

Additional Information

Selling price per unit: GH¢50

Sales pattern:

40% of sales are for cash.

60% are credit sales collected in the following month.

Production costs:

Each bag requires materials costing GH¢20 per unit.

All materials are paid for in the month after purchase.

Production each month = sales for that month.

Wages: GH¢6,000 per month, paid in the same month.

Other expenses: GH¢3,000 per month, paid in the following month.

Equipment purchase: GH¢5,000 in August.

Cash balance on 1st July: GH¢8,000

Prepare a cash receipts schedule showing cash and credit collections.

Prepare a cash payments schedule for materials.

Prepare a cash budget for July to September.

3. Present your group work to the class for discussion and feedback

PREPARATION OF CASH BUDGETS

In this lesson, you will apply the principles of cash budgeting to prepare another cash budget from the given data.

Activity 5.5 Preparation of Cash Budget – II

1. Using your groups, study the question below

Banku Company Ltd (BCL) wishes to arrange for an overdraft from its bankers. The bank has requested a cash budget, and the Manager of BCL Company Ltd has provided you with the following information.

Month	Sales	Purchases	Salaries
	GH¢	GH¢	GH¢
February	180,000	24,000	12,000
March	192,000	144,000	14,000
April	180,000	168,000	11,000
May	174,000	200,000	10,000

Additional Information

i. 50% of the sales are collected a month after sales, and the rest in the second month after sales.

ii. All purchases are on credit. Creditors are paid a month after purchases.

iii. Cash at the bank on 1 April is expected to be GH¢25,000.

iv. Salaries in June were GH¢12,000

2. You are required to prepare a Cash Budget for BCL from April to June and indicate how much overdraft should be taken at the end of each month.
3. Display your work for discussion and feedback.

CAUSES OF VARIANCES AND COMPUTATION OF MATERIAL VARIANCES

In this lesson, you will review the concept of variance analysis and its importance, which you learned in year 1 and use it to compute material variance.

VARIANCE ANALYSIS

Meaning of Variance

A variance is the difference between a planned (budgeted or standard) cost and the actual cost incurred. It helps management know whether performance is better or worse than expected.

Favourable Variance

A favourable variance occurs when:

1. The actual cost is less than the budgeted (standard) cost, or
2. The actual revenue is greater than the budgeted revenue.

If the standard cost to produce a bag of rice is GH¢50 but the actual cost is GH¢45, the variance of GH¢5 is favourable.

Adverse (Unfavourable) Variance

An adverse variance occurs when:

1. The actual cost is more than the budgeted (standard) cost, or
2. The actual revenue is less than the budgeted revenue.

For instance, If the standard cost to produce a bag of rice is GH¢50 but the actual cost is GH¢60, the variance of GH¢10 is adverse.

General Causes of Variances

1. Inefficiencies in operations.
2. Inaccurate recording of cost data.
3. Setting unrealistic or inappropriate standards.
4. Changes in economic factors such as prices, inflation, or weather conditions.

Major Types of Cost Variances

1. Direct Material Cost Variance
2. Direct Labour Cost Variance
3. Overhead Cost Variance

Direct Material Cost Variances (DMCV)

A Direct Material Cost Variance is the difference between the standard cost of materials allowed for actual production and the actual cost of materials used. It helps management know whether materials were used efficiently and bought at the right price. The Direct Material Cost Variance is divided into two main parts. These are Material Price Variance (MPV) and Material Usage (Quantity) Variance (MUV).

Direct Material Cost Variance = (Standard Cost) − (Actual Cost)

DMCV = (Standard Quantity × Standard Price) − (Actual Quantity × Actual Price)

Material Price Variance (MPV)

Difference caused by paying a different price per unit of material than expected.

MPV = (Standard Price − Actual Price) ×Actual Quantity

Material Usage (Quantity) Variance (MUV)

The difference caused by using more or less material than the standard quantity allowed.

MUV = (Standard Quantity − Actual Quantity) × Standard Price

Causes of Material Variances

1. Buying from different suppliers at different prices.
2. Using materials of a different quality (higher or lower grade).
3. Improved or poor production methods.
4. Wastage of materials higher or lower than expected.

Activity 5.6 Causes and Types of Cost Variances

1. In pairs, mention two important aspects of variance analysis for discussion and feedback.
2. In your groups, discuss the causes of variance and how to reduce variance.
3. Discuss the types of cost variances and the reasons for the formulas of the variances.
4. Present your work to the class for discussion and feedback.

Activity 5.7 Computation of Material Variance

1. In groups, study the scenario below and answer the questions

   Tessy Company Ltd set the following standards for its activities.

   Production units – 5,000 units

   Materials – 15,000 kg costing GH¢75,000

   Actual production was 4,000 units

   Material used – 16,000kg costing GH¢64,000

   You are required to calculate the following.

   a. Standard material price and quantity
   b. Actual material price
   c. Material cost variance
   d. Material price and usage variances
2. Present your solution to the class for discussion and feedback.

CAUSES AND COMPUTATION OF LABOUR VARIANCES

You have been introduced to the computation of direct material cost variances. In this lesson, you will be taken through the computation of direct labour cost variances.

DIRECT LABOUR COST VARIANCE (DLCV)

A Direct Labour Cost Variance occurs when there is a difference between the standard direct wages (expected labour cost) and the actual direct wages (real labour cost) paid for the actual work done. It helps management know whether labour was used efficiently and whether workers were paid according to plan. Direct labour variance can be divided into direct labour rate variance and direct labour efficiency.

DLCV = (Standard Labour Cost) − (Actual Labour Cost)

DLCV = (Standard Hours × Standard Rate) − (Actual Hours × Actual Rate)

Causes of Labour Variances

1. The use of inexperienced or lower-skilled direct labour.
2. The use of a more experienced or skilled labour force.
3. A high rate of idle time.
4. Paying a lower rate for actual labour.
5. More efficient methods of production introduced.

Direct Labour Rate Variance (DLRV)

The Direct Labour Rate Variance shows the difference between the standard wage rate and the actual wage rate paid to workers for the actual hours worked. It helps management know whether workers were paid more or less than expected.

Direct Labour Rate Variance (DLRV) = (Standard Rate − Actual Rate) × Actual Hours

Direct Labour Efficiency Variance (DLEV)

The Direct Labour Efficiency Variance measures the difference between the standard hours that should have been worked for the actual output and the actual hours worked, multiplied by the standard rate per hour. It shows how efficiently workers used their time in producing goods.

DLEV = (Standard Hours for Actual Output − Actual Hours Worked) × Standard Rate per Hour

Activity 5.8 Causes and Divisions of Labour Cost Variance

1. In pairs, answer the question you pick. The questions to guide the review of previous lesson include:
   a. Mention one cause of material variance
   b. What are the divisions of material variance?
   c. Why do you calculate material price variance?
   d. Why do you calculate material usage variance?
2. Discuss the causes of direct labour cost variance
3. Explain the divisions in direct labour cost variance
4. Share your answers with the next pair for discussion and feedback.

Activity 5.9 Computation of Direct Labour Variance

1. In groups, study the case below
2. Tessy Company Ltd set the following standards for its activities.

   Production units – 5,000 units

   Labour – 20,000 hours costing GH¢60,000

   Actual production was 4,000 units

   Labour used – 12,000 hours costing GH¢48,000

   You are required to calculate:
   a. Standard labour rate and hours
   b. Actual labour rate
   c. Labour cost variance
   b. Labour rate and efficiency variances
3. Present your work to the class for discussion and feedback.

REVIEW QUESTIONS

1. Explain sales budget and five factors that affects the preparation of sales budget.
2. Explain production budget and five factors that affects the preparation of production budget.
3. Explain cash budget and why cash budget is necessary for every firm.
4.
   a. Explain four causes of variances
   b. Distinguished the following:
      i. Material price variance and material usage variance
      ii. Direct labour rate variance and direct labour efficiency variance
5. The following projections are provided by Azaare PLC for the year 2026.

	Sales (units)	Opening (units)	Stock (kgs)
January	4,000	240	1,400
February	4,600	260	1,500
March	5,300	280	1,600
April	6,000	300	1,700
May	5,600	400	2,000

Materials for production is 6kg at GH¢8 per kg for a unit of product.

Bossey Plc sells a product for GH¢15 each.

You are required to prepare for Azaare PLC in respect of the first four months of 2026:

a. Sales budget;
b. Production budget;
c. Materials usage budget;
d. Materials purchase budget.

6. Ansah Enterprise is preparing a cash budget for their business for 2025.

Sales forecast for the relevant period are as follows:

Month	DEC	JAN	FEB	MARCH	APRIL
	GH¢	GH¢	GH¢	GH¢	GH¢
Sales	14,500	16,800	18,200	20,000	21,600

- All sales are on credit and cash is collected the next month.
- The business receives rent of GH¢2,000 per month.

- Purchases are 80% of the sales revenue for each month and paid for in the month before the sales.
- A dividend of GH¢4,000 is expected to be received in February.
- An asset valued at GH¢20,000 would be sold at a loss of GH¢2,000 in March.
- Wages and expenses of GH¢5,000 and GH¢2,500 respectively are payable per month.
- Cash on hand at 1/1/2025 is GH¢8,500.

You are required to prepare a cash budget for the first quarter of 2025.The budget should show the net cash flow for each month.

7. Yinebono Enterpriese produces one standard product called *Yelom.*

The following standards have been given:

		GH¢
Materials:	25kgs@ GH¢60	1,500
Labour:	18hours@ GH¢50	900
		2,400

For the first quarter of the year 2023:

- 1,500 units were produced.
- A total of 39.500 kgs of materials were bought at a total cost of GH¢2,449,000;
- A total of GH¢1,273,700 was paid as wages for 27,100 labour hours used in the period:
- Materials issued to production was 37,000kg.

You are required to calculate

a. Direct Material Cost Variance
b. Material Price Variance;
c. Material Usage Variance;
d. Direct Labour Cost Variance
e. Direct Labour Rate Variance
f. Direct Labour Efficiency Variance

SECTION

6

APPLY BREAK EVEN ANALYSIS IN PLANNING FOR PRODUCTION AND PROFITS AND COMPUTE COSTS FOR RELEVANT DECISION MAKING

COST ACCOUNTING

ANALYSING INFORMATION FOR CONTROL AND DECISION MAKING

INTRODUCTION

This section aims to develop your decision-making skills. You will be taken through break–even analysis and relevant decision-making. In Year 1, you were introduced to break–even. You examined the importance, assumptions, and limitations of break–even analysis. Furthermore, you were taken through relevant cost and decision-making processes. Therefore, this section seeks to build on what you have learnt in the previous years.

Emphasis will be placed on the analytical issues and computations that aim at developing your thinking capacities through various scenarios.

By the end of this section, you should be able to make multiple decisions based on the analysis of complex scenarios and advise management on the best approach.

You will explore the following

- Compute in break–even analysis, plot break-even chart, and apply break–even analysis in planning for production and profits targets.
- Compute relevant costs to make decisions relating to make/buy and special order acceptance, and their implication for decision making.

KEY IDEAS

- **Break-Even Point** is the point of sales where total revenue is equal to total cost. At this point, there will be no profit or loss. The break-even point can be calculated in units or in terms of sales revenue (value).
- **Contribution** is the difference between sales revenue and variable cost. It is also known as Gross Profit Margin or Contribution Margin.
- **Contribution to Sales Ratio** is also known as the profit/volume ratio. It expresses the relationship between Contribution and sales.
- **Margin of Safety (MOS)** is used to assess the economic viability of a productivity level. It is the amount by which actual output or sales can fall short of the budget without incurring a loss.
- **Relevant Costing** focuses on future costs and revenues that differ between alternative decisions. It helps management make informed decisions by considering only the costs and revenues that will be impacted by the choice they make.

COMPUTATIONS IN BREAK-EVEN ANALYSIS

You have been introduced to break-even analysis, its importance, assumptions and limitations in year 1 (Week 21). In this lesson, you will be taken through the computations of break-even analysis.

TERMS USED IN BREAK-EVEN ANALYSIS

1. **Contribution**

   This is the amount left over from sales revenue after subtracting variable costs. It is also known as Gross Profit Margin or Contribution Margin. It is the amount that contributes to paying off fixed costs and generating profits.

   Contribution = Sales - Variable Costs

   Example: If Akua Tawiah sells a ball of kenkey for GH¢2.00 and the variable cost is GH¢0.50, the contribution is GH¢1.50 (GH¢2.00 - GH¢0.50).

2. **Contribution to Sales Ratio (C/S Ratio)**

   This ratio shows the proportion of sales revenue that contributes to paying off fixed costs and generating profits.

   $$\textbf{C/s Ratio} = \frac{\textbf{Contribution}}{\textbf{Sales}} \times \textbf{100\%}$$

   Example: Contribution is GH¢1.50 and the sales are GH¢2.00, the C/S Ratio is 75%.

   $$\text{C/s Ratio} = \frac{1.50}{2.00} \times 100\% = 75\%$$

3. **Break-Even Point (BEP)**

   The break-even point is the level of sales at which the business neither makes a profit nor a loss. It is the point where total revenue equals total costs. Break-even point can be calculated in units or in terms of sales revenue (value).

4. **Margin of Safety (MOS)**

   The margin of safety is the difference between actual sales and the break-even sales. It shows how much sales can fall before the business starts making a loss. The higher the value of the margin of safety, the more profitable a project will be. Margin of safety can be calculated in units, percentage and revenue.

Activity 6.1 Computations in Break-even analysis

1. Recall what you learnt in year one on Break-even Analysis.
2. Share your reflections with another group by answering the following questions:
   a. Explain break-even analysis.
   b. Discuss the assumptions underlying break-even analysis.
3. In groups, explain the objectives of break-even analysis.
4. Read the scenario below and answer the questions that follow.

   Malibu company recorded the following costs for its production.

   Productions - 2,000 units

   Variable cost - GH¢15,000

   Fixed Cost - GH¢64,000

   Selling price - GH¢10

   Calculate:

   a. Variable cost per unit.
   b. Break-even point in units
   c. Break-even point in value
   d. The number of units to produce to obtain a profit of GH¢50,000
5. Present your answer to the whole class for discussion and feedback.

PLOTTING OF BREAK-EVEN CHART

BREAK-EVEN CHART

A break-even chart is a visual representation of break-even analysis. It helps businesses determine the point at which they will break-even, that's when total revenue equals total costs. A break-even chart not only shows the break-even point but also shows profit and loss at various levels of activity.

An example is included below.

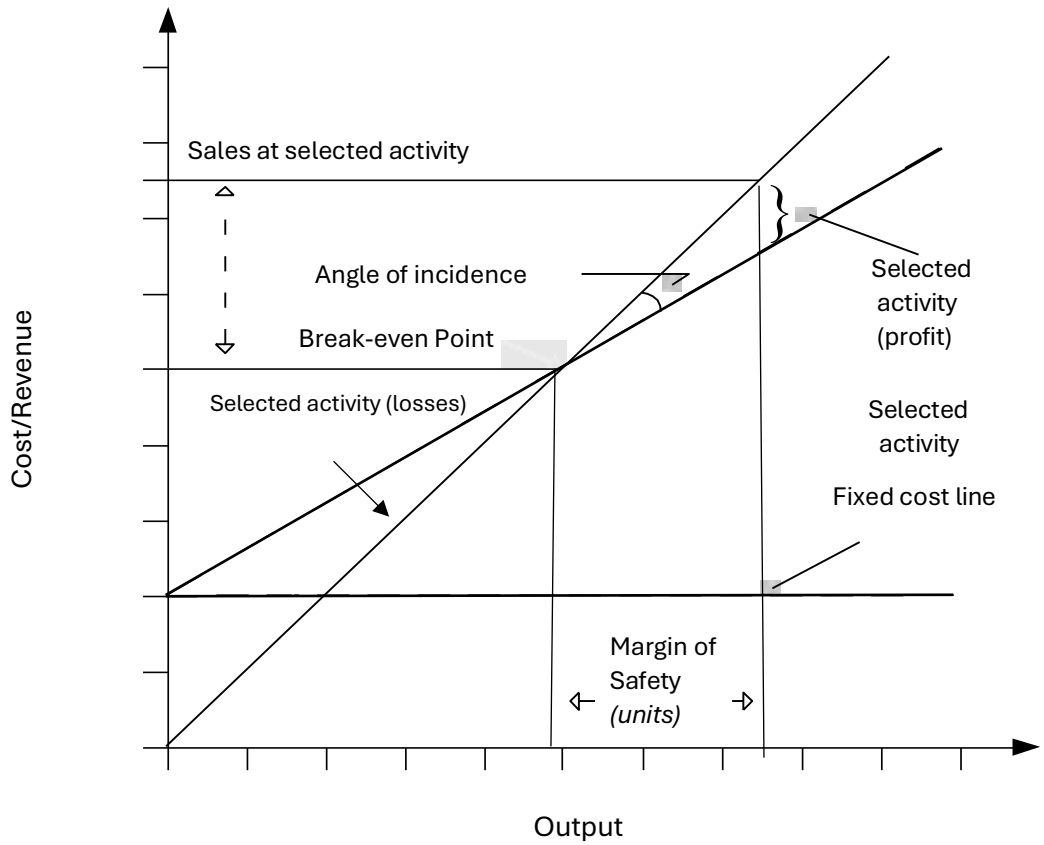

Figure 6.1: Break-even chart

Steps to Draw a Break-Even Chart

1. **Determine the fixed costs:** Identify the fixed costs and draw a horizontal line on the graph to represent them.
2. **Calculate the variable costs:** Determine the variable costs per unit and calculate the total variable costs at different levels of production.
3. **Plot the total costs line:** Add the variable costs to the fixed costs to get the total costs and plot this line on the graph.
4. **Plot the total revenue line:** Calculate the total revenue at different levels of sales and plot this line on the graph.
5. **Identify the break-even point:** Find the point where the total revenue line intersects the total costs line. This is the break-even point.
6. **Label the chart:** Label the axes, lines, and break-even point clearly.

Example

Let's say you're selling kenkey at school. Your fixed costs are GH¢100, and your variable costs are GH¢0.50 per kenkey. You sell each kenkey for GH¢2.

- Plot the fixed costs line at GH¢100
- Calculate total costs and plot the total costs line
- Calculate total revenue and plot the total revenue line
- Find the break-even point where the two lines intersect

Activity 6.2 Plotting of Break-even Chart

1. In groups, read the scenario below:

   A student, Dokua, is selling pastries at school for GH¢ 1 each. Her fixed costs are GH¢50, and her variable costs are GH¢0.25 per pastry.
2. Draw a break-even chart to determine how many pastries Dokua needs to sell to break-even.

   Assume: Ama can sell a maximum of 100 pastries.
3. Share your work with another group for feedback and discussion.

COMPUTE RELEVANT COSTS TO MAKE PRICING DECISIONS

In this lesson, you will compute relevant costs and the implications of decisions made.

RELEVANT COSTING

Relevant costing focuses on only the costs that are relevant to a specific business decision. It ignores sunk costs, committed costs and other irrelevant costs that do not affect the decision at hand. It helps management make informed decisions by considering only the costs and revenues that will be impacted by the choice they make.

Principles of Relevant Costing

1. **Future Costs:** Only future costs that will be incurred as a result of the decision are considered.
2. **Differential Costs:** Costs that differ between alternatives are considered relevant.
3. **Avoidable Costs:** Costs that can be avoided if a particular decision is made are considered relevant.
4. **Opportunity Costs:** The cost of choosing one option over another is considered relevant.
5. **Sunk Costs:** Sunk costs are ignored as they have already been incurred and cannot be changed.

Activity 6.3 Compute Relevant Costs to Make Pricing Decisions

1. In groups, explain the term - relevant cost.
2. Discuss the importance of relevant costs in decision-making.
3. Read the passage and answer the questions that follow.

The management of a printing house has received an enquiry from a customer to print 30,000 leaflets for a political rally. The customer is prepared to pay GH¢25,000. Details on the cost of producing the leaflets are as follows:

- *Labour cost of producing these leaflets is GH¢80 per 1,000 leaflets.*
- *The paper to be used would cost GH¢500 per 1,000 leaflets. There is sufficient paper to print only 20,000 leaflets. The excess must be purchased at GH¢600 per 1,000 leaflets.*
- *Administrative overheads would be charged at 20% of factory cost.*

a. Calculate the relevant and irrelevant costs of printing the leaflets.

b. Calculate the profit that would be obtained as a result of accepting this job

4. Present your work to another group for feedback and discussion.

SHUT DOWN OF A DEPARTMENT / REMOVAL OF A PRODUCT DECISIONS

SHUTDOWN OF A DEPARTMENT OR DELETION OF A PRODUCT

In cost accounting, shutdown or deletion decisions involve determining whether to discontinue a department or product that is not profitable. The decision is based on relevant costs and revenues.

Before a department or product is dropped or deleted, one must consider the following.

1. **Relevant Costs:** Identify costs that will be avoided if the department or product is shut down or deleted.
2. **Lost Contribution:** Consider the contribution margin lost if the department or product is discontinued.
3. **Opportunity Costs:** Consider alternative uses of resources.
4. The reaction of customers, especially if two goods are demanded jointly.
5. The redundancy cost to workers
6. The future use of machines/equipment.

Steps in Shutdown or Deletion Decision

1. **Identify relevant costs:** Determine costs that will be saved if the department or product is discontinued.
2. **Calculate lost contribution:** Calculate the contribution margin lost if the department or product is discontinued.
3. **Compare costs and lost contribution:** Compare the relevant costs saved with the lost contribution.

Decision Rule

1. **Shutdown or delete** if the relevant costs saved exceed the lost contribution.
2. **Continue** if the lost contribution exceeds the relevant costs saved.

Example: Suppose a company has a product line with the following data:

Sales: GH¢100,000
Variable Costs: GH¢60,000
Fixed Costs: GH¢30,000
Contribution Margin: GH¢40,000

If the product line is discontinued, GH¢20,000 of fixed costs can be avoided.

Calculation

- Relevant Costs Saved: GH¢20,000 (avoidable fixed costs)
- Lost Contribution: GH¢40,000 (contribution margin)

Since the lost contribution (GH¢40,000) exceeds the relevant costs saved (GH¢20,000), it is more profitable to continue the product line.

Activity 6.4 Shut Down of a Department / Removal of a Product Decisions

1. In groups, read the case: The departmental accounts of JosKBaff Shopping Mall are given as follows.

	Groceries	Detergents	Clothing	Pharmacy
	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Sales	680	190	150	80
Cost of sales	490	100	110	30
Gross profits	190	90	40	50
Expenses				
Direct expenses	70	50	25	10
Allocated Fixed cost	65	20	25	15
Profits/ Loss	55	20	(10)	25

2. Advise whether the Clothing Section should be closed down because of the losses?
3. Explain other factors that management should consider before closing down the loss-making department?
4. Present your work to the whole class for discussion and feedback.

ACCEPTANCE OR REJECTION OF A SPECIAL ORDER PRICING

You have been introduced to the principle of relevant costing and decision-making involving the deletion of a product or the discontinuation of a department or section. In this lesson, you will make special pricing decisions.

SPECIAL PRICING DECISIONS

This involves determining prices for specific products or services in unique circumstances, such as:

- **One-time orders:** Pricing for a single, non-recurring order.
- **Special contracts:** Pricing for long-term contracts or agreements.
- **Bulk orders:** Pricing for large quantity orders.
- **Export pricing:** Pricing for products sold in foreign markets.

They normally involve selling below the market price or making special orders of goods to customers at lower prices.

Things to consider

a. **Relevant Costs:** Identify costs that are relevant to the special pricing decision.
b. **Target Pricing:** Determine the desired profit margin and set prices accordingly.
c. **Market Conditions:** Consider competition, demand and market conditions.
d. **Negotiation:** Consider the bargaining power of buyers and sellers.
e. Sunk costs are historical costs and normally not relevant.
f. Replacement costs are necessary and should be considered.
g. Where there is spare capacity, relevant cost becomes irrelevant.
h. Consider the cost of overtime and the cost of diverting labour.

Activity 6.5 Acceptance or Rejection of a Special Order Pricing - I

1. In groups, read the case below.

Zuma Ltd produces tiger nut drinks and is currently producing 35,000 bottles. The full capacity of the company is 45,000 bottles per month. The unit cost structure is as follows

	GH¢
Direct labour	12
Direct Material	8
Variable manufacturing Overhead	2

	GH¢
Administrative overheads	8
Marketing overheads	3
Total cost	33
Selling Price	40

Additional Information

a. Another company, Caleb Ltd, has requested Zuma Ltd to produce 3,000 bottles of tiger nut drinks for a special programme next month at GH¢20 per unit.

b. Caleb Ltd wants its own logo to be placed on the 3,000 units. It would cost Zuma Ltd GH¢1 to insert the logo.

c. Direct labour is a fixed cost in the short term.

2. List three qualitative factors that Zuma Ltd should consider before accepting the offer.
3. Advise whether Zuma Ltd should accept the offer.
4. Calculate the total profit of Zuma Ltd if the offer is accepted.
5. Present your work to the class for discussion.

ACCEPTANCE OR REJECTION OF A SPECIAL ORDER PRICING

You have been introduced to the principle of relevant costing and decision-making involving the deletion of a product or the discontinuation of a department or section. This lesson is a continuation of accepting or rejecting special order pricing.

Activity 6.6 Acceptance or Rejection of a Special Order Pricing - II

1. In groups, read the following case.

   Thrive employs 10 security personnel who are paid GH¢1,200 each per month.

   In addition, they are paid transport and dressing allowance of GH¢100 and GH¢120 each per month, respectively. The company also pays social security of 10% of the basic salary on behalf of each worker to SSNIT. The chief supervisor of the ten security personnel is paid GH¢2,000.

   Focus Securities has offered to provide security services to Thrive at a cost of GH¢2,000 per person per month for 8 workers.
2. Compute the total cost of providing security services internally.

a. The cost of outsourcing the security services

b. Advise whether Thrive should outsource its security services.

c. Present your work to the whole class for discussion.

REVIEW QUESTIONS

1. Atoba Limited produces a product that sells for GH¢20 each. The company made the following projections for January 2026.

	Production units	Total cost
First Week	2,000	40,000
Second Week	5,000	82,000

You are required to calculate

a. Variable cost per unit

b. Fixed for the month

c. Break-even in units

d. Break-even in value

2. The data below relates to the activities of Thrive Productions

Production level	200 units	400 units
	GH¢	GH¢
Material	600	1,200
Direct Labour	300	600
Indirect Labour	250	250
Direct Expenses	500	1000
Rent	450	450
Advertisement	500	500

You are required to

a. Identify the relevant costs and irrelevant costs of MFS Productions.

b. Calculate the cost of producing 500 units of production.

3. Men's Corner is a popular restaurant in Siwdu. The sale of okro soup is making losses, and Management has provided you with the following income statement for the year ending 31st December 2024.

	Tilapia	**Banku**	**Okro Soup**	**Total**
	GH¢	GH¢	GH¢	GH¢
Sales	340,000	260,000	200,000	800,000
Lower variable cost	(136,000)	(78,000)	(140,000)	(354,000)
Contribution	204,000	182,000	60,000	446,000
Less				

Product Fixed cost	60,000	80,000	20,000	160,000
Administrative cost	30,000	30,000	60,000	120,000
Total cost	90,000	110,000	80,000	280,000
Profits/ Loss	114,000	72,000	(20,000)	166,000

Advise whether management should stop the sale of okro soup because of the losses.

4. Tanko Industries produces mobile phones which is marketed within West Africa. Customers are given a power bank when they purchase the mobile phones. The cost of producing the power bank by Tanko Ltd is as follows.

Item	GH¢
Direct Materials	250
Labour	200
Variable overheads	150

Additional Information.

a. Fixed overheads are absorbed at 20% of prime cost.

b. The material for the production of power bank is obtained as a by–product of another process. It can be sold for GH¢100 if it is not used for the power bank.

c. The existing labour force can be paid GH¢120 as overtime to work on the production of power bank.

d. Variable and fixed overheads are expected to remain unchanged throughout the year.

5. Abuga Ltd has offered to sell a similar quality power bank to Tanko Ltd for GH¢550. Calculate the following.

a. The current cost of producing the power bank.

b. The relevant cost of producing the power bank.

c. Advise the management of Tanko whether to accept or reject the offer of Abuga Ltd.

ANSWERS TO REVIEW QUESTIONS

SECTION 1

1. Integrity, Objectivity, Professional Competence and Due Care, Confidentiality and Professional Behaviour.
2. Integrity means being honest and straightforward in all professional and business relationships, avoiding deception and misrepresentation.
3. It requires maintaining professional knowledge and skills, performing duties with due care, and giving advice or opinions only when you are competent to do so.
4. Confidentiality means not disclosing information obtained in the course of work without proper authority unless there is a legal or professional duty to disclose.
5. They guide judgments, ensure disclosures are complete and transparent, promote faithful representation and relevance, avoid misleading statements, and foster compliance with applicable accounting standards. Faithful representation is vital in financial statement preparation because it ensures honesty, protects users of financial information, fosters confidence, prevents fraud, and promotes business ethics.

SECTION 2

1. Accounting ratios are financial metrics used to evaluate a company's performance, financial health, and operational efficiency. These ratios are derived from the financial statements - primarily the statement of financial position and income statement and provide valuable insights for stakeholders, including investors, creditors, and management.
2. Accounting ratios are essential tools for financial analysis for several reasons:

    a. Performance Evaluation: Ratios provide a clear picture of a company's financial performance, allowing stakeholders to assess profitability, efficiency and overall health.

    b. Comparative Analysis: They enable comparisons between companies within the same industry or against industry benchmarks, helping identify strengths and weaknesses relative to competitors.

    c. Trend Analysis: By analysing ratios over time, businesses can track performance trends, identify patterns, and make informed decisions regarding future strategies.

    d. Investment Decisions: Investors use ratios to evaluate the financial viability of a company, helping them make informed investment choices based on potential returns and risks.

    e. Risk Assessment: Ratios help identify financial risks, such as liquidity or solvency issues, allowing stakeholders to take proactive measures to mitigate these risks.

    f. Operational Efficiency: Ratios can highlight areas where a company may be underperforming, guiding management to improve operational efficiency and resource allocation.

g. Financial Planning: They assist in budgeting and forecasting by providing insights into financial health and performance, aiding in strategic planning.

h. Communication Tool: Ratios simplify complex financial information, making it easier for stakeholders, including investors and creditors, to understand a company's financial position.

3. Limitations of financial ratios include:

a. Historical Data: Accounting ratios are based on historical financial statements, which may not reflect the current market conditions or future performance. Changes in the economic environment, industry trends or company operations can significantly impact a company's financial health, making past ratios less relevant for future predictions.

b. Lack of Context: Ratios alone do not provide a complete picture of a company's performance. They need to be interpreted in context, considering factors such as industry benchmarks, company size, and economic conditions. Without this context, it can be misleading to draw conclusions solely based on ratios.

c. Accounting Policies and Estimates: Different companies may use varying accounting policies and estimates, which can affect the comparability of ratios. For example, differences in inventory valuation methods (FIFO vs. LIFO) or depreciation techniques can lead to significant variations in financial results, making it challenging to compare ratios across companies or industries accurately.

4. Reasons why ROCE is important include:

a. Performance Measurement: ROCE helps assess how efficiently a company is using its capital to generate profits. A higher ROCE indicates better performance and effective capital utilization.

b. Investment Decisions: Investors and stakeholders use ROCE to evaluate the potential return on their investments. It aids in comparing the profitability of different companies or projects.

c. Financial Health Indicator: ROCE provides insights into a company's financial health by showing how well it is managing its capital. It can highlight operational efficiency and profitability.

d. Benchmarking: Companies can use ROCE to benchmark their performance against industry standards or competitors, helping identify areas for improvement.

e. Capital Structure Insight: ROCE reflects how well a company is managing its debt and equity, offering insights into its capital structure and financial strategy.

f. Long-term Planning: By analysing ROCE over time, businesses can make informed decisions regarding capital investments, resource allocation and strategic planning.

5. Profitability ratios are essential tools for assessing a company's ability to generate profit relative to its revenue, assets or equity. Here are three key uses of profitability ratios:

a. Performance Evaluation: Profitability ratios, such as the net profit margin and return on equity (ROE), help stakeholders evaluate a company's financial performance over a specific period. By analysing these ratios, management can assess how effectively the company is converting sales into profits and identify areas for improvement.

b. Investment Decisions: Investors and analysts use profitability ratios to make informed decisions about investing in a company. Ratios such as return on assets (ROA) provide insight into how well a company uses its assets to generate earnings, helping investors gauge the potential for returns on their investments.

c. Comparative Analysis: Profitability ratios enable comparisons between companies within the same industry or sector. By benchmarking these ratios against competitors, businesses can identify their strengths and weaknesses, assess their market position, and develop strategies to enhance profitability.

6. The asset turnover ratio is an important accounting metric for several reasons:

a. Efficiency Measurement: It assesses how effectively a company uses its assets to generate revenue. A higher asset turnover ratio indicates that the company is efficiently using its assets to produce sales, which is crucial for operational success.

b. Performance Benchmarking: The ratio allows businesses to compare their performance against industry standards or competitors. By analysing asset turnover, companies can identify areas where they may be underperforming and take corrective actions.

c. Investment Analysis: Investors and stakeholders use the asset turnover ratio to evaluate a company's ability to generate sales from its assets. This insight helps them make informed decisions about investing in or lending to the business.

d. Resource Allocation: Understanding asset turnover can guide management in making strategic decisions regarding resource allocation. If the ratio is low, it may indicate the need to optimize asset usage or consider divesting underperforming assets.

e. Cash Flow Implications: Efficient asset utilization can lead to improved cash flow, as it indicates that the company is generating sales quickly from its assets. This can enhance liquidity and support ongoing operations.

7. a. **Jossy PLC and Vinso PLC**

	Jossy PLC	**Vinso PLC**
$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$	$\frac{20{,}000 \times 100}{80{,}000}$ **= 25%**	$\frac{24{,}000 \times 100}{120{,}000}$ **= 20%**

Net Profit Ratio = $\frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$	$\frac{10{,}000}{80{,}000} \times 100$ **= 12.5%**	$\frac{15{,}000 \times 10}{120{,}000}$ **= 12.5%**
Inventory Holding Period = $\frac{\text{Average Inventory}}{\text{Cost of Sales}} \times 365$ days	$\frac{20{,}000}{60{,}000} \times 365$ **= 122 days**	$\frac{20{,}000 \times 365}{96{,}000}$ **= 76 days**
Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$:1	$\frac{45{,}000}{5{,}000}$ **= 9:1**	$\frac{40{,}000}{10{,}000}$ **= 4:1**
Acid Test Ratio = $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$:1	30,000 (45,000- 15,000 5,000 **= 6:1**	$\frac{22{,}500}{10{,}000}$ **= 2.3:1**
Trade Receivable Collection Period = $\frac{\text{Trade Receivables}}{\text{Credit Sales}} \times 365$ days	$\frac{25{,}000}{80{,}000} \times 365$ **= 114 days**	$\frac{20{,}000}{120{,}000} \times 365$ **= 61 days**
Creditors Payment Period = $\frac{\text{Trade Payables}}{\text{Credit Purchases}} \times 365$ days	$\frac{5{,}000}{50{,}000} \times 365$ **= 37 days**	$\frac{10{,}000}{91{,}000} \times 365$ = 40 days
Present to one decimal place		

b.

i. **Net Profit Ratio**

Jossy PLC: 12.5%

Vinso PLC: 12.5%

Comment: Both companies have the same net profit margin of 12.5%, which means that for every GH¢1 of sales, each company earns GH¢0.125 as net profit. This suggests that both firms are equally efficient in controlling operating expenses and generating profit from sales.

However, since Vinso PLC has higher sales (GH¢120,000 vs GH¢80,000), it earns a higher absolute profit (GH¢15,000) even though the profitability ratio is the same. Both companies are performing satisfactorily, but Jossy may need to expand sales to improve total profitability.

ii. **Current Ratio**

Jossy PLC: 9 : 1

Vinso PLC: 4 : 1

Comment: The current ratio measures the ability of a firm to meet its short-term obligations with current assets. Both firms are well above the ideal benchmark of 2:1, indicating strong liquidity.

However, Jossy PLC's 9:1 ratio is excessively high, suggesting over-investment in current assets such as cash or inventory. This could mean the company is not using its assets efficiently to generate profits.

Vinso PLC's 4:1 ratio also shows good liquidity but is more balanced, meaning it is likely managing its working capital more effectively than Jossy PLC.

iii. **Trade Receivable Collection Period**

Jossy PLC: 114 days

Vinso PLC: 61 days

Comment:

This ratio shows the average time it takes for a business to collect debts from credit customers. Jossy PLC takes 114 days to collect receivables, which is very long, tying up cash and potentially causing liquidity problems. It may also indicate inefficient credit control or lenient credit terms.

Vinso PLC, on the other hand, collects debts within 61 days, which is much better and shows efficient debt collection and stronger cash flow management. The shorter period gives Vinso PLC a liquidity advantage and reduces the risk of bad debts.

SECTION 3

1. A partnership is a type of business formed by two or more people (but not more than twenty) who come together to run a business and share the profit. In Ghana, a business can be called a partnership only when it is registered under the Incorporated Private Partnership Act, 1962 (Act 152).

   Why is Partnership Important?

   A partnership is important because:

   a. It allows people to combine resources such as capital and skills.
   b. Partners can share responsibilities and workload.
   c. It provides more ideas and better decision-making.
   d. Partners can support each other during difficult times.
   e. It is easy to form compared to a company.

2. **Forms of Businesses Not Considered as Partnerships under the Incorporated Private Partnership Act, 1962 (Act 152)**

   According to Act 152, the following are not regarded as partnerships in Ghana:

   a. **Companies**

      These are large businesses registered under the Companies Act (not the Partnership Act). The owners are shareholders. The business has a separate legal identity from its owners. Examples include limited liability companies (e.g. MTN Ghana Ltd).

   b. **Co-operative Societies**

      i. These are associations formed by people with a common interest (like farmers or traders) who come together to meet their needs.

      ii. They operate under the Co-operative Societies Act, not the Partnership Act.

   c. **Clubs and Associations Not for Profit**

      These are organisations formed for social, religious, or charitable purposes, not to make profit. Examples: youth clubs, churches, and old students' associations.

   d. **Joint Ownership of Property**

      When two or more people simply own property together (like a house or land) and share the rent or income, it is not a partnership. They are just co-owners, not business partners.

   e. **Employer–Employee Relationships**

      A worker helping an employer to manage a business and receiving part of the profit as wages or bonus is not a partner. The relationship is based on employment, not partnership.

3. If partners do not have a written partnership deed, the Incorporated Private Partnership Act, 1962 (Act 152) provides default rules to guide them. The business will operate smoothly if partners follow these legal rules:

   a. Equal capital contribution – All partners contribute equally to the business.

   b. Equal profit and loss sharing – Profits and losses are shared equally among partners.

   c. No interest on capital or drawings – Partners do not receive interest on money they contribute or withdraw.

   d. Interest on loans – A partner who lends money to the firm receives 5% interest.

   e. Reimbursement – Partners are refunded for any expenses made on behalf of the business.

   f. Disputes - Business disputes shall be decided by a majority of the partners.

   g. Management - Every partner has the right to take part in managing the business.

   h. Record keeping - The books of accounts shall be kept at the firm's place of business, or at the main office if there is more than one.

   These rules help to keep peace and fairness among partners even without a written agreement.

4. Advantages and Disadvantages of Partnership

Advantages

a. **More Capital:** Each partner contributes money, making it easier to raise enough capital to start or expand the business.
b. **Shared Responsibilities:** Partners share the work and management duties, reducing the workload on one person.
c. **Variety of Skills:** Partners bring different talents and experiences, which helps improve decision-making.
d. **Quick Decision-Making:** Fewer people are involved compared to a company, so decisions can be made faster.
e. **Privacy of Accounts:** Unlike companies, partnerships do not need to publish their accounts to the public.

Disadvantages

a. **Unlimited Liability:** Partners are personally responsible for all business debts if the business fails.
b. **Possible Disagreements:** Partners may disagree over management decisions, which can affect the business.
c. **Limited Capital:** The amount of money available is limited to what the partners can contribute.
d. **Lack of Continuity:** The business may end if a partner dies, resigns, or becomes bankrupt.

Ways to Overcome Challenges

a. Prepare a partnership agreement (deed) to guide operations.
b. Choose partners with similar goals and values.
c. Keep clear financial records and use professional advice.
d. Encourage regular communication and meetings.
e. Plan for continuity by including terms for retirement, death, or new partners.

5. The type of company for five young university graduates

The best type of company to establish is a Private Limited Liability Company (Ltd).

Reasons:

a. The owners' liability is limited to their investment — they won't lose personal property if the business fails.
b. It allows them to raise capital by selling shares among themselves.
c. They can control membership (maximum of 50 shareholders) and keep the business private.
d. It offers continuity, even if one member leaves.
e. It provides legal recognition and can enter contracts in the company's name.

6. Difference Between Private and Public Companies in Ghana

Feature	Private Company	Public Company
Ownership	Owned by a few individuals (maximum 50)	Owned by many shareholders
Share Sale	Shares are not sold to the public	Shares can be sold to the public
Capital Raising	Raises funds from members only	Can raise funds from the stock exchange
Name Ending	Ends with "Limited (Ltd)"	Ends with "Public Limited Company (PLC)"
Secrecy	Keeps its affairs private	Must publish its financial reports

7. Features that Distinguish Companies from Other Forms of Business Ownership

   a. **Separate Legal Entity:** The company is seen by law as a separate person from its owners.

   b. **Limited Liability:** Owners (shareholders) lose only the amount they invested if the company fails.

   c. **Perpetual Existence:** The company continues even if owners die or change.

   d. **Transfer of Ownership:** Shares can be transferred to others easily.

   e. **Common Seal and Legal Identity:** The company can sue or be sued in its own name and has its own official stamp (seal).

   f. **Regulation by Law:** Companies are controlled by the Companies Act, 2019 (Act 992) in Ghana.

8. a. **Types of Shares to invest in and why**

   As a consultant, I would advise the investor to buy Ordinary Shares because:

   - Ordinary shareholders own the company and have voting rights.
   - They receive dividends when the company makes profit.
   - They can benefit most if the company grows and increases in value.
   - They can sell shares easily to get money when needed.
   - However, the investor must also understand that dividends are not guaranteed, they depend on profits.

   b. **Classifications of Preference Shares**

   Preference shareholders get fixed dividends before ordinary shareholders.

   The main types are:

   - **Redeemable Preference Shares:** These are shares that the company promises to buy back (redeem) at a future date. The company pays back the nominal value of the share at the agreed time. After redemption, the shares are cancelled and stop earning dividends. For example, A 6% Redeemable Preference Share of GH¢1, redeemable in 20X5, means the company will pay GH¢1 back to the shareholder in 20X5.

- **Irredeemable Preference Shares:** These shares are not repaid by the company. Holders continue to receive dividends every year for as long as the company exists.
- **Cumulative Preference Shares:** There are shares in which if the company is unable to pay dividends in a particular year, the unpaid amount is carried forward to the next year. The company must pay all arrears of dividends before paying any to ordinary shareholders.
- **Non-Cumulative Preference Shares:** These are the opposite of cumulative preference shares. If the company cannot pay dividends in a given year, the right to that year's dividend is lost. There are no arrears to be paid in the future.
- **Participating Preference Shares:** The holders of this type of shares receive their fixed dividend first, and then they may also share in extra profits with ordinary shareholders. This type of share allows holders to participate in additional profits beyond their fixed rate. For instance, 5% participating preference shareholders get the fixed 5% dividend first, and if the company performs very well, they may also get a bonus dividend.
- **Non-Participating Preference Shares:** These shareholders receive only their fixed dividend and do not share in any extra profits. They have no claim beyond the fixed rate.
- **Convertible Preference Shares:** These are shares that can be changed (converted) into ordinary shares after a certain period or under certain conditions. The conversion gives the shareholder voting rights and the chance to earn variable dividends in the future.
- **Non-Convertible Preference Shares:** These cannot be converted into ordinary shares. The holder will remain a preference shareholder for life or until the shares are redeemed.

9. **Avoole, Baffour and Cudjo Partnership**

Profit and Loss Appropriation Account for the Year Ended 31st December, 2023

	GH¢	GH¢	GH¢
Net Profit b/f			158,000
Less: Loan interest (Baffour)			2,500
Adjusted profit before appropriation			**155,500**
Less: Appropriation:			
Interest on capital:			
Avoole (0.1 × 50,000)	5,000		
Baffour (0.1 × 45,000)	4,500		
Cudjo (0.1 × 60,000)	6,000	15,500	
Partners' salaries:			

Avoole	25,000		
Cudjo	25,000	50,000	65,500
Residual Profit			**90,000**
Share of residual profit			
Avoole (2/5 × 90,000)		36,000	
Baffour (1/5 × 90,000)		18,000	
Cudjo (2/5 × 90,000)		36,000	**90,000**

Avoole, Baffour and Cudjo Partnership
Current Account

	Avoole	Baffour	Cudjo		Avoole	Baffour	Cudjo
	GH¢	GH¢	GH¢		GH¢	GH¢	GH¢
Balance b/f		5,000		Balance b/f	20,800	-	8,500
Balance c/d	86,800	20,000	75,500	Loan interest		2,500	
				Interest on capital	5,000	4.500	6,000
				Salaries	25,000	-	25,000
				Share of profit	36,000	18,000	36,000
	86,800	**25,000**	**75,500**		**86,800**	**25,000**	**75,500**
				Balance c/d	86,800	20,000	75,500

10. **GOLDEN FOODS GHANA LTD**

Statement of Comprehensive Income for the Year Ended 31st December 2024

	GH¢	GH¢
Revenue		250,000
Less: Cost of Sales:		
Opening Inventory	15,000	
Add: Purchases	120,000	
Cost of Goods Available for Sale	135,000	
Less: Closing Inventory	18,000	117,000
Gross Profit		133,000
Less: Operating Expenses:		
Salaries and Wages	36,000	
Rent and Rates (12,000 + 1,000)	13,000	
Electricity and Water	8,000	
Insurance (3,000 -500)	2,500	

Depreciation on Office Equipment (10% × 40,000)	4,000	
Depreciation on Motor Vehicles (20% × 45,000)	9,000	72,500
Net Profit before Tax		60,500
Less: Corporate Tax		16,000
Net Profit after Tax		**44,500**

Statement of Changes in Equity for the Year Ended 31 December 2024

	Stated Capital	Retained Earning	Total
	GH¢	GH¢	GH¢
Balance at 1 January 2024	80,000	15,000	95,000
Profit for the year		44,500	44,500
Dividend paid		(10,000)	(10,000)
Issue of shares	20,000		20,000
Balance at 31 December 2024	100,000	49,500	149,500

GOLDEN FOODS GHANA LTD

Statement of Financial Position as at 31 December 2024

Non – current assets	Cost	Depreciation	NBV
	GH¢	GH¢	GH¢
Office Equipment	40,000	14,000	26,000
Motor Vehicles	60,000	24,000	36,000
	100,000	38,000	62,000
Current Assets:			
Inventory		18,000	
Accounts Receivable		25,000	
Prepaid Insurance		500	
Bank		59,000	
Cash in Hand		22,000	124,500
Total Assets			**186,500**
Capital & Liabilities			
Stated Capital			100,000
Retained Earnings			49,500
Shareholders fund			149,500

Current Liabilities:		
Accounts Payable	20,000	
Outstanding Rent	1,000	
Corporation Tax Payable	16,000	37,000
Total Capital & Liabilities		**186,500**

SECTION 4

1. **Time Rate**

   This method is used when output cannot be measured accurately. Emphasis is on the quality of work done and is appropriate when the worker cannot control the speed of work. The amount earned is based on the number of hours spent on the job.

   Piece Rate

   This method is used for workers who produce countable goods. It is normally used when output can be measured reliably. It is appropriate when the worker can control the speed of work. The main types of Piece Rate methods are:

   a. Straight Piece Rate
   b. Differential Piece Rate
   c. Piece Rate with a guaranteed minimum wage

2. a. **Basic Wage /Salary -** It is an amount of money an employee receives for work done, excluding bonuses and allowances.

   b. **Allowances -** These are cash benefits that an employee receives. Examples are rent, transport, clothing, etc.

   c. **Deductions -** Deductions are the monies earned but taken out of the employee's salary. It is a specific amount subtracted from an employee's gross pay before the net is paid.

   d. **Pay Slip** is a record given to employees to show how much they have earned and any deductions that have been taken out. A pay slip details employees' earnings and entitlements and helps employers to keep accurate records.

   e. **Net Pay / Income** is the total earnings minus deductions.

3. Buah Industries – schedule of gross wages for workers

Name	**Base Wage**	**Overtime**	**Total**	**Clothing**	**Data**	**Total Wages**
Senyo	6,400	2,000	8,400	640	320	9,360
Adoma	6,400	1,000	7,400	640	320	8,360
Tieku	6,400	0	6,400	640	320	7,360
Osman	6,400	3,000	9,400	640	320	10,360
Total	25,600	6,000	31,600	2,560	1,280	35,440

(30 ticks @ ½ mark each = 15 marks)

4. **Avoidable Causes**

   a. Low wages and salaries
   b. Inadequate job security and retirement benefits
   c. Unsatisfactory working conditions
   d. Harassments, intimidations and unhappy working relations.

   Unavoidable Causes

   a. Retirements and death
   b. Illness and accidents
   c. Resignations or change of jobs

5. **LAST – IN – FIRST – OUT (LIFO)**

   This method assumes that the latest receipt price would be the first to be issued out. With LIFO, it is assumed that the most recent units received into stores are the first units to be issued. At any time, the units in store would be made of materials purchased some time ago. Issues are therefore made in the reverse order of FIFO method.

   Advantages

   a. It is simple to understand and operate
   b. Issues are made at actual cost

   Disadvantages

   a. Stock values are normally made up of very old prices.
   b. Cost of production turns to be higher material cost is made of new or current lower prices.
   c. Stocks values reflect on current cost of materials.

6. a. **LIFO**

Date	**Receipts**			**Issues**			**Balance**		
	Quantity	Unit Price	Amount	Quantity	Unit Price	Amount	Quantity	Unit Price	Amount
1/02							1380	46	63 480
2/02	460	48	20,700				1840		84180
4/02				460 460	48 46	22,080 21,160	920		40,940
6/02	180	49	8820				1100		49,760
10/02				180 720	49 46	8,820 33,120	200		7820

b. **FIFO**

Date	**Receipts**			**Issues**			**Balance**		
	Quantity	Unit Price	Amount	Quantity	Unit Price	Amount	Quantity	Unit Price	Amount
1/02							1380	46	63 480
2/02	460	48	22540				1840		86020
4/02				920	46	42320	920		43700
6/02	180	49	8820				1100		52520
10/02				460 440	46 48	21,160 21,120	200		10,240

LIFO Method		FIFO Method	
Sales Revenue	109,200	Sales Revenue	109,200
Cost of sales	(85,180)	Cost of sales	(84,600)
Gross Profit	24,020	Gross Profit	24,600

c. **Cause of difference**

Cost of sales of FIFO is smaller because it uses earlier (smaller) prices for its issues.

7. **Tanko Plc**

a. Wage per worker = 3,200 / 160 = GH¢20

b. Number of Idle time hours = (5x6) + (4x3) + (10 x2) + (6x4) = 86 hours.

c. Cost of idle time.

	Transactions	Details	GH¢
1	Machine Break Down	5hrs x 6 workers x GH¢20	600
2	Shortage of materials	3hrs x 4 workers x GH¢20	240
3	Power failure	2hrs x 10 workers x GH¢20	400
4	Waiting for instructions	6hrs x 4 workers x GH¢20	480
	Total		1,720

SECTION 5

1. A Sales Budget is a plan that shows the expected sales of a business for a particular period, for example, a month, quarter or year. It includes the quantity of goods to be sold and the expected selling price. It is usually the first budget to be prepared because other budgets depend on it.

Factors Affecting the Preparation of a Sales Budget

a. **Past Sales Records**: Businesses often look at previous sales to predict future sales. If sales have been rising steadily, they may plan for an increase.
b. **Market Conditions**: If the market is growing and demand is high, sales will likely increase. But if competition becomes stronger, sales may drop.
c. **Selling Price**: When prices go up, customers may buy less, and when prices go down, more customers may buy.
d. **Advertising and Promotion**: Good advertising attracts new customers and reminds old ones, increasing sales.
e. **Economic Conditions**: When the economy is good, and people have more money, sales usually rise. During difficult times, people buy less, reducing sales.

2. Production Budget shows the number of units that must be produced during a period to meet the expected sales and maintain the desired stock level.

   It ensures that the business produces enough goods to meet customer demand without overproducing.

Factors Affecting the Preparation of a Production Budget

a. **Sales Budget:** The sales forecast tells the company how many products will be sold, which determines how many need to be produced.
b. **Availability of Raw Materials:** If materials are limited or delayed, the business may not be able to produce as planned.
c. **Availability of Labour**: Skilled and available workers are needed for production. Labour shortages can reduce output.
d. **Production Capacity**: The ability of the factory (machines, equipment, space) affects how much can be produced.
e. **Stock Policy**: The business may want to keep a certain level of finished goods at the end of each period to avoid shortages or delays in sales.

3. Cash Budget is a plan showing the expected cash receipts (inflows) and cash payments (outflows) over a period. It helps the business plan and control its cash position to make sure it always has enough money to meet its needs.

Why a Cash Budget Is Necessary for Every Firm

a. **To Avoid Cash Shortages:** It helps the business know when it might run short of cash, so it can arrange for loans or credit in advance.
b. **To Prevent Idle Cash:** When there is too much cash not being used, the business can plan to invest it to earn extra income.
c. **To Plan for Loans or Investments**: By knowing when cash will be available or needed, the business can borrow wisely or invest surplus funds.
d. **To Improve Financial Control**: Managers can compare the actual cash flow with the budget to identify overspending or delays in income.
e. **To Ensure Smooth Operations:** With good cash planning, the business can pay suppliers, workers, and other bills on time without interruption.

4. a.
- **Change in prices of materials**

  Sometimes, the actual price of materials changes compared to the standard price that was planned. For example, if the cost of cement increases due to inflation or shortage, the business will spend more than expected.
- **Change in labour efficiency**

  This occurs when workers take more or fewer hours to complete a task than expected.

  For example, if workers become faster due to experience or better training, less time is used in creating a favourable variance. However, if they work slower or take too many breaks, it becomes an adverse variance.
- **Change in usage of materials**

  This happens when more or less material is used than planned.

  For example, if some raw materials are wasted or damaged, more materials will be required than expected.
- **Machine breakdowns or idle time**

  When machines break down or there is a power failure, production may stop for some time, and this is called idle time. Workers are still paid during idle time, increasing costs without increasing output.

b.
- **Distinction between material price variance and material usage variance**

S/N	Material price variance (MPV)	Material usage variance (MUV)
1	Compares the standard price with the actual price of materials	Compares the standard quantity with the actual quantity of materials used.
2	It arises due to changes in the cost per unit of material.	It arises due to wastage, spoilage, or inefficiency in material use.
3	MPV = (Standard Price − Actual Price) × Actual Quantity	MUV = (Standard Quantity − Actual Quantity) × Standard Price

- **Distinction between direct labour rate variance and direct labour efficiency variance**

S/N	Direct labour rate variance (DLRV)	Direct labour efficiency variance (DLEV)
1	Compares the standard wage rate with the actual wage rate paid to workers.	Compares standard hours allowed with actual hours worked.
2	It arises when workers are paid more or less per hour than planned.	It arises due to workers' speed, skill, or delays in production.
3	DLRV = (Standard Rate − Actual Rate) × Actual Hours	DLEV = (Standard Hours for Actual Output − Actual Hours Worked) × Standard Rate per Hour

5. **Azaare PLC**

a. Sales Budget

Month	January	February	M arch	May
Sales units	4,000	4,600	5,300	6000
Unit cost	GH¢15	GH¢15	GH¢15	GH¢15
Sales Revenue	GH¢60,000	GH¢69,000	GH¢79,500	GH¢90,000

b. Production Budget

Month	January	February	M arch	May
Sales units	4,000	4,600	5,300	6000
Add closing inventory	260	280	300	400
	4,260	4,880	5,600	6,400
Less Opening inventory	240	260	280	300
Production units	4,020	4,620	5,320	6,100

c. Material Usage Budget

	January	February	March	April
Production Units	4,020	4,620	5,320	6,100
Quantity used	6kg	6kg	6kg	6kg
Material usage	24,120	27,720	31,920	36,600

d. Material Purchases Budget

	January	February	March	May
Material usage	24,120	27,720	31,920	36,600
Add Closing stock	1,500	1,600	1,700	2,000
	25,620	29,320	33,620	38,600
Less opening stock	1,400	1,500	1,600	1,700
Purchase quantity	24,220	27,820	32,020	36,900
Unit price	GH¢8	GH¢8	GH¢8	GH¢8
Material purchase	GH¢193,760	GH¢222,560	GH¢256,160	GH¢295,200

6. **Cash Budget for the three months ending 31st March 2025**

Month	**January**	**February**	**March**
	GH¢	GH¢	GH¢
Receipts from debtors	14,500	16,800	18,200
Rent income	2,000	2,000	2,000
Dividend	-	4,000	-
Proceeds from sale of assets	-	-	18,000
Total receipts	**16,500**	**22,800**	**38,200**
LessTotal Payments:			
Puchases	14,560	16,000	17,280
Wages	5,000	5,000	5,000
Expenses	2,500	2,500	2,500
Total Payment	**22,060**	**23,500**	**24,780**
Net cash flow	(5,560)	(700)	13,420
Opening Balance	8,500	2,940	2,240
Closing Balance	**2,940**	**2,240**	**15,660**

7. **Yinebono Enterprises**

a. Direct Material Cost Variance (DMCV)

DMCV = (Standard Quantity × Standard Price) − (Actual Quantity × Actual Price)

DMCV = (37,500 × GH¢60) – (37,000 × GH¢62)

(GH¢2,250,000 - GH¢2,294,000)

GH¢44,000A

b. Direct Material Price Variance (DMPV)

DMPV = (Standard Price −Actual Price) ×Actual Quantity

(GH¢60 - GH¢62) × 37,000

GH¢74,000A

c. Direct Material Usage Variance (DMUV)

DMUV = (Standard Quantity − Actual Quantity) × Standard Price

(37,500 – 37,000) × GH¢60

(37,500 – 37,000) × GH¢60

GH¢30,000F

d. Direct Labour Cost Variance (DLCV)

DLCV = (Standard Hours × Standard Rate) – (Actual Hours × Actual Rate)
(27,000 × GH¢50) – (27,100 × GH¢47)
H¢1,350,000 - GH¢1,273,700
GH¢76,300F

e. Direct Labour Rate Variance (DLRV)

DLRV = (Standard Rate – Actual Rate) × Actual Hours
(GH¢50 - GH¢47) × 27,100
GH¢81,300F

f. Direct Labour Efficiency Variance (DLEV)

DLEV = (Standard Hours for Actual Output – Actual Hours Worked) × Standard Rate per Hour
(27,000 – 27,100) × GH¢50
GH¢5,000A

Workings

Standard Quantity =25 × 1,500 = 37,500kgs
Actual Price = GH¢2,449,000/39,500 = GH¢62
Standard Hours = 18 × 1,500 = 27,000 hours
Actual Rate = GH¢1,273,700/27,100 = GH¢47

SECTION 6

1. a. **Variable cost per unit**

	Production units	Total cost
		GH¢
High	5,000	82,000
Low	2,000	40,000
Difference	3,000	42,000

Variable Cost = Difference in cost / difference in production units
42,000/ 3,000 = GH¢14

b. **Fixed Cost**

FC = 82,000 – (14 x 5,000) = 82,000 – 70,000 = GH¢12,000

c. **Break-even point in units**

BEP (Units) = Fixed Cost / Contribution per unit
= 12,000 / (20 – 14)
= 12,000/6 = 2,000 units.

d. **Break-even in value**

Break-even in units x selling price Material Price variance = AQ (SP – AP)

= 2,000 units x GH¢20 = GH¢40,000

2. **Cost of producing 500 units**

	Workings	Unit cost	500 units
		GH¢	GH¢
Material	1,200 /400	3	1,500
Labour	600 /400	1.5	750
Direct Expense	1,000 / 400	2.5	1,250
Add Fixed cost			
Indirect labour			250
Rent			450
Adverts			500
Cost of 500 units			4,700

3. a. **Calculation of total profit without the sale of okro soup**

	Tilapia	Banku	Total
	GH¢	GH¢	GH¢
Sales	340,000	260,000	600,000
Less Variable cost	(136,000)	(78,000)	(214,000)
	204,000	182,000	386,000
Less			
Product Fixed cost	(60,000)	(80,000)	(140,000)
Contribution	144,000	102,000	246,000
Less Administrative cost			(120,000)
Profit without okro soup			126,000

b. **Advice**

Men's Corner Restaurant should continue to sell the Okro Soup since profit will fall by GH¢40,000. That is from GH¢166,000 - GH¢126,000; if they stop selling Okro Soup. Also, there can be a fall in the sales of Banku since the customers who buy Banku with Okro soup may stop buying from them.

4. a. **Current Cost of producing the Power Bank**

		GH¢
Materials		250
Labour		200
Prime cost		450

Variable overheads		150
Fixed overheads	20% x 450	90
		690

b. **Relevant cost of producing the Power Bank**

		GH¢
Materials		100
Labour		120
Prime cost		220
Variable overheads		150
Fixed overheads	20% x 220	44
		414

c. **Advice to management of Tanko Ltd**

Tanko Ltd should not buy the power bank from Abuga Ltd. They should continue to produce it internally.

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GLOSSARY

- **Acceptance** refers to the act of accepting a product or service that meets quality standards or specifications.
- **Accounting ratios** are a group of formulas that help to assess how well a company is doing financially, based on its financial reports.
- **Appropriation Account:** An Appropriation Account is a special account prepared by a partnership or company to show how the net profit of the business is shared or used.
- **Capital Contribution:** The money, property, or skills that each partner provides to help start and operate the partnership business.
- **Cash Budget** is a financial plan that shows the expected cash inflows (receipts) and outflows (payments) of a business for a period.
- **Cash Inflows** refers to all the money that comes into the business, such as cash sales, payments from debtors, loans received, or interest income.
- **Cash Outflows** refers to all the money that goes out of the business, such as payment for materials, wages, rent, and other expenses.
- **Cessation of Partnership:** The ending of a partner's membership in the firm, which may occur because of death, bankruptcy, or other legal reasons.
- **Chronological order:** This means arranging events or items in the order they occurred or were received.
- **Confidentiality:** to respect the confidentiality of information acquired as a result of professional and business relationships.
- **Conflict of interest:** A conflict of interest in accounting occurs when a person or entity involved in an accounting decision has competing interests or loyalties that could influence, or appear to influence, their judgment, actions, or independence. This can undermine objectivity, integrity, and trust in financial reporting and related processes.
- **Cost drivers:** Cost drivers are factors that cause costs to increase or decrease.
- **Deductions:** Deductions are amounts subtracted from something, like your salary.
- **Direct Labour Cost Variance (DLCV**) is the difference between the standard labour cost for actual output and the actual labour cost incurred.
- **Direct Material Cost Variance (DMCV)** is the difference between the standard cost of materials allowed for actual production and the actual cost of materials used.
- **Discontinuation** refers to the decision to stop producing a product or providing a service.
- **Efficiency/ Management Activity Ratios:** These are also known as Activity/ Management Ratios. They look at how efficient management has been with the use of business resources to generate revenue and profits.
- **Fluctuations:** Fluctuations refer to changes or variations in something, often in an unpredictable way.

- **Future Cost** refers to costs that will be incurred in the future as a result of a current decision or action.
- **Historical Cost** is the original cost of an asset or resource at the time of purchase.
- **Incremental Cost** is the additional cost incurred when producing one more unit of a product or providing an extra service. It's the extra cost that comes with increasing production or activity.
- **Inflation:** Inflation is a general increase in prices of goods and services in an economy over time. It means the same amount of money can buy fewer goods and services than it could before.
- **Integrity:** to be straightforward and honest in all professional and business relationships.
- **Investment Ratios:** These are the ratios used by investors to decide whether to invest in a company or not. Investors study these ratios to determine whether to buy shares in a company.
- **Labour remuneration:** The payment received by an employee for their work or services.
- **Liquidity**: refers to the ease which an asset can be turned into cash or other form of asset without any significant change in value.
- **Material Usage Budget** is a budget showing the quantity of each type of material that will be used in production during a period.
- **Materials issued:** This refers to the materials or supplies that are taken out of storage (or inventory) and used for production or other purposes.
- **Objectivity:** not to compromise professional or business judgments because of bias, conflict of interest or undue influence of others.
- **Ordinary Shares:** Ordinary shares are the main type of shares issued by a company to its owners (called shareholders). Holders of ordinary shares are part-owners of the company and usually have the right to vote at meetings and share in the profits of the company through dividends.
- **Partnership Deed (Agreement):** A written document that states the rules and conditions under which partners agree to operate their business such as how profits are shared and what happens if a partner leaves.
- **Partnership:** A business formed by two or more people (but not more than twenty) who agree to run a business together and share the profits and losses.
- **Perpetual Existence:** Perpetual existence means that a company continues to exist even if its owners or shareholders die, resign, or sell their shares. The life of the company is not affected by changes in ownership and it can only end if it is formally wound up or dissolved according to law.
- **Preference Shares:** Preference shares are special shares that give their holders a fixed rate of dividend and priority over ordinary shareholders when profits are shared or when the company is closing down. However, preference shareholders usually do not have voting rights in company meetings.
- **Pricing Decisions** refer to the process of determining the price of a product or service based on various factors, such as costs, market conditions, and competition.

- **Production Budget** is a plan showing the number of units the business needs to produce to meet sales demand and maintain the required stock levels.
- **Professional Behaviour**: to comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know that might discredit the profession.
- **Professional Competence and Due Care**: to attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional service, based on current technical and professional standards and relevant legislation. This means the accountant should act diligently and in accordance with applicable technical and professional standards.
- **Profitability Ratios:** These are ratios used to measure how profitable a business has been during the year. They look at the profit earning capacity of a business.
- **Redundancy Cost** refers to the cost of having excess resources, such as labour or equipment, that are not being utilised efficiently.
- **Rejection** refers to the act of refusing or rejecting a product or service that does not meet quality standards or specifications.
- **Replacement Cost** is the cost of replacing an asset or resource with a new one.
- **Sales Budget** is a plan that shows the number of goods the business expects to sell, and the income expected from those sales.
- **Separate Legal Entity:** A separate legal entity means that a company is recognized by law as a person on its own, separate from the people who own or manage it. This allows the company to own property, enter into contracts, sue or be sued in its own name and not in the name of the shareholders.
- **Sunk Cost** is the cost that has already been incurred and cannot be recovered or changed.
- **Unlimited Liability:** A situation where partners are personally responsible for the debts of the business. If the business cannot pay its debts, partners may use their own money or property to settle them.
- **Winding Up:** The process of closing down a partnership business by selling its assets, paying debts, and sharing the remaining money among partners.

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