SOLUTION 1

- The power to govern the financial and operating policies of an entity.
- Ownership of more than 50% of the ordinary shares in the investee entity;
- Casting more than half of the voting rights because of an agreement with other investors;
- Governing the financial and operating policies of the entity by law or by agreement;
- Appointment or removal of the majority of the members of the board of directors and control of the entity is by that board;
- Casting the majority of votes at a meeting of the board of directors and control is exercised by that board

ii. Group Structure

W1

Parent	-	15,000 / 20,000	75%
NCI	-		25%

W2 Net assets of Subsidiary

	At acquisition	At year end
Share capital	20,000	20,000
Income surplus	12,500	27,500
Fair value adjustment		
Research cost	(2,500)	(2,500)
	30,000	45,000

W3 Computation of Gross Goodwill – Method 1

Cost of investment	30,000
Fair Value of NCI at acquisition	
GH¢2 x 5,000	10,000
	40,000
Less net assets at acquisition (W2)	(30,000)
Gross goodwill at acquisition	10,000
Less goodwill impaired	(2,000)
Gross goodwill at year end	8,000

Computation of Gross Goodwill – Method 2

Cost of investment		30,000
Less parent's share of net assets at acquisition		
75% x 30,000 (W2)		(22,500)
Gross goodwill attributable to parent at acquisition		7,5000
Fair value of NCI at acquisition NCI at acquisition		
GHC2 x 5,000	10,000	
Less NCI's share of net assets at acquisition		
25% x 30,000 (W2)	(7,500)	
Gross goodwill attributable to NCI at acquisition		2,500
Gross goodwill at acquisition		10,000
Less goodwill impaired		(2,000)
Gross goodwill at year end		8,000

Apportionment of Impairment Loss

Dr Parent 75% x 2,000	1,500	
Dr NCI	500	
Cr Goodwill		2,000

Note 3 - Unrealised Profit on Inventory (URP)

URP = 25/125 x 12,000
= 2,400

Tutorial Note : The treatment of URP is very crucial. It depends on who the seller or transfer is i.e. to say whether it is the parent or the subsidiary who is the seller.

Rules: If the parent is transferring or the seller the following journals apply

Dr Consolidated Income Surplus with URP
Cr Consolidated Inventory with URP

On the other hand, if it is the subsidiary who is the transfer or seller these are the journals.

Dr Consolidated Income surplus with 75% of URP
Dr NCI with 25% of URP

Alternatively, you could subtract the whole URP from net assets of the subsidiary at year end (W2) this will sort out the apportionment of the URP. You then credit consolidated inventory with the URP.

W4 NCI at Year End

Net assets of NCI at year end:	
25% x 45,000 (W2)	11,250
Goodwill attributable to NCI	
[(2,500 – 500) impaired goodwill)]	2,000
	13,250

W5 Consolidated Income Surplus

Parent	52,500
Share of post-acquisition reserves	
(27,500 – 12,500) 75%	11,250
Share of dividend receivable	
75% x 2,000	(1,500)
Share of impairment lost	
75% x 2,000	(1,500)
Unrealized profit on inventory	(2,400)
	61,350

(b) Tarso Ltd

Consolidated Statement of Financial Position as at …….

	GHC	GHC
Non-Current Assets		
Intangible assets (5,000 – 2,500)		2,500
Goodwill (W3)		8,000
Property Plant & Equipment		132,000
(70,000 + 62,000)		142,500
Current Assets		
Inventory [(30,000 + 45,000 – 2,400 (URP)]	72,600	
Receivables (62,000 + 52,500)	115,000	
Bank (50,000 + 5,00)	55,000	
Total assets		242,600
		385,100
Equity and Liabilities		
Share capital	100,000	
Income surplus (W5)	61,350	
NCI (W4)	13,250	
Equity		174,600
Non-Current Liabilities		
L. T. Borrowings (50,000 + 50,000)		100,000
Current Liabilities		
Trade payables (40,000 + 44,500)	84,500	
Interest payables	500	
Dividend payable (10,000 + 2,000 – 1,500)	10,500	
Bank overdraft	15,000	110,500
		385,100

SOLUTION 2
Senyo Company
Income Statement for the year ended 31 December 2011

	GHS
Sales	227,450
Cost of sales	(165,650)

GP	61,800
Distribution costs	(13,400)
Admin expenses	(12,300)

Operating profit before interest and taxation	36,100
Finance cost (3600+400)	(4,000)

Profit before Taxation	32,100
Taxation	(9,400)

Profit after tax	22,700
	======

Senyo Company
Statement of Financial Position as at 31 December 2011

Assets	GHS
Non- current assets	
PPE: Land	20,000
Buildings	97,500
Plant	76,500
Equipment (leased)	2,400

	196,400
	=======
Current assets	
Inventory (16,240+16,000)	32,240
Trade receivable (25,500 – 20,000)	5,500
Cash (6590-4000)	2,590

	40,330

Total Assets	236,730
	=======
Equity	
Ordinary shares	100,000
Revaluation surplus	44,000
Income surplus	42,140

	186,140

Non-current liabilities	
Loan note	30,600
Obligation under finance lease	1,800

	32,400

Current liabilities		
Trade payables		8,390
Taxation		9,000
Obligation under finance lease	: Interest	400
	Capital	400

		18,190

Equity and liabilities		<u>236,730</u>

Workings

1	Land	Buildings	Plant
Bal b/f	12,000	64,000	90,000
Revaluation surplus	8,000	36,000	-
	--------	----------	-------
	20,000	100,000	90,000
Depreciation	-	2,500	13,500
	-------	---------	---------
Balance c/d	20,000	97,500	76,500
	=====	======	=====

2) **Sale –or- return basis**

DR	Sales	20,000	
CR	Trade Receivable		20,000
DR	Inventory	16,000	
CR	Cost of sales		16,000

3) **Leased Equipment**

DR	Equipment	3,000	
CR	Obligation under finance lease		3,000

Depreciation charge (3000/5) = 600

Obligation under finance lease

At start 1/1/2011	3,000
Rental payment	(800)

Obligation during 2011	2,200
Finance charge [4/10 x 1,000]	400

At 31 /12/2011	2,600
	=====

Current:	Interest	400	
	Capital	400	
Non-current		1800	
		------	2,800
			=====

4) **Taxation**

Current year provision	9,000
Under- provision from previous year	400

	9,400
	======

5) **Loan note**

Cost at 1/1/2011	30,000
Interest charge @EIR of 12%	3,600
Interest paid	(3,000)

Amortized cost at 31 /12/2011	30,600
	======

6) **Cost of sale**

Per trial balance	165,050
Depreciation (2,500+13,500+600)	16,600
Sale or return	(16,000)

	165,650
	=======

7) **Income surplus**

Balance as at 1/1/2011	23,440
Profit for the year	22,700
Dividend	(4,000)

Balance as at 31 /12/2011	42,140
	======

SOLUTION 3

OTI, ASANTE & BERCHIE PARTNERSHIP

WORKINGS

(a) i.

CAPITAL ACCOUNTS

	OTI GHC	ASANTE GHC	BERCHIE GHC		OTI GHC	ASANTE GHC	BERCHIE GHC
Goodwill (1:1)	-	99,900	99,900	Bal. b/d	300,000	150,000	180,000
Oti Estate	397,920	-	-	Goodwill (4:3:3)	79,920	59,940	59,940
Bal. c/d	-	123,540	153,540	Fixed assets Rev. (60,000 – 5,000) 4:3:3	18,000	13,500	13,500
	397,920	223,440	253,440		397,920	223,440	253,440
				Bal. b/d	-	123,540	153,540

WORKINGS 2

Profit and Loss Appropriation Account for the
Year ended 31st December 2009

	Jan to June 09	Jan to June 09	July to Dec	July to Dec
Profit for the year		156,000		156,000
Less interest on capital				
Oti [300,000/2 x10%]	15,000	-	-	
Asante [150,000/2 x10%	7,500		7,500	
Berchie[180,000/2 x10%]	9,000		9,000	
Oti Estate – Loan Interest				
[16800+397920]x12%x6/12	-		24,883	
Current Accounts	49,800		57,308.5	
Oti 4/10	37,350		57,308.5	
Asante 3/10	37,350	156,000		156,000
Berchie 3/10				

(ii) Current Account

	OTI GHC	ASANTE GHC	BERCHIE GHC		OTI GHC	ASANTE GHC	BERCHIE GHC
Drawings	48,000	72,000	72,000	Profit & Loss			
Oti Estate	16,800	-	-	Interest on			
Bal. c/d	-	37,685.5	40,685.5	Capital	15,000	15,000	15,000
				- 6 months to 30.06.09	49,800	37,350	37,350
				- 6 months 31.12.09	-	57,308.5	58,308.5
	64,800	109,685.5	112,658.5		64,800	109,658.5	112,658.5
				Bal. b/d	-	38,160	41,160

WORKING 3 Oti's Estate

	GHC		GHC
Balance c/d	439,603	Capital account	397,920
		Current account	16,800
		Interest	
		[16,800+397,920]x12% x 6/12	24,883
	439,603		439,603
		Bal. b/d	439,603

(b) Balance Sheet as at December 31, 2009

	GHC	GHC
Fixed assets: Land & Buildings		300,000
Fixtures & Fittings		30,000
		330,000
Current Assets:		
Stock	375,000	
Debtors	60,000	
Bank	120,000	555,000
		885,000
EQUITIES & LIABILITIES		
Partners' Capital		
Asante	123,540	
Berchie	153,540	277,080
Current Accounts		
Asante	37,685.5	
Berchie	40,685.5	78,317
Current Liabilities		
Accounts Payables	90,000	
Oti's Estate	439,603	529,603
		885,000

SOLUTION 4

Analysis of the performance of KFD Company

Strengths

- Profitability: Comparatively profitability than WAT and even achieved a higher performance than that of the industry in the return on assets measure. The major reasons are good cost control, high debt collection rate (as reflected in the lowest loan loss ratio as compared to WAT and industry) and efficient utilization of scarce resources.
- High Investor Confidence/Growth Potential: Reflected in the highest market price per share to earnings per share (compared to WAT and industry). Investors have confidence in the company's growth potential even though it also means that their investment is in high risk (as shown by lowest investment payback time. This is because of the high level of dividend payout, sending out positive signals about the viability of the bank and its ability to guarantee future payments.
- Comparative low gearing: KFD has the highest amount of capital as buffer to protect its investors. The risk of bankruptcy is low because it would not have a lot of threats from debt holders, all other things being equal. Because it employs low debt in its capital structure.

Weaknesses

- Very low Net Interest Margin. KFD recorded the lowest interest margin as compared to WAT and the industry's performance. Probably the bank is unable to generate more interest income (by attracting more loans) relative to interest expenses. The use of more long-term debt may be expensive.
- Poor liquidity position. Although the company can meet its short-term debt 1.5 times, its performance is far below that of WAT and the industry. It is likely that they are into more long-term investment than short-term and/or their high dividend payout ratio is could also be another reason.
- Over-reliance on equity and long-term debt.

Analysis of the performance of WAK Company

Strengths

- Higher Interest margin. Probably from attracting more customers, generating more loans and overdrafts, contracting cheaper loans and efficient management of customer deposits.
- Good liquidity position resulting from low dividend payout and probably undertaking more short-team investments.
- Good capital structure. Relying heavily on short-term debt (customer deposits, overdraft etc) which is considered as a cheaper source of financing but at the same time operating above the minimum required capital ratio of 10%.

Weaknesses

- Low performance as reflected in recording the lowest net profit margin, return on assets and assets turnover ratio as compared to KFD and industry, even though it recorded the highest net interest margin. Poor asset management, weak cost control and low debt recovery are some of the likely causes.
- Low investor confidence even though the company promises a faster investment payback. Comparatively low dividend payout ratio could be the reason.
- Inefficient utilization of assets.
- High probability of bankruptcy because of high level of debt on capital structure.

(b) Some ways that KFD Company can achieve competitive advantages over WAT Bank (in a report form).

- Improve on its current net interest margin by using less expensive debt (for instance short-term debt as against long-term debt) and increasing its interest income by employing more sales agents or upgrading the skill of the existing agents.
- Acquire more assets whiles consistently improving its assets utilization or at least maintain its generated funds.

- Change its capital structure. Have more debt especially short-term because debt improves bank performance. But not operate below the required capital adequacy ratio.
- Continue with its cost control.
- Consistently monitor the performance of the industry and especially WAK Bank.

Boafo Ltd

Notes for meeting

(i) Fair presentation and true and fair view

IAS 1 ***Presentation of Financial Statements*** describes the concept of fair presentation. Fair presentation involves representing faithfully the effect of transactions, other events and conditions in accordance with the definitions and recognition criteria in the IASB ***Framework***.

This is developed by stating that the application of IFRS, interpretations and additional disclosures will result in fair presentation.

The traditional UK approach required financial statements to comply with the Companies Act (and therefore UK standards) and give a true and fair view. True could be approximated to 'represent faithfully' and fair to 'fair presentation'. IAS 1 links them by stating that compliance with standards will give a fair presentation. As a result there is unlikely to be any difference between the two.

Whilst not dealing with the concepts directly, the IASSB ***Framework*** uses the descriptions of fair presentation and true and fair view interchangeably in its discussion of the application of the principal qualitative characteristics of financial information.

(ii) **Substance over form and fair presentation**

Most transactions are reasonably straightforward and their substance (their commercial effect) is the same as their legal form. In some complex transactions the true substance may not be readily apparent. Their legal form may not adequately express the true commercial effect of such transactions.

Where this is the case, it may not be sufficient to account for them by merely recording their form. The financial statements should represent commercial substance, not just legal form (substance over form). If a transaction gives rise to an asset or liability (as defined in the IASB ***Framework***), it should be accounted for on this basis even if this is different from its legal form. Applying the definitions of an asset and a liability identifies the appropriate accounting treatment.

The IASB ***Framework*** identifies that if information is to represent faithfully the transactions it purports to represent, then they should be accounted for in accordance with their substance and economic reality and not merely their legal form. The substance may not be consistent with the legal form of a transaction. An example is a sale and repurchase agreement.

(iii) **Non-compliance with IFRS**

IAS 1 allows non-compliance with a standard (or interpretation) only where management concludes that compliance would be so misleading as to conflict with objectives of financial statements set out in the IASB ***Framework***. However this is only where the relevant regulatory framework requires, or does not prohibit, such a departure.

The standard uses the phrase 'where management concludes' which may indicate that there a margin for those preparing the financial statements to use this exception where they believe it is appropriate. However, IAS 1 talks about this coming about 'in extremely rare circumstances'. To all intents and purposes, these circumstances will never occur.

QUESTION 5

a)

Date	**Cost Price GHC'000**	**HP Sales GHC'000**	**Deposit GHC'000**	**Instalments GHC'000**	**HP Debtors GHC'000**
July	400	600	(120)	(400)	80
September	140	210	(42)	-	168*
October	380	570	(114)	(152)	304
November	320	480	(96)	(64)	320
	-----	-----	-----	------	------
	1,240	1,860	(372)	(616)	872
Less Repo Gd	(140)	(210)	(42)	-	(168)*
	--------	--------	-------	-------	------
	1,100	1,650	(330)	(616)	704
	====	====	====	====	====

- ***An alternative is to omit the analysis on the repossessed goods and deal with it direct in the repossessed account***

Provision for URP

HP Debtors X GP Margin = GHC704,000 X 1/3 = GHC234,667

OR

$\frac{\text{HP Debtors}}{\text{HP Sales}}$ x Gross Profit = GHC704,000/GHC1,650,000 X GHC550,000 = GHC234,667

Repossession Account

Cost	140,000	Cash :	Deposit	42,000
Profit on repossessed goods	37,000		Sales Proceeds	135,000
	-----------			----------
	177,000			177,000
	=======			=======

Hire Purchase Income Statement

	GHC
HP Sales	1,650,000
Cost of Sales	1,100,000

	550,000
PURP	(234,667)

Profit earned: On effective sales	315,333
Repossessed Goods	37,000

Profit earned	352, 333

5b) Investment property

i) Land or building, or part of a building, or both, held by the owner or the lessee under a finance lease to earn rentals and/or for capital appreciation, rather than for use inproduction or supply of goods and services or for administrative purposes or for sale in the ordinary course of business.

ii) At 31 December 2010, the building has a carrying value of GHC4.95 million in accordance with IAS 16. On 31 December 2010, the property should be recognized as an investment property. The property should be fair valued at 31 December 2010 and any change in value should be recognized in accordance with IAS 16.

The property should therefore be recognized at a carrying amount of GHS6 million and the difference of GHC1.05 million [GHC6 million – GHC4.95 million] should be recognized in other comprehensive income as a revaluation surplus.

In subsequent period (unless there is further change in use) the building should be measured at fair value with any gain or loss recognized directly in profit or loss.

5c) RELATED PARTIES

1. Entities are deemed to be related parties when one of them either:

a. Has the ability to control the other
b. Can exercise significant influence over the other entity in making financial and operating decisions;
c. Has joint control over the other
d. Is a joint venture in which the other entity is a joint venture; or
e. Functions as key management personnel of the other entity.

2. Some examples of related party transactions that may require disclosure by a reporting entity include:
   a. Purchases or Sale of goods (finished or unfinished)
   b. Rendering or receiving of services
   c. Agency arrangement
   d. Leasing arrangement
   e. Transfer of research and development

f. License agreements
g. Financial transactions like loans and equity participation – in cash or in kind.
h. Guarantees and Collaterals