

LEGAL ACCOUNTANCY PAPER I OCT. 2018

MAIN EXAM MARKING SCHEME

QUESTION ONE

*Retirement/death
Admission of a partner
Dissolution of a partnership
Merger*

a) State 4 circumstances that may justify Revaluation of assets and liabilities in a partnership setting

[4 Marks]

b) Messrs X, Y and Z are family friends and they have formed a partnership, law firm. Their profit and losses share ratio is determined as 3:2:1 for X, Y and Z respectively.

The Balance Sheet of the Law firm as at 31 December 2013 was given as follows:-

	GH¢
Non-Current Assets	150,000
Current Assets	<u>80,000</u>
Total assets	<u>230,000</u>
Financed by:	
Capital Account:	
X	70,000
Y	50,000
Z	40,000
Current liabilities	<u>70,000</u>
Total Liabilities	<u>230,000</u>

Solve!

Mr. X who is the most senior partner in the firm has turned 70 and has decided to retire from the partnership. The following were the terms of the retirement:

- 1) Goodwill of GH¢60,000 is to be raised for the purpose of the retirement, but it should not be maintained in the books.
- 2) The values of assets and liabilities are to be revalued as follows:
 - i) Non-current assets should be increased to GH¢210,000.
 - ii) Provision for bad debts of GH¢6,000 should be provided from current assets.
 - iii) Current liabilities should be increased by GH¢12,000.
 - iv) For the purpose of continuity by Y and Z, profit and losses will be shared equally.
 - v) The continuing partners have decided to maintain the old values of the assets and liabilities.

Required

- a) Prepare Goodwill Account. [3 Marks]
 - b) Prepare Revaluation Account. [10 Marks]
 - c) Prepare partners Current Account. [3 Marks]
 - d) Prepare the Balance Sheet after the above Adjustments. [5 Marks]
- Total [25 Marks]

QUESTION TWO

The following transaction took place between your Client and his bankers, BB Bank for the month of November 2016 -

- 1) 1/11/16 Opened an account with BB Bank and paid in cash of GH¢30,000.
- 2) 2/11/16 paid by cheque no. 001 for office rent amounting to GH¢11,000.
- 3) 3/11/16 Issued cheque no. 002 to Mr. Asante for goods supplied amounting to GH¢7,000.
- 4) 10/11/16 Received cheque from Madam Betty for goods sold to her amounting to GH¢13,000 and cheque lodged in the Bank account.
- 5) 13/11/16 Issued cheque No. 003 to ECG in the amount of GH¢2,000, but the cheque was presented to the Bank on the 15/12/16.
- 6) 15/11/16 Paid in cheque received from Mr. Lansah amounting GH¢6,600 but the Bank as at 30/11/16 has not given value yet.
- 7) 20/11/16 Cheque No. 004 in the amount of GH¢4,400 issued to Mr. Gyamerah was not presented for payment as at 30/11/16.
- 8) 29/11/16 Cheque totalling GH¢8,400 received from various customers and paid into the Bank account remain uncredited as at 30/11/16.
- 9) 30/11/16 Bank charges for the month of November amounting to GH¢600 was debited to the Client's account but was not advised as at 30/11/16.
- 10) 30/11/16 A Customer paid directly to the Bank amounting to GH¢2,000 but Client was not aware or advised.
- 11) 30/11/16 Standing Order in respect of Insurance paid by the Bank amounting to GH¢300 and Clients account debited according. The Client was not advised as at 30/11/16.
- 12) 30/11/16 Cash lodgement by the Client was inadvertently omitted by the Bank, amounting to GH¢9,000.

Required

- a) In the Books of your Client, write up the Cash Book for the month of November 2016, showing the Bank Balance as per the Cash Book.

[7 Marks]

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b) In the Books of the Bank, write up the Bank Statement for the month of November 2016, showing the Bank Balance as per the Bank Statement.

[7 Marks]

c) In the Books of your Client

i) Draw up an adjusted Cash Book

[4

Marks]

ii) Draw up the Bank Reconciliation Statement to agree the adjusted Cash Book Balance and the Bank Statement Balance.

[7 Marks]

Total [25 Marks]

SOLUTIONS

QUESTION 1

a) Circumstances leading to Revaluation of Assets and Liabilities

- i) Admission of a partner.
- ii) Retirement of a partner.
- iii) Existing partners changing their profit and loss sharing ratio.
- iv) On Liquidation.

A) Circumstances leading to Revaluation of Assets and Liabilities

- v) Admission of a partner.
- vi) Retirement of a partner.
- vii) Existing partners changing their profit and loss sharing ratio.
- viii) On Liquidation.

[4 marks]

B) Goodwill Account

Ask Sarfo about this question.

X $\frac{3}{6} \times 60000$	30,000 ($\frac{1}{2}$)		
Y $\frac{2}{6} \times 60000$	20,000 ($\frac{1}{3}$)	Y	30,000 ($\frac{1}{2}$)
Z $\frac{1}{6} \times 60000$	<u>10,000</u> ($\frac{1}{6}$)	Z	<u>30,000</u> ($\frac{1}{2}$)
	<u>60,000</u>		<u>60,000</u> ($\frac{1}{2}$)

[3 marks]

b) Revaluation Account

Decrease in Current Assets	6,000 (1)	Increase in Non-current Assets	60,000
Increase in Liabilities	12,000 (1)		
Share:			
X	21,000 (1)		
Y	14,000 (1)		
Z	7,000 70,000 (1)		
	<u>60,000</u>		<u>60,000</u>
Non-current assets	60,000	Current Assets	6,000 (1)
		Current liabilities	12,000 (1) ?
		Share:	
		Y	21,000 (1)
		Z	21,000 (1)
			<u>60,000</u>

[10 marks]

Non-Current Assets

Bal b/f	150,000	
Revaluation	<u>60,000</u>	

	<u>210,000</u>	Bal c/d	210,000
Bal b/d	210,000		<u>210,000</u>
	<u>210,000</u>	Revaluation	60,000
b/d	150,000	Bal c/d	<u>150,000</u>
			<u>210,000</u>

[3 marks]

Current Assets

Bal b/f	80,000	Revaluation	6,000
	<u>80,000</u>	Bal c/d	<u>74,000</u>
Bal b/d	74,000		<u>80,000</u>
Revaluation	6,000		
	<u>210,000</u>		
b/d	150,000		

Current Liabilities

c/d	82,000	Bal b/f	70,000
	<u>82,000</u>	Revaluation	<u>12,000</u>
			<u>82,000</u>
		Bal b/d	82,000

c) Partners Current Account

X's Current Account

Bal c/d	51,000	Goodwill	30,000
	<u>51,000</u>	Revaluation	21,000
			<u>51,000</u>
		Bal b/d	51,000 (1)

[3 marks]

Y's Current Account

Goodwill	30,000	Goodwill	20,000
Revaluation	21,000	Revaluation	14,000
	<u>51,000</u>	Bal c/d	<u>17,000</u>
Bal b/d	17,000 (1)		<u>51,000</u>

Z's Current Account

Goodwill	30,000	Goodwill	10,000
Revaluation	21,000	Revaluation	7,000
	<u>51,000</u>	Bal c/d	<u>34,000</u>
Bal b/d	34,000 (1)		<u>51,000</u>

d) Balance Sheet as at 1/1/14

Non-Current Assets

150,000 (½) ✓

Current Assets 80,000 (½) ✓

Current Accounts:

Y 17,000 (½)

Z 34,000 (½)

281,000 (½)

Financed by:

Capital A/C

X 70,000 (½)

Y 50,000 (½)

Z 40,000 (½)

Current account:

X 51,000 (½)

Current Liabilities

70,000 (½)

281,000

[5 marks]

[Total 25 marks]

QUESTION TWO

a) Books of your Client:-

1/11/16 Bank 30,000 (½)	2/11/16 Rent 11,000 (½)
10/11/16 Betty 13,000 (½)	3/11/16 Asante 7,000 (½)
15/11/16 Lenah 6,600 (½)	13/11/16 ECG 2,000 (½)
29/11/16 Lodgment 8,400 (½)	20/11/16 Gymaa 4,400 (½)

30/11/16 Bank	<u>9,000</u> (½)	30/11/16 Bal c/d	<u>42,600</u> (2)
	<u>67,000</u> (½)		<u>67,000</u>
1/12/16 Bank	42,600		

Cash Book - (7 marks)

b) Books of the Bank:-

Bank Statement for the month of November, 2016 –

DATE	DETAILS	Dr.	Cr.	Balance
1/11/16	Cash		30,000 (½)	30,000 (½)
2/11/16	001 Rent	11,000 (½)		19,000 (½)
3/11/16	002 Asante	7,000 (½)		12,000 (½)
10/11/16	Betty		13,000 (½)	25,000 (½)
30/11/16	Bank Charges	600 (½)		24,400 (½)
30/11/16	Payment Customer		2,000 (½)	26,400 (½)
30/11/16	Standing Order	300 (½)		26,100 (½)

(7 marks)

c) Books of Client

i) Adjusted Cash Book

Bal. b/f	42,600 (½)	30/11/16 charges	600 (½)
30/11/16 Direct payment	2,000 (½)	30/11/16 Standing Order	300 (½)
		30/11/16 Bal c/d	43,700 (2)

	<u>44.600</u>	<u>44.600</u>
1/12/16 Bal. b/d	43,700	

ii) Bank Reconciliation Statement for the month of November 2016 (7 marks)

Balance as per adjusted Cash Books	43,700 (1)	
Add:		
Unpresented cheques:		
13/11/16 ECG	2,000 (1)	
20/11/16 Gyamera	<u>4,400 (1)</u>	
		6,400
Less:		
Uncredited cheques		
15/11/16 Lansah	6,600 (1)	
29/11/16 Cheque Lodgments	8,400 (1)	
30/11/16 Cash Lodgment Omitted	9,000 (1)	
		<u>(24,000)</u>
Balance as per Bank Statement	<u>26,100 (1)</u>	
		(7 marks)

QUESTION THREE

a) Capital Expenditure

- i. Expenditure that leads to the acquisition of fixed assets and the benefit extends beyond one accounting year. Expenditure of this nature are capitalized and treated as fixed assets. They are then depreciated and written off through the Income Statement.

Examples:

Buying fixed assets

1. Adding value to an existing assets
2. Cost of bringing fixed assets to the buyers premises
3. Legal cost of buying of buildings

- ii. Revenue Expenditure: These are expenditures incurred in operating the business on a day-to-day basis, the benefit of which is fully utilized in one accounting period.

They are written off through Income Statement as expenses.

Examples: Rent, Water, Salaries

[3 marks]

iii.

- b) Depreciation is defined as the lost in value of a fixed asset due largely to effusion of time. [1 mark]

4 Causes of Depreciation

1. Physical Deterioration

This is due to wear and Tear, Erosion, Rust and Decay, arising out of the use of the asset.

2. Economic Factors

This is due to:

- i. Obsolescence: i.e. the asset falling out of date
- ii. Inadequacy: The business may out grow the asset such that its capacity will be rendered inadequate.

3. Time

This applies, where the asset has legal tenure. E.g. Patents, leased asset.

4. Depletion

Applicable to wasting assets such as natural resources

- c) RAMS LTD bought a motor Vehicle for business use on the 1st January, 2012 costing GH¢30,000.

The motor vehicle has an estimated useful life of 5 years and an estimated residual value of GH¢6,000.

Required:-

- i) Determine the depreciation charge per annum.

$$\begin{aligned} \text{Annual Depreciation charge} &= \frac{\text{Cost} - \text{Residual Value}}{\text{Number of useful life}} \\ &= \frac{30,000 - 6,000}{5} \\ &= \text{GH¢}4,800 \end{aligned}$$

4 marks

ii) Determine the cumulative depreciation per annum up to the 5th year.

Year	Annual Depreciation GH¢	Cumulative Depreciation GH¢	
1	4,800	4,800	[1 mark]
2	4,800	9,600	[1 mark]
3	4,800	14,400	[1 mark]
4	4,800	19,200	[1 mark]
5	4,800	24,000	[1 mark]

5 marks

d) Reducing balance method of calculating annual depreciation for a 5 year period.

Yr	WDV	Annual Depreciation GH¢	Cumulative Depreciation GH¢	
1	30,000	6,000	6,000	[1 mark]
2	24,000	4,800	10,800	[1 mark]
3	19,200	3,840	14,640	[1 mark]
4	15,360	3,072	17,712	[1 mark]
5	12,288	2,458	20,170	[1 mark]

5 marks

PAPER II --
LEGAL ACCOUNTANCY FOR SPECIAL STUDENTS
MARKING SCHEME

QUESTION ONE

- A) Outline 5 reasons justifying the study of Legal Accountancy by lawyers. [5 Marks]
- B) State the first Golden Rule in Accounting. [3 Marks]
- C) What sanctions are applied under the law, to practising lawyers who fail to keep the required set of accounts? [3 Marks]
- D) State and explain any five errors not revealed by Trial Balance. [10 Marks]
- E) Identify 4 parties who will be interested in accounting information. Indicate briefly their respective interest. [4 Marks]
- Total [25 Marks]

QUESTION TWO

- A) Under the law, any lawyer who misappropriates his client's money commits a grave offence. What punishment awaits such a lawyer? [3 Marks]
- B) Differentiate between business assets and liabilities. [3 Marks]
- C) Differentiate between capital and revenue expenditures and give 2 examples of each. [4 Marks]

D) Company XYZ is a limited company incorporated under the Companies Act 1963 (Act 179) What are the components of its shareholder's funds?

[5 Marks]

E) Explain the implications of the following accounting concepts and convention in the preparation of financial statements and provide one example for each:-

- i) Accruals concept
- ii) Prudence concept
- iii) Consistency concept
- iv) Business Entity Convention
- v) Going concern Convention.

[10 Marks]

Total [25 Marks]

QUESTION THREE

a) Define depreciation and outline 4 possible causes of depreciation.

[5 Marks]

b) State the circumstances under which Goodwill is recognised in financial accounting.

[4 Marks]

c) Differentiate between the Internal Auditor and the External Auditor in respect to the following:

- I) Appointment
- II) Responsibility
- III) Scope of Work
- IV) Remuneration
- V) Termination.

[10 Marks]

- d) Outline 3 types of books required to be kept by a practicing lawyer, to record financial dealings with a client. In each case, indicate briefly their importance.

[6 Marks]

Total [25 Marks]

LEGAL ACCOUNTANCY FOR SPECIAL STUDENTS
MARKING SCHEME

QUESTION 1

a) The punishment are:

- i) Suspension from practice. *(1 mark)*
- ii) Name struck out from the roll of lawyers. *(1 mark)*
- iii) Mention of the relevant provision - Section 48 of the legal profession ACT 1960 ACT 32 *(1 mark)*

iv) Business assets refers to the value of the business owned by the firm. Example of business asset include Motor Vehicles, Furniture, Computers, Stock, Debtors and Bank balances. They are all acquired for business use only. *(1½ marks)*

v) However, business liabilities refers to what the firm owes to Outsiders and Owners. Examples include Capital, Creditors, Loans etc. *(1½ marks)*

vi) Current assets are assets which are short term and are deemed to be liquid. They are easily convertible to Cash. Examples are Bank balances, Debtors, Stocks etc. However, current liabilities are amounts owned to outsiders and are due to be settled in the short-term. Examples are Creditors, Accruals and Bank Overdraft. *(1½ marks)*

d) The components of company XYZ shareholders funds are:-

- i) Ordinary shares paid up Capital (2 marks)
- ii) Revenue/Income Surplus. (2 marks)
- iii) Capital Surplus/Other reserves (1 marks)

e) Accruals Concept

The implication of this concept is that, in the preparation of financial statement, Expenses and Revenue should be accrued as soon as the legal contract is consummated.

(2 marks)

ii) Prudence concept

Financial Statement should be prepared on the basis of conservatism. Anticipate losses and provide for them, but revenue should not be accrued unless there is reasonable certainty as to their receipt.

(2

marks)

c) Consistency

The stipulates that, accounting basis and policies once selected should be applied consistently from year-to-year.

(2 marks)

d) Business Entity Concept

In preparing financing statement, only those transactions that is exclusively pertains to the affairs of the business should be taken into account.

(2 marks)

Transaction relating to owners should be excluded from the financial statement.

QUESTION 3

a) Depreciation is defined as the lost in value of a fixed asset due largely to effusion of time. [1 mark]

4 causes of Depreciation are:

1. Physical Deterioration

This is due to wear and tear, erosion, rust, to mention only a few of them, arising out of the use of the asset. [1 mark]

2. Economic factor

This is due to [1 mark]

- i. Obsolescence
- ii. Inadequacy

3. Time

This applies where the asset has a legal tenure. [1 mark]

4. Depletion

Applicable to wasting assets. [1 mark]

b) Circumstances under which Goodwill will be raised are:

- i. When a new partner is admitted [1 mark]
- ii. When existing partner is retiring [1 mark]
- iii. When existing partners are changing their profit and loss sharing ratio [1 mark]
- iv. On liquidation [1 mark]

	Internal Auditor	External Auditor	
c) Differences are:			
i. Appointment	Board and management	Shareholders	[2]
ii. Responsibility	Board and management	Shareholders	[2]
iii. Scope of work			
Determined by:	Management and Board	Status and Law	[2]
iv. Remuneration	Management and Board	Shareholders	[2]
v. Termination	Management and Board	Shareholders	[2]

d) The types of books to be kept include:

i) **Client's Cash Book**

This book is to record all monies received and payments made there from.

(2)

Consequently, balance, if any, represents client's money that should be refunded to the client.

ii) **Office Account**

This account records payments made from the practice main cash book. Balance on this account shows monies expended for and on behalf of the client and it is transferred to the client's Ledger. (2)

iii) **Client's Ledger**

This is the account that records all financial dealings, whether paid or unpaid with the client. (2)

Consequently, the balance in this account represents amount due to or from the client.