QUESTION 1

(a) You have been recently appointed as the technical manager of Quality Consultancy Service (QCS). QCS provides training and consultancy advice to companies which prepare financial statements using International Financial Reporting Standards (IFRSs). The managing partner of QCS has asked you to prepare the advice to be given to several clients in respect of the accounting requirements of non-current assets and financial instruments for the year ended 31 December 2011.

(i) ABC Ltd had the following loan liability in place during 2011:

i. GHC2,000,000 at 20% per annum
ii. GHC6,000,000 at 24% per annum

The company installed a new bottling plant costing GHC1,800,000 in 2011, the project of which was financed from the pool of funds. The project commenced in the first week of January 2011 and was completed on 30 September 2011. Payments to the contractor were scheduled as follows:

	GHC
1 January 2011	600,000
1 April 2011	1,000,000
30 September 2011	200,000

The plant was commissioned and put to use in 1 November 2011.

Required:

Describe and justify the correct accounting treatment and presentation of the bottling plant indicating clearly the amount of borrowing costs that can be capitalized as part of the cost of the bottling line.

(***4 marks***)

(ii) On 1 January, 2011, QRS Ltd issued 10,000 6% convertible bonds at par of GHC100 per bond. Each bond is redeemable at par or convertible into four shares on 31 December 2012. Interest is payable annually in arrears. The market rate of interest for similar debt without the conversion option is 8%.

Required:

Indicate how this financial instrument will be dealt with in the income statement for 2011 and 2012 and the statements of financial position as at 31 December 2011 and 2012. (***4 marks***)

(iii) On 1 January 2011, Asona Ltd acquired a land and building lease with a term of 30 years at an annual rental of GHC50,000, payable in advance. Other details of the lease are as follows:

- The useful life of the building is 30 years and that of the land is assumed to be indefinite.

- The interest rate implicit in the lease was 7.5% and the present value of GHC50,000 per annum payable in advance over 30 years is GHC630,000.

- The fair value of the leasehold interest approximates the present value of the minimum lease payment and 10% (i.e. GHC63,000) is attributable to the land element.

Required:

Calculate the amounts to be recognized in the entity's income statement for the year ended 31 December 2011 and its statement of financial position as at 31 December 2011.

(***4 marks***)

(iv) Goaso Timbers Ltd (GTL) produces and exports lumber and planks. It owns a plant which has a book value of GHC1,800,000 as at 1 January 2011. The Government of Ghana passed a legislation that restricts the exportation of lumber. Consequently, GTL has to reduce production significantly. Cash flow forecast for the next four years included in the budget submitted for management approval in January 2011 shows the following:

Year	Cash Flows (GHC)
2011	550,000
2012	500,000
2013	300,000
2014	700,000

The cash flow forecast for 2014 includes expected proceeds from disposal of the plant. The cash flow projections also ignore the effects of general upwards movement in prices.

It is estimated that if the plant is sold in January 2011, it would realize a net proceeds of GHC1,320,000.

The costs of capital for GTL is 15% (ignoring inflationary effect).

Required:

Calculate the recoverable amount of the plant and impairment loss (if any).

(***4 marks***)

(b) Dagadu Ltd is an unlisted private company, which deals in computer and other ICT equipment. On 1st March, 2012, a shareholder-director, Mr Kusi, informed you that he was contemplating disposing of his shares. The regulations of the company require him to offer his shares first to his fellow shareholders. If none offers a reasonable price, he may seek an outside purchaser.

You have been given the financial statements of the company as follows:

Dagadu Ltd

Income Statements for year to 31st December

	2010	2011	Projected 2012
	GHC000	GHC000	GHC000
Sales	10,800	12,000	13,200
Cost of sales	8,820	9,900	10,683
Gross profit	1,980	2,100	2,517
Other trading costs	750	900	990
Net trading costs	1,230	1,200	1,527
Interest payables:			
15% Debentures	-	144	144
Bank overdraft	75	0	0
Net profit before tax	1,155	1,056	1,383
Taxation	600	540	720
Net profit for the year	555	516	663
Dividends:			
10% Cumulative Preference shares	60	60	60
Ordinary shares	240	300	300
Retained earnings for the year	255	156	303

The statements of financial position as at the end of corresponding years and projected statement for 2012 are as follows:

	2010	2011	Projected 2012
	GHC000	GHC000	GHC000
Non-current assets	2,115	2,220	3,135
Current assets	2,982	3,609	4,206
Current liabilities	(1,344)	(840)	(1,365)
Net current assets	1,638	2,769	2,481
Net assets	3,753	4,989	5,976
Financed by:			
10% Cumulative Preference shares issued @ GHC3	600	600	600
Ordinary shares	1,200	1,500	1,500
Capital surplus	900	600	600
Income surplus	1,032	1,248	2,226
	3,732	3,948	4,926
15% Debenture (redeemable 2016)	-	750	750
Deferred taxation	21	291	300
	3,753	4,989	5,976

Additional information:

(1) Changes in the stated capital over the last three years are as follows:

(i) **Issued for cash at 1/1/2009**:
200,000 10% Cumulative Preference Shares issued at GHC3 fully paid and 250,000 ordinary shares issued at GHC3 fully paid.

(ii) **Issued for cash at 1/1/2010**:
150,000 ordinary shares issued at GHC3 fully paid.

(iii) **Bonus issue at 1/1/2011**:
100,000 ordinary shares issued at GHC3 per share, fully paid by capitalising from Capital Surplus Account and ranking for dividend in 2011 and thereafter.

(2) The ordinary shares carry one vote each at general meetings.
The preference shares do not carry votes unless their dividends are in arrears when each share carries one vote.

Statistics selected from similar listed company include the following:

Earning per share	GHC0.60
Market capitalisation	GHC2,700,000
No. of shares	450,000
Dividend payout ratio	80%

Assume that investment in unlisted entity is 20% more risky than investment in quoted securities.

Required:

(i) Estimate the range of prices per share that Mr Kusi can reasonably expect to realise from the sale of his 50,000 ordinary shares to his fellow shareholders using the following methods:

i. Dividend Yield

ii. Earnings Yield

iii. Net Assets

(***12 marks***)

(ii) Estimate the highest price per share that he can reasonably obtain from an outside purchaser.
(***2 marks***)

(**Total: 30 marks**)

QUESTION 2

Hard Ltd acquired 3,200,000 of the ordinary shares of Soft Ltd on 1st October 2010. The consideration was agreed as follows: GHC5 million immediate cash payment and additional GHC1 million to be settled on 1st October 2013. A year later, Hard Ltd acquired 800,000 of the ordinary shares of Active Ltd for GHC1,600,000. The cost of capital to Hard Ltd is 25% per annum.

The statements of financial position of the three companies as at 30th September 2012 are as follows:

	Hard Ltd	Soft Ltd	Active Ltd
	GHC000	GHC000	GHC000
Non Current Assets:			
Patent	500	840	-
Freehold land	5,120	2,800	1,600
Plant	2,840	1,800	1,080
Investments:			
In Soft Ltd	5,000	-	-
In Active Ltd	1,600	-	-
In others	300	400	120
	15,360	5,840	2,800
Current Assets:			
Inventories	1,140	800	600
Accounts receivable	840	760	800
Bank	-	300	240
	1,980	1,860	1,640
Current Liabilities:			
Accounts payable	1,100	660	560
Taxation	680	240	120
Bank overdraft	160	-	-
	1,940	900	680
Net Current Assets	40	960	960
Deferred tax	(400)	-	(160)
Net assets	15,000	6,800	3,600
Equity:			
Stated capital			
Ordinary shares (issued at GHC0.50)	4,000	2,000	1,000
Capital surplus	2,000	1,000	200
Income surplus	9,000	3,800	2,400
	15,000	6,800	3,600

Additional information:

i. The Income Surplus Account balances of the three companies were:

	Hard Ltd	Soft Ltd	Active Ltd
	GHC000	GHC000	GHC000
1/10/2010	4,000	2,400	1,000
1/10/2011	6,000	3,000	1,600

ii. At the date of acquisition the fair values of Soft Ltd's net assets were equal to their carrying amounts with the exception of a plot of land that had a fair value of GHC400,000 in excess of its carrying amount. This fair value adjustment has not been reflected in the financial statements of Soft Ltd.

iii. On 28th September 2012, Hard Ltd processed an invoice for GHC100,000 in respect of an agreed allocation of overhead expenses to Soft Ltd. At 30th September 2012, Soft Ltd had not accounted for this transaction. Prior to this, the current accounts between the two companies had been agreed at Soft Ltd owing GHC140,000 to Hard Ltd. These had been included in debtors and creditors respectively.

iv. During the year, Active Ltd sold goods to Hard Ltd at a selling price of GHC280,000 which gave Active Ltd a profit of 40% on cost. Half of these goods remained in stock at 30th September, 2012.

v. An impairment review of the goodwill on acquisition of Soft Ltd on 30th September 2012 revealed that goodwill has suffered loss of 25%.

vi. There has been no additional share issue since the acquisitions.

Required:

(a) Prepare Consolidated Statement of Financial Position of Hard Ltd as at 30th September 2012. (***16 marks***)

(b) Under what circumstances will an entity be compelled to prepare Consolidated Financial Statements even though it holds **less than** 50% of the ordinary shares of another company? (***5 marks***)

(c) Under what circumstances will an entity be exempted from preparing Consolidated Financial Statements even though it holds **more than** 50% of the ordinary shares of another company? (***4 marks***)

(**Total: 25 marks**)

QUESTION 3

Susuka Ltd was incorporated as a private company several years ago. Trading was very profitable until 2009 when the company began making losses due to influx of competitors and the ageing plant and machinery. The Board of Directors is considering whether to re-organise or liquidate the company.

As a consultant, you have been given the latest financial statements of the company as follows:

Statement of Financial Position as at 31st December 2011

	GHC000	GHC000
Non Current Assets:		
Freehold Property		3,920
Plant, Machinery & Motor Vehicles		1,050
Deferred Development Expenditure		3,490
		8,460

Current Assets:		
Inventories	2,020	
Accounts receivables	760	
	2,780	
Current Liabilities:		
Bank overdraft (floating charge)	2,100	
Accounts payable	3,200	
Accruals	600	
	5,900	
Net current liabilities		(3,120)
		5,340
20% Debentures (secured on freehold property)		(3,800)
Net Assets		1,540
Stated Capital		8,880
Income surplus		(7,340)
		1,540

You have been given the following additional information:

i. The company's freehold property was acquired on 31/01/2010. The Directors believe that the net disposal value of the freehold property at 31/12/2011 would be GHC4,000,000

ii. It is estimated that the break up value of plant, machinery and motor vehicles at 31st December 2011 will be GHC900,000

iii. The deferred development expenditure has been patented. It is estimated that if the company is liquidated, it could be sold for GHC2,000,000

iv. The inventories are estimated to realise their carrying amount in the event of liquidation

v. One of the major customers of the company has been declared bankrupt. Susuka Ltd is likely to lose GHC100,000 of the amount due from that customer

vi. In the event of Susuka Ltd going into liquidation, it is estimated that liquidation cost will be GHC42,000

vii. Reorganisation cost of the company is estimated at GHC30,000

viii. The ordinary shareholders are prepared to introduce additional capital of GHC3,000,000 if they consider the proposed scheme to be satisfactory

ix. The bank overdraft limit is GHC4,000,000

x. It is considered that the proposed reorganisation of the company would result in net profit after tax of GHC1,500,000 in the year ending 31st December 2012 and GHC2,000,000 or more in each of the years thereafter

xi. Preference dividends are two years in arrears

xii. The stated capital is made up as follows:

Ordinary shares	GHC5.73 million
18% Preference shares	GHC3.15 million

Required:

(a) Advise the Board of Directors whether to reorganise or liquidate the company. (***8 marks***)

(b) Design a scheme of reorganisation that would be acceptable to major stakeholders. (***4 marks***)

(c) Prepare a statement of financial position immediately after the reorganisation.

(*3 marks*)

(**Total: 15 marks**)

QUESTION 4

Mr. Peter Paul has just retired from public service and has been paid a substantial amount of money by his former employers in respect of his end of service benefits. He intends to apply part of this money in buying shares from a well performing company for his future benefit. A friend has recommended to him two companies operating in the oil and gas industry but the only information available is their Statements of Cash Flows.

Statements of Cash Flows for Diesel Limited & Premix Limited for the year ended 3st December, 2011

	Diesel Limited GHC	Premix Limited GHC
Cash flows from operations:		
Operating profit	3,450,615	4,000,350
Depreciation charges	460,275	280,500
Decrease in inventories	470,205	250,815
Decrease/(increase) in receivables	27,840	(307,480)
Increase in payables	360,260	444,404
Cash generated from operations:	**4,769,195**	**4,668,589**
Interest paid	(9,580)	-
Income tax paid	(2,587,961)	(1,000,088)
Net cash from operating activities	**2,171,654**	**3,668,501**
Cash Flows from Investing Activities:		
Dividends received from Associate	40,500	-
Interest received	9,950	-
Purchase of property, plant & equipment	(3,287,500)	(120,920)
Proceeds from sale of equipment	980,000	2,440,406
Purchase of Gas Limited (Net of cash acquired)	(189,860)	-
Net cash used investing activities	**(2,446,910)**	**2,319,486**
Cash flows from financing activities:		
Issue of ordinary shares	625,000	1,800,000
Issue of bond	180,000	-
Dividends paid to ordinary shareholders	(24,500)	-
Net cash realised from financing activities	**780,500**	**1,800,000**
Net Increase in Cash & Cash Equivalents	505,244	7,787,987
Cash & Cash Equivalents b/f	122,465	(6,875,420)
Cash & Cash Equivalent c/f	**627,709**	**912,567**

Additional information:

i. Both Diesel Limited and Premix Limited are private companies. Diesel Limited is registered with 1,000,000 shares while Premix Limited is registered with 4,200,000 shares. All authorised shares are of no par value, and all shares issued are at GHC1.00.

ii. Diesel Limited has been summoned to appear before the National Labour Commission for failure to implement pay rise agreed with the Local Union.

iii. The Domestic Tax Division of the Ghana Revenue Authority has cited Premix Limited for persistently defaulting in payment of their quarterly advance tax without any justifiable cause.

Required:

(a) Using both quantitative and qualitative factors, advise Mr. Peter Paul whether to place his investment in either Diesel Limited or Premix Limited. (***10 marks***)

(b) Explain why operating profit differs from cash flows from operating activities. (***2 marks***)

(c) Identify any **three (3)** issues that a Cash flow Statement will assist investors, creditors and other stakeholders to resolve. (***3 marks***)

(**Total: 15 marks**)

QUESTION 5

Printers Limited has just ended its first year of successful operations in the book industry. The following Trial Balance has been extracted from its books of accounts for the year ended 31 December, 2011:

	DR GHC	CR GHC
Property, Plant & Equipment	450,000	
Turnover		880,000
Accounts Receivables/Payables	98,500	85,500
Medium-Term Loan		45,000
Purchases	583,100	
Selling, General & Administrative Expenses	67,000	
Goodwill	62,500	
Cash & Bank	84,000	
Stated Capital		500,000
Opening Inventory	165,400	
	1,510,500	1,510,500

<u>Additional Information</u>:

i. Closing inventory is GHC188,500.

ii. Management has derived current cost values for some of the assets, detailed as follows:

	GHC
Goodwill	12,500
Property, Plant & Equipment	605,000
Cost of Goods Sold	590,000
Inventories	160,000

Required:

(a) Determine the total holding gain for Printers Limited.

(b) Prepare the Current Cost Statement of Comprehensive Income for the year ended 31 December and the Statement of Financial Position as at that date.

(c) Clearly distinguish between financial statements restated for general price-level changes and current value financial statements.

(**Total: 15 marks**)