

## **Lost hope: preparing financial statements from zero records**

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### **Abstract:**

This case concerns special accounting procedures in financial accounting. It focuses on the basic double entry system in accounting and the application of the various accounting concepts as well as analysis and evaluation of financial statements for decision making. It is intended for undergraduate students who have completed a foundational course in accounting and first year graduate students without any foundational knowledge in accounting. It will equip students with the requisite skills to be able to use the accounting equation to identify the profit or loss for a period given only the opening and closing capital amounts in addition to details of drawings and apply their knowledge of the sales ledger, purchases ledger and the cash book to determine sales and purchases amount from incomplete records. The case context describes the efforts of an owner-manager of a small-scale restaurant in a lower-middle income economy, who has been operating without proper accounting records, and is now seeking financing for expansion.

Key words: financial accounting, double entry system, cash book, sales ledger, purchases ledger

## **Lost hope: preparing financial statements from zero records**

“...God bless Ama! What would I have done without her? How was I going to respond to the credit manager’s request that I bring my accounts before I am considered for a loan” says Aunty Adwoa. God’s Way Enterprise, an owner-managed small-scale restaurant operating in the Agbogba suburb of Accra, the capital city of Ghana, is experiencing strong competition from a newly established restaurant with state of the art facilities. Aunty Adwoa, the owner-manager together with Akua Agyeiwaa, her daughter and Ama, a family friend, had just left a meeting with Mr. Akorli, Credit Manager of MTU Micro Finance Limited.

### **God’s Way Enterprise**

The restaurant was started about five years ago by Aunty Adwoa when she was a cleaner at a nearby clinic. She had realized then that both the workers and patients of the clinic had a hard time finding a retail food outlet in the immediate vicinity of the clinic. She would wake up very early each morning, first finish her work at the clinic and then proceed to cook a few cups of rice, which she then sold at the bus stop in front of the clinic. She reinvested her profits to gradually expand the business. She has since resigned from her job at the clinic and now has six (6) employees aside her children, serving about 40 to 50 customers each day. The dishes served include fufu (a mixture of pounded cassava and plantain), banku (cooked corn dough), konkonte (cooked cassava dough), ampesi (boiled plantain and yam) and various rice dishes.

### **Aunty Adwoa**

Aunty Adwoa, a native of Akyem, in the Eastern region of Ghana, born on the 17<sup>th</sup> of January, 1970, is a single parent with three (3) teenage children, a daughter and two sons, Akua Agyeiwaa, Kwaku and Yaw respectively. She gets no form of support from her children’s father, who has remarried and shirked his responsibility towards the children. Aunty Adwoa over the years has struggled to take care of the children with no support from any family member. She has vowed to do everything possible within her power to take care of the children so as to ensure that they do not suffer the same fate that she has suffered. She is an illiterate and hardly keeps records of her daily operations. The business is her only source of livelihood.

### **Akua Agyeiwaa**

Akua Agyeiwaa, born and raised in Accra, is the first child of Aunty Adwoa. She is a high school graduate and currently works with her mother in operating God’s Way Enterprise. She has had no other work experience. Her dream is to be a nursing officer. She is yet to achieve this dream since in the last three years, she has not been able to raise the required funds to enroll in a nursing training college. She is hoping that she will be able to save enough money over time while helping her mother, to enable her pursue her dream career.

### **Ama**

Ama has been a family friend since childhood. She was also born and raised in Accra. She comes from a middle-class family; as such she was able to begin her university education just a year

after she graduated from high school. She is a university graduate with a Bachelor's degree in Accounting. She has been working with an Accounting firm for the past four years, specializing in the preparation of accounts for SMEs. Notwithstanding her current status, Ama has not neglected her childhood friend but still relates to and reaches out to Akua as in the past. She loves to visit the family during her leisure time to assist them in whatever they were doing.

### **The Observation**

The meeting with Mr. Akorli was an outcome of earlier discussions that begun between Akua and Kwaku about the state of the business. Akua shared her observation that the business was not experiencing any growth in its operations. Her brother agreed with her and added that he had also noticed that the business was facing stiff competition from the ultra-modern restaurant situated less than a hundred meters away from the premises of God's Way Enterprise. As Akua sighed and sadly wondered what could be done to salvage the situation, Aunt Adwoa walked in and noticed the sad look on her daughter's face and asked for the reason. Hesitantly, the children briefed her about their discussion. To this, she quietly and slowly sat down to join her children. After a while, she broke the silence saying "I wish I could get some money to expand the business...I am thinking about going for a loan from the micro finance company in the neighborhood, but I am scared!.. I learnt they ask for a lot of things before they give you a loan and I don't even know where to start!" Just then they saw Ama coming along so Aunt Adwoa called out "Ama, I need your advice on something". Ama crossed over and she was briefed on the challenges facing God's Way Enterprise, for which she offered to accompany them to the micro finance company to make the necessary enquiries.

### **The Conversation**

Early the next day, Aunt Adwoa, Akua and Ama went to the MTU Micro Finance office and met with Mr. Arkoli, who took time to explain the various financial products available as well as their corresponding loan requirements, which included the books of accounts, income statement and statement of financial position of the prospective borrower. They all returned disheartened as Aunt Adwoa had already indicated that she hardly kept any accounts of the business. She did not see the need to record such information even if she could have. By her professional training, Ama knew that if she was to be able to help Aunt Adwoa, she had to find an informal and conversational approach to start gathering the information required by Mr. Arkoli. So, she begun the conversation asking:

- Ama: But Aunt Adwoa, you have been in business for a long time. You should have accumulated enough by now to expand the business! How much money does the business have as at now?
- Aunt Adwoa: Oh Ama, I wish I knew! I had GHC1,700 at the beginning of the year, but i have no idea as to how much I have now.
- Akua: Mum, but we have been selling everyday so we should have money. We cook a 5kg bag of rice each day, which contains 11 cups. I have also observed that for each cup of rice that we cook, we end up with about two cups of cooked rice, which is sold for about GHC7.00 to GHC8.00. That ought to have fetched us a lot of money!

- Kwaku: What about the proceeds from the sale of banku, fufu, ampesi and the other dishes?
- Akua: The last time I calculated, we were generating about GHC450.00 from that daily.

Aunty Adwoa looked at her children amazed and at the same time sad about what they were saying. She sat down her cheeks cupped in her palms, sighed and asked rhetorically “Were the ingredients used in the preparation of the food acquired at no cost?...it cost GHC130.00 per bag, 5 bags of rice a week, not to mention the additional 25 cups of rice that we use for emotuo every week which cost about GHC6.00 each day. The business spends GHC10.00 and GHC25.00 on plantain and cassava respectively in order to prepare fufu each day. I have not even mentioned the GHC18.00 per week and GHC15.00 per day spent on oil and groundnut paste respectively, as well as the GHC54.00 that we pay Aunty Yaa every week for the supply of fresh and canned tomatoes. What about the GHC180.00 spent daily to acquire all the other ingredients? I hope you realize the situation we have on hand!”

Just then, a masculine voice was heard from across the street shouting out early morning greetings to Aunty Adwoa. Aunty Adwoa recognized that it was Baba Ali and responded saying “Good morning Ali...I will bring the money to you when I come to the market.” Ama saw an opportunity for more information so she inquired whether the business is indebted to the gentleman to which, Aunty Adwoa confirmed that Ali supplies the beef and chevon used in the operations of the business on a 7-day credit facility. She further indicated that the business owed him GHC570.00 in total, GHC220.00 for beef and GHC350.00 for chevon supplied the previous week.

“Oh, not again...the lights just went out...someone should kindly switch off the refrigerator” says Kwaku, bemoaning the adverse effects the constant power outages have had on the business to which Ama asked “How has the constant power outages affected the business?.” Kwaku responded saying that “...our electrical equipment break down frequently as a result of these power outages and Mum has had to recently spend GHC600.00 and GHC120.00 respectively to acquire a new refrigerator and a blender”.

There was a loud noise from the kitchen so they all rushed there to find Adiza one of the employees, sprawled on the floor together with several utensils she had earlier washed. She had tripped and fallen on the utensils. Aunty Adwoa helped her up and asked Akua to pick up the utensils with care, adding that “...I do not have money to buy new set of utensils” to which Akua quizzed teasingly “...how much would it cost to replace them anyway?.” Aunty Adwoa seemed to have pretended not to have heard her daughter but soon begun to recall prices of utensils she had bought as follows:

1 Gas stove	-	GHC 30.00
2 Gas cylinders	-	GHC 60.00 (two years ago)
Spoons and plates	-	GHC 70.00
Fufu bowls	-	GHC 70.00
4 Large saucepans	-	GHC218.00

Later, two trucks pulled up, one with water and the other with firewood. An amount of GHC60.00 was paid to the driver of the water tanker while the other was paid GHC200.00. Just before the drivers took off, Aunty Adwoa called out "...please remember that we will use up the firewood in two months and the water in one month's time...I am counting on your co-operation. Please do not fail me". She explained to Ama that the two were part of her regular costs.

Just before she could finish her sentence, her youngest son threw a stone at a bird which was perching on a nearby tree. Aunty Adwoa screamed her lungs out saying "Oh my God! Thank you...", as the stone missed the purpose built wood and glass case she uses to display the food for sale to customers; "...what would I have done if the stone had hit the case?. As she recalled then, had the case been broken, she would have needed GHC1,900.00 to replace the case itself and another GHC60.00 for the small pane glass that serves as a shelf in the case?"

The weather had changed all of a sudden by then with dark clouds, suggesting the imminence of a tropical rainstorm. Aunty Adwoa seemed very worried. She indicated that the heavy rains last night caused a lot of havoc in the community prompting the following conversation with Ama:

Aunty Adwoa: My neighbor had his roofing ripped off. I just thank God because if a similar thing had happened to the wooden structure, what would I have done?

Ama: Aunty Adwoa which wooden structure are you referring to?

Aunty Adwoa: It's the sitting area over there provided for my customers to enjoy their meal. You know, Ama, it cost about GHC2,200.00 to put up that structure two years ago in addition to the existing four (4) tables and ten (10) chairs. I need to even buy additional chairs and tables to add up to those already in use.

Ama: Akua, how much will your mum need to buy additional tables and chairs?

Akua: I have no idea about that and remembered that each of the tables and chairs in use was bought for GHC30.00 and GHC12.00 each respectively. If you want to give a surprise package to my mum, then I suggest you consider an ice chest. I do not know the current price, but she bought the current one for GHC67.00.

Aunty Adwoa: Akua, Akua, Akua! Please we have run out of gas, it's urgent. Kindly take the cylinder to the gas station to fill it up. It costs GHC34.00 to fill and we will not have to refill till about a month from now.

Akua: Mum, we have also run out of both liquid and bar soap.

Aunty Adwoa: Ah! But the liquid soap should usually last a month! So why has it run out?

Akua: I bought the liquid soap and eight bars of soap four weeks ago.

Aunty Adwoa: That is alright, so how much would that cost?

Akua: The liquid soap is GHC7.00 a bottle while the bar of soap costs GHC3.50 each. You also asked me to remind you about the new curtain to be purchased.

Aunty Adwoa: Oh that is going to cost another GHC5.00. At least that is how much I bought the last one a couple of years back. I do not think I need one now. The old one is still in good shape.

One of the employees walked in from the kitchen and told Aunty Adwoa that he was done for the day and wanted to take his leave. She gave him GHC6.00 as his daily wage and also gave him an amount to be given to the other five workers. He was sent to give GHC5.00 each to Adiza and three other ladies and GHC7.00 to the other person who helps with the cooking. In addition, Aunty Adwoa asked him to inform the others to come for their portion of food for the day.

Ama: Aunty Adwoa, how much do you pay your workers at the end of the month and also how much do you charge them for the food you give them?

Aunty Adwoa: Oh Ama! I do not pay them at the end of the month. I cannot afford that. I pay them daily when they close from work. As for the food, I do not charge them for it. I give it to them freely as part of their conditions of service.

Aunty Adwoa looked up and realized that Ama seemed worried or disturbed about something. She asked her what the problem was but Ama was hesitant to tell her about it. After pressing on for a while, Ama decided to tell saying:

Ama: It is not really a problem. I have realized from the few hours that I have been here that you have sent about three of your workers at different times to buy items for your personal use. For instance, you sent one of them to pay for a piece of cloth just about thirty minutes ago. Aunty Adwoa I do not think that if you continue with such a practice your business will grow. You will go for the loans and you would not see any improvement in your operations because of what I have just witnessed.

Aunty Adwoa: Eii Ama!! What is your problem? Are you here to help me or to teach me how to run my business? When were you born? After all I used my own money to start this business and I can take whatever I want at anytime as I see fit. If that is what you are interested in discussing, then, Ama, I think you can take your leave.

Ama: I am sorry Aunty Adwoa, I meant no harm.

An elderly man on a bicycle pulled over and greeted them. He showed an identification card that indicated that he was a worker from the District Assembly. He stated that he was there to ensure that Aunty Adwoa had paid her taxes and also complied with the Ghana Tourism Authority's certification requirement. Aunty Adwoa, who was still furious about the comments Ama made insisted that she has not defaulted on any statutory payment. She called her son to get her bag and after he brought it to her, she searched for a while and pulled up four different receipts. Three of them indicated three payments of GHC40.00, GHC50.00 and GHC30.00 as taxes paid to the District Assembly and also Stamp duty for a quarter. The fourth one, an amount of GHC28.00, was in respect of a laboratory test in compliance with the Ghana Tourism Authority's certification requirement for the quarter. The man apologized and left the premises immediately.

Closing her notepad, with which she had been taking notes all this while, Ama indicated that she needed to go back to her office but promised to get in touch with a friend who could help to prepare the books of accounts and the financial statements as requested by Mr. Akorli. Aunty Adwoa smiled and in a very soft tone asked: “Oh Ama, can you really do that for me? I would be so happy. There are a lot of things that I have to replace here in order to expand.”

**Appendix:**

ITEM	CASH IN (GHC)	CASH OUT (GHC)
Sale of rice	385.00	
Sales of other dishes aside rice	2,250.00	
Gas		34.00
Firewood		200.00
Water		60.00
Wages		660.00
Detergent		35.00
Ingredients		1,952.00

**Discussion questions:**

1. Determine the startup capital for God’s Way Enterprise.
2. Prepare the cash book of God’s Way Enterprise for the period.
3. Determine the sales and purchases amount for the period.
4. Prepare the non-current assets schedule for 2013 assuming straight line depreciation.
5. Draw up the income statement for the business and a statement of financial position as at the end of the period, 2013.
6. Using various measures, assess the performance of the company.

## CASE NOTES

### **DISCIPLINE**

This case concerns special accounting procedures in financial accounting. It focuses on the basic double entry system in accounting and the application of the various accounting concepts as well as analysis and evaluation of financial statements to aid in decision making.

### **TARGET AUDIENCE**

The case is intended for undergraduate students who have completed a foundational course in accounting and first year graduate students without any foundational course in accounting. Such students should have taken studied prior topics that should have introduced them to the basic concepts in accounting in addition to basic bookkeeping entries. In addition, the prior classes should have introduced them to the preparation of final accounts. Students are advised to revise topics discussed in prior classes and to have two hours of pre-class preparation.

### **LEVEL OF DIFFICULTY**

The case has a medium level of difficulty appropriate for introducing both intermediate and first year graduate students to the application of various accounting concepts and double entry principle as well as final accounts for a sole trading enterprise. The questions involve both analyzing and inferring from the case in order to get an answer. In addition, it involves an evaluation of the performance of the enterprise in question.

### **LEARNING GOALS**

This case will help to gain a better appreciation of the nature of single and incomplete accounting record. It will assist in understanding of the basic double entry principle and application of it and various accounting concepts in the preparation of financial statements.

### **TEACHING OBJECTIVES**

The case is intended to help students to:

Estimate sales and purchases amounts from incomplete records

Prepare an income statement and a statement of financial position from records that are not kept on a double entry system

Evaluate performance of a company.

### **LEARNING OUTCOMES**

The case will equip students with the requisite skills to be able to use the accounting equation to identify the profit or loss for a period given only the opening and closing capital amounts in addition to details of drawings.

It will also enable students to apply their knowledge of sales ledger and purchases ledger and the cash book to determine sales and purchases amount from incomplete records.

### **CONTEXT**

Aunty Adwoa operates a small scale restaurant, God's Way Enterprise at Agbogba, a suburb of Accra, the capital city of Ghana. She serves various dishes ranging from fufu, konkonte, banku with groundnut, palm

Lost Hope: preparing



nut, light soup and okro stew, rice and ampesi with kontomire. She started when she was a cleaner at a nearby clinic. She realized that both the workers and patients of the clinic had a hard time getting food to buy. She would wake up very early and finish up with her work at the clinic, after which she would go and cook a few cups of rice and sell at the bus stop of the clinic. She saved the money that she generated from the sale and ploughed it back into the business. Today, she no longer works for the clinic. She has 6 employees aside her daughter and two. She is a single parent and takes care of the three children with proceeds from the business. She hardly keeps records of her daily operations. Currently she faces intense competition from a newly opened ultra-modern restaurant with state of the art facilities, which is situated less than 50 meters away. In order to remain in business in the face of intense competition and also to experience growth, she is considering an expansion of her facility. As a result, she visited a micro finance company to apply for a loan facility. The micro finance company, looking to minimize it's risk in the potential transaction, requests Aunty Adwoa to provide records of her operations as well as evidence of the profitability and financial position of God's Way Enterprise.

### DATA REQUIREMENTS

In order to help Aunty Ama to meet the requirements of the micro finance company, the following data would be needed:

- Cash book components
- Sales
- Purchases
- Expenses
- Drawings
- Income statement
- Statement of financial position

### STUDY QUESTIONS AND SUGGESTED ANSWERS

7. Determine the startup capital for God's Way Enterprise.
8. Prepare the cash book of God's Way Enterprise for the period.
9. Determine the sales and purchases amount for the period.
10. Prepare the non-current assets schedule for 2013 assuming straight line depreciation.
11. Draw up the income statement for the business and a statement of financial position as at the end of the period, 2013.
12. Using various measures, assess the performance of the company.

### EXPECTED STUDENT ANALYSIS

Q1)

God'Way Enterprise			
Statement of Affairs as at 1 <sup>st</sup> January, 2013			
	GHC Cost	GHC Accumulated depreciation	GHC
Non- Current Assets:			
<b>NBV</b>			
Building	4,100.00	1,230.00	
2,870.00			
Equipments	735.00	441.00	
294.00			
Furniture	<u>245.00</u>	<u>147.00</u>	<u>98.00</u>

SC15045

5,080.00                      1,818.00                      3,262.00

Current assets:

Cash

1,700.00

Less current liability:

Account payable

570.00

1,130.00

Capital

4,392.00

Q2)

God's Way Enterprise  
Cash book

Date	Particular	Amount (GHS)	Date	Particular	Amount (GHS)
01/01/2013	Capital	1,700.00	01/01/2013	Gas	34.00
31/01/2013	Sales	10,540.00	02/01/2013	Firewood	200.00
				Water	60.00
				Rice	640.00
				Oil	72.00
				Cassava	500.00
				Plantain	200.00
				Tomatoes	216.00
				Pepper, Palm oil, Kontomire and spices	3,600.00
				Chevon	1,400.00
				Groundnut	300.00
				Beef	880.00
			10/01/2013	Refrigerator	600.00
				Bar soap	28.00
				Liquid soap	7.00
				Utensils	145.00
				Blender	120.00
				Showcase	60.00
				Sieve	
			31/01/2013	Taxes	148.00
				Wages	660.00
				Balance c/d	<u>2,370.00</u>
		<u>12,240.00</u>			<u>12,240.00</u>
01/02/2013	Balance b/d	2,370.00	01/02/2013	Gas	34.00
28/02/2013	Sales	10,540.00		Water	60.00
				Rice	640.00
				Oil	72.00
				Cassava	500.00
				Plantain	200.00
				Tomatoes	216.00

Lost Hope: preparing

				Pepper, Palm oil, Kontomire and spices	3,600.00
				Chevon	1,400.00
				Groundnut	300.00
				Beef	880.00
				Bar soap	28.00
				Liquid soap	7.00
			28/02/2013	Wages	660.00
				Balance c/d	<u>4,313.00</u>
					<u>12,910.00</u>
01/03/2013	Balance c/d	4,313.00	01/04/2013	Gas	34.00
31/03/2013	Sales	10,540.00		Water	60.00
				Rice	640.00
				Oil	72.00
				Cassava	500.00
				Plantain	200.00
				Tomatoes	216.00
				Pepper, Palm oil, Kontomire and spices	3,600.00
				Chevon	1,400.00
				Groundnut	300.00
				Beef	880.00
				Bar soap	28.00
				Liquid soap	7.00
				Firewood	200.00
			31/03/2013	Wages	660.00
				Balance c/d	<u>6,056.00</u>
		<u>14,853.00</u>			<u>14,853.00</u>
01/04/2013	Balance b/d	6,056.00	01/04/2013	Gas	34.00
30/04/2013	Sales	10,540.00		Water	60.00
				Rice	640.00
				Oil	72.00
				Cassava	500.00
				Plantain	200.00
				Tomatoes	216.00
				Pepper, Palm oil, Kontomire and spices	3,600.00
				Chevon	1,400.00
				Groundnut	300.00
				Beef	880.00
				Bar soap	28.00
				Liquid soap	7.00
			30/04/2013	Taxes	148.00

				Wages	660.00
				Balance c/d	<u>7,851.00</u>
		<u>16,596.00</u>			<u>16,596.00</u>
01/05/2013	Balance b/d	7,851.00		Gas	34.00
	Sales	10,540.00		Water	60.00
				Rice	640.00
				Oil	72.00
				Cassava	500.00
				Plantain	200.00
				Tomatoes	216.00
				Pepper, Palm oil, Kontomire and spices	3,600.00
				Chevon	1,400.00
				Groundnut	300.00
				Beef	880.00
				Bar soap	28.00
				Liquid soap	7.00
				Firewood	200.00
				Wages	660.00
			31/05/2013	Balance c/d	<u>9,594.00</u>
		<u>18,391.00</u>			<u>18,391.00</u>
01/06/2013	Balance b/d	9,594.00	01/06/2013	Gas	34.00
29/06/2013	Sales	10,540.00		Water	60.00
				Rice	640.00
				Oil	72.00
				Cassava	500.00
				Plantain	200.00
				Tomatoes	216.00
				Pepper, Palm oil, Kontomire and spices	3,600.00
				Chevon	1,400.00
				Groundnut	300.00
				Beef	880.00
				Bar soap	28.00
				Liquid soap	7.00
				Wages	660.00
			30/06/2013	Balance c/d	<u>11,537.00</u>
		<u>20,134.00</u>			<u>20,134.00</u>
01/07/2013	Balance b/d	11,537.00		Gas	34.00
	Sales	10,540.00		Firewood	200.00
				Water	60.00
				Rice	640.00

				Oil	72.00
				Cassava	500.00
				Plantain	200.00
				Tomatoes	216.00
				Pepper, Palm oil, Kontomire and spices	3,600.00
				Chevon	1,400.00
				Groundnut	300.00
				Beef	880.00
				Refrigerator	600.00
				Bar soap	28.00
				Liquid soap	7.00
				Utensils	145.00
				Blender	120.00
				Showcase	60.00
				Sieve	
				Taxes	148.00
				Wages	660.00
			31/07/2013	Balance c/d	<u>12,207.00</u>
		<u>22,077.00</u>			<u>22,077.00</u>
01/08/2013	Balance b/d	12,207.00	01/08/2013	Gas	34.00
29/08/2013	Sales	5,540.00		Water	60.00
				Rice	640.00
				Oil	72.00
				Cassava	500.00
				Plantain	200.00
				Tomatoes	216.00
				Pepper, Palm oil, Kontomire and spices	3,600.00
				Chevon	1,400.00
				Groundnut	300.00
				Beef	880.00
				Bar soap	28.00
				Liquid soap	7.00
				Wages	660.00
			31/08/2013	Balance c/d	<u>9,150.00</u>
		<u>17,747.00</u>			<u>17,747.00</u>
01/09/2013	Balance b/d	9,150.00	01/09/2013	Gas	34.00
	Sales	5,540.00		Water	60.00
				Rice	640.00
				Oil	72.00
				Cassava	500.00

				Plantain	200.00
				Tomatoes	216.00
				Pepper, Palm oil, Kontomire and spices	3,600.00
				Chevon	1,400.00
				Groundnut	300.00
				Beef	880.00
				Bar soap	28.00
				Liquid soap	7.00
				Firewood	200.00
				Wages	660.00
			30/09/2013	Balance c/d	<u>5,893.00</u>
		<u>14,690.00</u>			<u>14,690.00</u>
01/10/2013	Balance b/d	5,893.00	01/10/2013	Gas	34.00
	Sales	10,540.00		Water	60.00
				Rice	640.00
				Oil	72.00
				Cassava	500.00
				Plantain	200.00
				Tomatoes	216.00
				Pepper, Palm oil, Kontomire and spices	3,600.00
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				Wages	660.00
				Taxes	148.00
			31/10/2013	Balance c/d	<u>7,688.00</u>
		<u>16,433.00</u>			<u>16,433.00</u>
01/11/2013	Balance b/d	7,688.00	01/11/2013	Gas	34.00
	Sales	10,540.00		Water	60.00
				Rice	640.00
				Oil	72.00
				Cassava	500.00
				Plantain	200.00
				Tomatoes	216.00
				Pepper, Palm oil, Kontomire and spices	3,600.00
				Chevon	1,400.00
				Groundnut	300.00
				Beef	880.00

				Bar soap	28.00
				Liquid soap	7.00
				Firewood	200.00
				Wages	660.00
			30/11/2013	Balance c/d	<u>9,431.00</u>
		<u>18,228.00</u>			<u>18,228.00</u>
01/12/2013	Balance b/d	9,431.00	01/12/2013	Gas	34.00
	Sales	10,540.00		Water	60.00
				Rice	640.00
				Oil	72.00
				Cassava	500.00
				Plantain	200.00
				Tomatoes	216.00
				Pepper, Palm oil, Kontomire and spices	3,600.00
				Chevon	1,050.00
				Groundnut	300.00
				Beef	660.00
				Bar soap	28.00
				Liquid soap	7.00
				Wages	660.00
			31/12/2013	Balance c/d	<u>11,944.00</u>
		<u>19,971.00</u>			<u>19,971.00</u>
01/01/2014	Balance b/d	11,944.00			

## 3) SALES

## i) Sales of rice for a week

= Number of cups in a bag of rice \* number of cooked rice  
 Generated from a cup of uncooked rice \* Amount realized from the sale of cooked rice  
 =  $11 * 5 * 2 * \text{GHS}3.5$   
 = GHS 385.00

ii) Sale of other products for a week = daily sales \* number of working days in a week  
 = GHS 450.00 \* 5  
 = GHS 2,250.00

Total weekly sales = GHS 385.00 + GHS 2,250.00  
 = GHS 2,635.00

Monthly sales = 4 \* GHS 2,635.00  
 = GHS 10,540.00

## PURCHASES FOR A WEEK

	GHC
Rice [GHS130.00+(GHS6.00*5)]	160.00
Plantain (GHS10.00*5)	50.00
Cassava (GHS25.00*5)	125.00
Oil	18.00

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Groundnut (15*5)		75.00
Fresh and canned tomatoes		54.00
All other ingredients (GHS180*5)		<u>900.00</u>
Total cash purchases		1,382.00
Credit purchases:		
Beef	220.00	
Chevon	<u>350.00</u>	
		<u>570.00</u>
Total purchases for a week		<u>1,952.00</u>
Monthly Purchases	= GHS 1,952.00 *4	
	= GHS 7,808.00	

Q4) NON- CURRENT ASSETS SCHEDULE

	Equipment	Building	Fixture and fittings	Total
	GHS	GHS	GHS	GHS
COST	735.00	4,100.00	445.00	5,280.00
ADDITIONS	660.00			660.00
TOTAL	1,395.00	4,100.00	445.00	5,940.00
DEPRECIATION:				
BALANCE B/D	441.00	1,230.00	267.00	1,938.00
FOR THE YEAR	279.00	410.00	89.00	778.00
TOTAL DEPRECIATION	720.00	1,640.00	356.00	2,716.00
NET BOOK VALUE	675.00	2,460.00	89.00	3,224.00

Q5)

GOD'S WAY ENTERPRISE  
INCOME STATEMENT FOR THE YEAR ENDING 31<sup>ST</sup> DECEMBER, 2013

	GHC	GHC	GHC
Sales			116,480.00
Less cost of goods sold			<u>93,696.00</u>
Gross profit			22,784.00
Less operating expenses			<u>11,446.00</u>
Profit before tax			11,338.00
Taxes			<u>592.00</u>
Net profit			<u>10,746.00</u>

GOD's WAY ENTERPRISE  
STATEMENT OF FINANCIAL POSITION AS AT 31<sup>ST</sup> DECEMBER, 2013

	GHC	GHC	GHC
Non Current assets:			
Building			675.00
Equipment			2,460.00
Fixture and fittings			<u>89.00</u>

Lost Hope: preparing



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		3,224.00
Current assets:		
Cash	11,944.00	
Accounts Receivable	<u>45.00</u>	
	11,989.00	
Less current liability:		
Account payable	<u>570.00</u>	
Net Current Assets		
<u>11,419.00</u>		
Net total Assets		<u>14,643.00</u>
<u>Financed by:</u>		
Capital		4,392.00
Net profit		<u>10,746.00</u>
		15,138.00
Drawings		<u>495.00</u>
		<u>14,643.00</u>

Q6)

GOD'S WAY ENTERPRISE  
EVALUATION OF COMPANY PERFORMANCE

$$\begin{aligned}\text{Return on Equity} &= \frac{\text{Net profit} * 100}{\text{Total equity}} \\ &= \frac{\text{GHS } 10,746.00 * 100}{\text{GHS } 14,643.00} \\ &= 73.39\%\end{aligned}$$

$$\begin{aligned}\text{Return on Assets} &= \frac{\text{Net profit before tax} * 100}{\text{Total assets}} \\ &= \frac{\text{GHS } 11,338.00 * 100}{\text{GHS } 15,213.00} \\ &= 74.53\%\end{aligned}$$

$$\begin{aligned}\text{Net profit margin} &= \frac{\text{Net profit} * 100}{\text{Sales}} \\ &= \frac{\text{GHS } 10,746.00 * 100}{\text{GHS } 116,480.00} \\ &= 9.23\%\end{aligned}$$

$$\begin{aligned}\text{Current Ratio} &= \frac{\text{Current assets}}{\text{Current liabilities}} \\ &= \frac{\text{GHS } 11,989.00}{\text{GHS } 570.00} \\ &= 21.03:1\end{aligned}$$

$$\begin{aligned}\text{Acid test Ratio} &= \frac{\text{cash and cash equivalents}}{\text{Current liabilities}} \\ &= \frac{\text{GHS } 11,944.00}{\text{GHS } 570.00} \\ &= 20.95:1\end{aligned}$$

Lost Hope: preparing

The performance of the company is very impressive. From the measures of profitability, the company registered high figures as the return on equity of 73% is higher than what the owner could have made on Treasury bill returns if she had invested her funds in it. Thus it was worthwhile for her to invest the company. However, the net profit margin of 9% does not support the company's impressive performance as reflected by returns on assets and equity. This development could be attributed to the high cost of operations of the company. In addition, the company operates in an industry characterised by low profit margins.

Furthermore, the company seems to be very liquid as its current assets can pay about 20 times its liability. This development could be due to the company's low reliance on debt to finance its operations. The company seems to have a large percentage of its total assets in cash. It can invest the excess cash to yield some returns rather than have it sit idle.

#### Notes

##### 1) Sales

During the months of August and September, 2013, the daily sales realized from the sale of all other products except rice decreased from GHC450.00 to GHC 200.00.

$$\begin{aligned} \text{Monthly sales for each of the two months} &= \text{GHC } ((385.00 + (200.00 * 5)) * 4) \\ &= \text{GHC } 5,540.00 \end{aligned}$$

$$\begin{aligned} \text{Yearly sales} &= \text{GHC } (10,540.00 * 10) + (5,540.00 * 2) \\ &= \text{GHC } 116,480.00 \end{aligned}$$

##### 2) Operating expense is made up of:

Gas	408.00
Firewood	1,200.00
Water	720.00
Detergent	420.00
Depreciation	778.00
Wages	<u>7,920.00</u>
	<u>11,446.00</u>

The above amounts were determined as follows:

Expenditure item	Monthly amount (GHC)	Frequency in a year	Yearly amount (GHC)
Gas	34	12	408.00
Firewood	200	6	1,200.00
Water	60	12	720.00
Detergent	35	12	420.00
Wages	660.00	12	7,920.00

Taxes for the period were determined in a similar manner.

$$\begin{aligned} \text{Annual tax} &= \text{GHS } 148.00 * 4 \\ &= \text{GHS } 592.00 \end{aligned}$$

- 3) The weekly amount spent on chevon and beef in the last week of December, 2013 is accrued since it takes one week for the entity to settle amounts relating to them. This reduces the amount for Chevon by GHC350.00 and beef by GHC 200.00. The total of GHC570.00 is treated as accounts payable in the statement of financial position for the period.

SC15045

- 4) The amount for drawings is determined as a balancing figure due to the incomplete records.