THE INSTITUTE OF CHARTERED

ACCOUNTANTS (GHANA)

MAY 2012 EXAMINATIONS
(PROFESSIONAL)

PART 3

FINANCIAL REPORTING

(Paper 3.1)

Attempt ALL Questions

TIME ALLOWED:

Reading & Planning - 15 Minutes

Workings - 3 Hours

QUESTION 1

(i) IAS 27 "***Consolidated and separate financial statements***" provides circumstances in which an entity can be said to have control over another (subsidiary).

Required:

i. Outline **five (5)** conditions that are indicative of the existence of control.

(***5 marks***)

ii. The statement of financial position as at 31 December 2011, of Tarsco Ltd and its subsidiary company Angel Ltd are summarized below:

	Tarsco Ltd	Angel Ltd
	GHC	GHC
Intangible Assets	-	5,000
Property, Plant and Equipment	70,000	62,000
Investment in Angel Ltd	30,000	-
	100,000	67,000
Current Assets		
Inventory	30,000	45,000
Trade Receivables	62,500	52,500
Current Account – Angel Ltd	10,000	
Bank	50,000	
	152,500	97,500
Total Assets	252,500	164,500
Equity and Liabilities		
Equity		
Stated capital (Ordinary Shares issued at GHC1 each)	100,000	20,000
Income surplus	52,500	27,500
	152,500	47,500
Non-Current Liabilities		
Long-term Borrowing	50,000	50,000
Current Liabilities		
Trade Payables	40,000	44,500
Interest Payable	-	500
Current Account – Tarsco Ltd	-	5,000
Dividend Payable	10,000	2,000
Bank Overdraft	-	15,000
	50,000	67,000
Total Equity and Liabilities	252,500	164,500

Additional Information

1. Tarsco Ltd acquired 15,000 ordinary shares in Angel Ltd on 1 January 2008. The price paid was GHC30,000. The balance on Angel Ltd's Income Surplus at the date of acquisition by Tarsco Ltd was GHC12,500.

2. On 31 December 2011, there was cash in transit from Angel Ltd to Tarsco Ltd of GHC5,000.

3. On 31 December 2011 the inventory of Angel Ltd included GHC12,000 of goods purchased from Tarsco Ltd. Tarsco Ltd had invoiced these goods at cost plus 25%.

4. Tarsco Ltd has not yet recognized its dividend receivable from Angel Ltd at 31 December 2011.

5. It is the policy of the group to value Non-controlling interest at fair value. The market price of a share of Angel Ltd immediately prior to date of acquisition was GHC2.00.

6. Goodwill has been impaired since acquisition to the tune of GHC2,000.

7. The carrying value of the assets of Angel on the date of acquisition approximated their fair values except a capitalized research cost included in the Intangible Assets at a value of GHC2,500. The policy of Tarsco Ltd, in line with ISA 38, is to write off such expenses as they arise.

Required:

Prepare a Consolidated Statement of Financial Position for Tarsco Ltd Group as at 31 December 2011. (***15 marks***)

(**Total: 20 marks**)

QUESTION 2

The following list of account balances relate to Senyo Company, a public listed company, as of 31 December 2011.

	GHC	GHC
Equity shares (issued at GHC1)		100,000
10% Loan note (2011 – 2014) (note 5)		30,000
Income Surplus - 1 January 2011		23,440
Property, plant and equipment – cost (note 1)	216,740	
Accum. Depreciation: Plant and equipment (1 January 2011)		50,740
Trade Receivables	25,500	
Trade Payables		8,390
Lease Rentals (note 3)	800	
Sales Revenue (note 2)		247,450
Cost of sales	165,050	
Distribution costs	13,400	
Administrative expenses (note 2)	12,300	
Income tax (note 4)	400	
Loan interest paid (note 5)	3,000	
Inventories: 31 December 2011	16,240	
Cash and cash equivalent	6,590	
	460,020	460,020

The following notes were relevant:

1. Property, plant and equipment and the accumulated depreciation as at 31 December 2011 were as follows:

	Land	Buildings	Plant
	GHC	GHC	GHC
Cost	12,000	80,000	124,740
Depreciation	Nil	16,000	34,740

   The land and buildings were revalued at open market value on 1 January 2011 at GHC120,000 in total. This was made up of GHC20,000 attributed to the land and GHC100,000 to the buildings. The buildings' original estimated life of 50 years (with a nil residual value) has not changed. From the date of the revaluation, there were forty years of life remaining. The directors wish to include the revalued amounts (including the depreciation effects) in the financial statements for the year to 31 December 2011. Plant is depreciated at 15% on the reducing balance.

2. The sales figure included GHC20,000 worth of goods sold on 'sale or return basis' in December 2011 with a profit mark-up of 25% on cost. Goods sold on this basis are returnable within 3 months of sales.

3. A lease rental of GHC800 was paid on 1 January 2011. It is the first of five annual payments in advance for the rental of an item of equipment that has a cash purchase price of GHC3,000. The auditors have advised that this is a finance lease and that the finance charge should be allocated over the lease period using sum-of–the years digit method. The equipment should be depreciated over the lease period.

4. A provision for income tax for the year to 31 December, 2011, of GHSC9,000 is required. Income tax is paid six months after the company's year-end. A provision for income tax of GHC6,800 made for the year ended 31 December 2010, was settled on 30 June 2011, for GHC7,200.

5. The 10% loan note was issued at 1 January 2011 and is redeemed at 1 January 2014 for GHC32,025 giving effective interest rate of 12% per annum. Interest is payable in arrears and the liability is to be carried at amortized cost.

6. The directors paid interim dividend of 4 pesewas per share in December 2011 but have not been reflected in the ledgers.

7. Depreciation on Plant, Property and Equipment is charged to Cost of Sales

Required:

Prepare **an Income Statement** for Senyo Company Ltd for the year ended 31 December 2011 (reflecting the adjustments required by notes 1 to 7 above) and **a statement of financial position** as at 31 December 2011, in compliance with Companies' Code provisions and in conformity with relevant International Financial Reporting Standards.

(Notes to the financial statements are not required). **(20 marks)**

QUESTION 3

Oti, Asante and Berchie were in partnership sharing profits and losses 4:3:3 respectively. The accounts of the firm were made up to December 31 each year.

The partnership agreement provided that:

a) interest was to be credited at 10% per annum on capital account balances at the beginning of the year

b) no interest was to be charged on drawings

c) on the death of a partner:

   i. goodwill was to be valued at three (3) years' purchase of the simple average profits of the three (3) years prior to the year of death;

   ii. The total amount due to a deceased partner was to receive interest at 12% from the date of death until paid;

iii. Land and buildings and fixtures and fittings were to be valued by an independent valuer. All other assets and liabilities are to be taken at their book values.

iv. Accounts were not to be drawn up to the date of death but the profit or loss of the year in which a partner died was to be apportioned on a time basis.

The balances in the books of the firm as at December, 2009 subject to final adjustments were:

	DR GHC	CR GHC
Capital Accounts – Oti		300,000
Capital Accounts – Asante		150,000
Capital Accounts- Berchie		180,000
Drawings Accounts – Oti	48,000	-
Drawings Accounts – Asante	72,000	-
Drawings Accounts – Berchie	72,000	-
Land and Buildings	240,000	-
Fixtures and Fittings	45,000	-
Stocks	375,000	
Trade Receivables	60,000	
Bank	120,000	
Trade Payables	-	90,000
Profit for the year before charging interest	-	312,000
	1,032,000	1,032,000

Additional Information

i) Profits for earlier years prior to the year of death were:

	GHC
2006	60,000
2007	62,000
2008	77,800

ii) Oti died on 30th June 2009

iii) The independent valuation of the assets at the date of death were:

	GHC
Land and Buildings	300,000
Fixtures and fittings	30,000

iv) Any adjustment for goodwill was to be made in the capital accounts, but goodwill was not to be maintained as an asset of the firm at December 31, 2009.

v) Asante and Berchie would share profits and losses equally after the date of death of Oti.

You are required to prepare:

a. The Partners' Capital and Current Accounts in columnar form for the year ended December 31, 2009

b. The Statement of Financial Position of the firm as at December 31, 2009.

(15 marks)

QUESTION 4

a. KFD and WAT are two competing companies operating in Ghana. The directors of KFD are considering strategies that would improve their market share.

Set out below are some selected financial ratios of the two and that of the industry.

	KFD	WAT	INDUSTRY
Profitability Ratios			
Net interest margin (%)	23	35	34
Net profit ratios (%)	16	18	22
Return on assets (%)	10	5	8
Liquidity Ratios			
Current ratio	1.5:1	2.5:1	2.1:1
Loan loss ratio (%)	13	17	14
Cash ratio	0.5:1	1.1:1	0.9:1
Activity/Efficiency Ratio			
Assets turnover rations (times)	0.7	0.5	0.73
Investment Ratios			
P/E ratio	7.6	5.2	6
Dividend payout ratio (%)	25	20	15
Gearing Ratios			
Short-term debt to total assets (%)	30	80	78.5
Long-term debt to total assets (%)	25	8	9
Equity to total assets (%)	45	12	12.5

Required:

i. As a Financial Analyst, you are to submit a report to the Directors of KFD, critically analyzing the performance of KFD vis-a-vis WAT and the Industry.

(9 marks)

ii. Suggest **three (3)** ways by which KFD Company Ltd can achieve competitive advantage over WAT Company Ltd. (***6 marks***)

b. You are the Financial Controller of Boafo Ltd. You had some discussions with your Finance Director about accounting policy implementation. The Finance Director believes the application of the requirement of an IFRS would not give a '**true and fair view'** for users. Based on his assertion, he has sent you an extract from a note prepared by a group of consultants.

Accounting Policies
"It is essential that the accounting policies selected when implementing IFRS result in financial statements that give a **fair presentation**. The application of the principle of **substance over form** is integral in achieving this.

The choice of accounting policy is a matter of judgement and careful consideration is required particularly where you wish to over-ride the requirement of an accounting standard."

You have decided that Boafo Ltd's subsidiaries in Ghana shall continue to prepare their statutory financial statements with the Ghana National Accounting Standards (GNAS). The Ghana National Accounting Standards Board's (GNASB) approach to convergence will have a significant effect on future accounting policies to be adopted by these subsidiaries.

The Finance Director wishes to discuss the above extract with you since he believes that non-compliance with IFRS may be justified where it does not give a true and fair view.

Required:

i. Explain the concept of '**fair presentation'** and compare it with **'true and fair view'** **(3 marks)**

ii. Explain the concept of '**substance over-form'** and its relationship to **'fair presentation'** **(3 marks)**

iii. Explain the circumstances in which non-compliance with the detailed provisions of an accounting standard would be justified. **(4 marks)**

(**Total: 25 marks**)

QUESTION 5

(a) On 1 July 2011, Asempa Ltd commenced business selling laptop computers to ICAG students on hire purchase. Under the terms of the agreement an initial deposit of 20% of selling price is payable on delivery, followed by six monthly instalments, the first being due a month after the date of sale.

During the half year ended 31 December 2011, sales were made as follows:

	Cost Price	HP Sales Price
	GHC'000	GHC'000
10 July	400	600
25 September	140	210
18 October	380	570
26 November	320	480

The computers sold in September were repossessed in November after non-payment of October installment. The repossessed computers were eventually sold in December for GHC135,000 cash. All other instalments were paid on the due dates.

Gross profit and interest are credited to Income statement in the proportion that deposits and instalments received bear to hire purchase price.

Required:
Prepare a Hire Purchase Income Statement showing profit or loss on the hire purchase transactions (Including the repossessed goods) **(10 marks)**

b.

i. Define an Investment Property (in reference to. IAS 40) **(2 marks)**

ii. An entity purchased an office building with a useful life of 50 years for GHC5.5 million on 1 January 2006. (The amount attributable to land was negligible). The entity used the building as its head office for five years until 31 December 2010, when the entity moved its business into larger premises. The building was reclassified on that date as an investment property and leased under a 40 year lease. The fair value of the head office at 31 December 2010 was GHC6 million.

Explain the treatment of the office building on the assumption that the entity uses the fair value model for investment properties. **(3 marks)**

c. Related Party relationships are a normal feature in commerce and business.

Required:

i. Discuss **two (2)** situations under which a party can be said to be related. **(2marks)**
ii. State **three (3)** transactions which can be described as related party transactions which must be disclosed. **(3 marks)**

(Total 20 marks)