SOLUTION 1

(A) (i) The purpose of this framework is to

- Assist the IASB in the development of future accounting standards and in its review of existing accounting standards
- Assist the IASB by providing a basis for reducing the number of alternative accounting treatments
- Assist national standard-setting bodies in developing national standards
- Assist accountants to apply relevant accounting standards in preparing financial statements and in dealing with topics that do not form the subject of International accounting standards;
- Assist auditors in forming an opinion as to whether financial statements conform with relevant accounting standards;
- Assist users of financial statements in interpreting the information contained in financial statements prepared in conformity with International Accounting Standards

(ii) The specific topics discussed under the framework are as follows:

- The objectives of financial Statements;
- User groups
- Assumptions underlying financial statement preparation;
- Qualitative Characteristics of financial statements;
- The elements of financial statements; their recognition and their measurement
- The concepts of capital maintenance

(B) (i) **Income Statement for the year ended 31 December 2012**:

	GHC
Expenses	
Depreciation charge (400,000/50 years x 6/12)	4,000
Other income	
Fair valuation surplus-Investment Property 380,000-373,800	6,200

Statement of Financial Position as at 31 December 2012

	GHC
Non-Current Assets	
Investment Property	380,000
Equity	
Revaluation Surplus (373,800 – 356,000)	17,800

		GHC
(ii)	13.5% X 120,000	16,200
	13.5% X 80,000 X 8/12	7,200
	13.5% x 200,000 x 3/12	6,750
		30,150

Weighted Average rate

1	480,000	0.6	12.5%	7.5%
2`	320,000	0.4	15%	6%
				13.5%

SOLUTION 2

Saana Ltd

Statement of Financial Position as at 31st March 2012

		GHC	GHC
Non-current Assets			
Freehold property	(630,000 – 12,600)		617,400
Plant (Owned)	(550,000 – 110,000)		440,000
Leased plant	(56,000 – 14,000)		42,000
Investment property			62,000
			1,161,400
Current Assets:			
Stocks	(302,000 – 12,000)	290,000	
Trade receivables		156,000	
Bank payments		69,000	
			515,000
Total assets			1,676,400
Equity:			
Stated capital			800,000
Capital surplus			17,000
Income surplus			371,000
			1,187,500
Long Term Liabilities & Provisions:			
Finance lease obligation		28,000	
5% Loan Notes		71,400	
Deferred tax		112,500	
			211,900
Current Liabilities			
Trade payables	(237,000 + 2,500)	239,500	
Accrued : Lease finance interest		4,000	
Finance lease obligation		12,000	
Taxation		21,000	
			276,500
Total Equity and liabilities			1,676,400

WORKINGS:

W1 Treat the lease as finance lease

		GHC
Cash price		56,000
1st instalment		16,000
Capital outstanding		40,000
Interest at 10% per annum		4,000
Capital outstanding		40,000
Split into current liability and long term liabilities		
2nd instalment payable		16,000
:. Capital element	=	16,000 – 40,000 x 10%
	=	12,000
:. Long term liability	=	40,000 – 12,000
	=	28,000

W2 Depreciation on fixed assets:

Freehold property (630,000 x 2%)	=	12,600
Owned plant (550,000 x 20%)	=	110,000
Leased plant (56,000 x 25%)	=	14,000
		136,600

W3 Damaged and slow moving stock to be written down to estimated realizable value:

Saleable value		20,000
Less 10% commission		2,000
NRV		18,000
:. Write down		30,000 – (3,600 x 5)
	=	12,000

W4 Provision for future repairs does not meet the definition of a liability under IAS 37 and must be reversed. This will increase current year profit and the previous year by GHC60,000

W5 IAS 39 Financial Instruments requires this type of loan to be valued at amortised cost as follows:

Amortised cost 1/1/2012	70,000
Interest expenses at E/R of 12%	8,400
Interest paid at 10%	(7,000)
Amortised cost at 31/12/2012	71,400

Income Surplus Adjustments:

	GHC
Balance b/fwd	483,000
Add back provision for plant overhaul	60,000
Lease rented reserved	16,000
Less lease interest (W1)	(4,000)
Depreciation: (W2)	
Buildings	(12,600)
Owned plant	(110,000)
Leased plant	(14,000)
Fair valuation deficit – Investment property	(13,000)
Stock write down	(12,000)
Unrecorded credit	(2,500)
Increase in deferred tax (112,500 – 94,000)	(18,500)
Amortisation of loan note (8,400 – 7,000)	(1,400)
Revised income surplus balance	731,000

SOLUTION 3

(a) Income Statement for the six-month period ended:

	30th June 2012		31 December 2012	
	GHC	GHC	GHC	GHC
Sales		60,000		60,000
Cost of sales		(19,000)		(19,000)
Gross profit		41,000		41,000
Operating expenses	7,500		7,500	
Wages and salaries (W1)	5,800		2,200	
Doubtful debts provision	170		170	
Depreciation (W2)	4,200		3,200	
		(17,670)		(13,070)
Net profit c/d		23,330		27,930

(b) Income Appropriation Account

	GHC	GHC
Net profit b/d	23,330	27,930
Interest on current account	-	320
Interest on capitals:		
Talim	(1,250)	(1,250)
Kum	(750)	(750)
Malita	-	(750)
	21,330	25,500

Share of profit:		
Talim	10,665	13,000
Kum	10,665	6,500
Malita	-	6,000
	21,330	25,500

(c)

Capital Accounts

	Talim	Kum	Malita		Talim	Kum	Malita
	GHC	GHC	GHC		GHC	GHC	GHC
Goodwill	38,896	19,448	14,586	Balance b/f	25,000	15,000	15,000
Balance c/d	25,169	34,617	3,414	Revaluation	2,600	2,600	-
				surplus	36,465	36,465	-
				Goodwill	-	-	3,000
	64,065	54,065	18,000	Capital retention	64,065	54,065	18,000

Current Accounts

	Talim	Kum	Malita		Talim	Kum	Malita
	GHC	GHC	GHC		GHC	GHC	GHC
Balance b/f	-	6,000	-	Balance b/f	3,000	-	-
Int. on current a/c	25,169	320	-	Int. on capitals	2,500	1,500	750
Capital retention	-	-	3,000	Share of profit	23,665	17,165	6,000
Balance c/f	29,164	12,345	3,750				
	64,065	18,665	6,750		29,165	18,665	6,750

(d)

Talim, Kum and Malita
Statement of Financial Position
As at 31st December 2012

	GHC	GHC
Non-current assets:		
Land and buildings (36,000 – 12,000 + 15,200)		39,200
Motor vehicles (22,000 – 2,000 – 10,000 – 3,400)		6,600
Office equipment (20,000 – 2,000 – 4,000)		14,000
		59,800
Current assets:		
Inventories	18,400	
Trade receivables (6,800 – 340)	6,460	
Bank	29,000	
		53,860
		113,660
Financed By;		
Capital Accounts:	25,169	
Talim	34,671	
Kum	3,414	
Malita		63,200

Current Accounts:		
Talim	29,165	
Kum	12,345	
Malita	3,750	
		45,260
Trade payables		5,200
		113,600

SOLUTION 4

a) PEACE LTD

		Formula	2012	2011
i)	ROCE	EBIT / Capital Employed x 100	52,000 / 306,000 x 100 = 17%	50,000 / 261,500 x 100 = 19.1%
ii)	Assets Turnover	Sales / Capital Employed	456,500 / 306,000 = 1.49 times	420,000 / 2,615,000 = 1.16 times
iii)	Current Ratio	Current Assets / Current Liability	253,000 / 63,000 = 4.02:1	171,000 / 46,500 = 3.68:1
iv)	Quick Ratio	Current Assets – Inventories / Current Liabilities	253,000 - 147,000 / 63,000 = 1.68:1	171,000 – 118,500 / 46,500 = 1.13:1
v)	Debt/Equity Ratio	Debt / Equity x 100	985,000 / 207,500 x 100 = 47.47%	62,000 / 199,500 x 100 = 31%
vi)	Interest Cover	EBIT / Interest	52,000 / 14,500 = 3.59 times	50,000 / 3,000 = 16.67 times

b) REPORT

To: Financial Director
From: Accountant
Date:
Subject: **Analysis of the Performance of Peace Ltd**

Following the discussions on the above subject, I wish to submit this report for your study and consideration.

Profitability:
Over the two years, the profit level has declined from return of 19.1% (2011) on the company's investment to 17% (2012).

Liquidity
There has been an improvement in the company's ability to settle its current liabilities fro its current assets from 3.68:1 (2011) to 4.02:1 (2012)

Solvency
Over the period the company has more equity than prior charged capital. But the proportion of capital to prior charged capital has increased from 31% (2011) to 47.47% (2012).

Generally the company has experienced declining trends in its performance with the exception of liquidity.

I shall be glad to deal with further questions you may tend to ask in future.

Thank you.

Yours faithfully,

Accountant

Alternative to 4b.

If a student takes net investment in finance lease to be fair value of the leased asset plus the initial direct cost that is GHC82,966 + 700 = GHC83,666 he/she be marked correct.

The net investment in the lease is as follows:

Date	Description	Gross Investment GHC	DF @ 11%	Net Investment GHC
1/1/2012	1st Instalment	22,000	1	22,000
1/1/2013	2nd Instalment	22,000	0.901	19,820
1/1/2014	3rd Instalment	22,000	0.812	17,864
1/1/2015	4th Instalment	22,000	0.732	16,104
31/12/2015	Guaranteed residual value	10,000	0.659	6,590
		98,000		82,380
31/12/2015	Unguaranteed residual value	2,000	0.659	1,318
		100,000		83,698

Financial Statement Extracts:

i. Income statement extract — GHC

Finance Income — 6,787/6,783

ii. Statement of financial Position (extract)

Non-current Assets:

Finance lease receivable — 46,485/46,449

Current Assets:

Finance lease receivable — 22,000

Workings

1/1/2012	Net investment	83,698/ 83,666
1/1/2012	Instalment in advance	(22,000)/22,000)
		61,698/ 61,000
1/1/2012 – 31/12/2012	Interest Income @ (11%)	6,787/ 6,783
Balance at 31/12/2011		68,485/ 68449

SOLUTION 5

Peace Ltd

Consolidated Statement of Financial Position as at 31st December 2011

	GHC000	GHC000
Assets:		
Non-Current Assets:		
PPE 6,720 + 820 + (200 – 80) – 12		7,648
Intangible – Goodwill		414
Investment		1,200
		9,262

Current Assets:	
Inventories (360 + 170 – 5 + 25)	550
Trade receivables (370 + 230 – 20)	580
Cash & cash equivalence (15 + 10)	25
	1,155
Total Assets	10,417
Equity & Liabilities:	
Equity attributable to owners of Peace Ltd	
Ordinary shares	5,000
Capital surplus	209
Retained earnings	778
	5,987
Non-controlling interest	240
Total equity	6,227
Non-Current liabilities:	
Mortgage loan (3,200 + 50)	
Current Liabilities:	3,250
Trade payables (670 + 270)	
Total equity and Liabilities	940
	10,417

Workings All workings in GHC'000

(i) Control structure:

Peace	75%
NCI	25%
	100%

(ii) Goodwill – Happy Ltd

Cost of Investment		1,540
Net worth acquired:		
Share Capital	600	
Capital surplus	28	
Retained earnings	140	
75% Interest	968	726
Goodwill		814
Impairment loss		(400)
Balance c/d		414

(iii) Intra-Group adjustments

a)

Peace receivables	75
Inventory in transit	(25)
Happy payables	50

b) PURP – PPE

Carrying amount after transfer	
96 - (96 x 25%)	72
Carrying amount if not transferred	
80 – (20% of 100)	60
	12

(iv) Non-Controlling Interest

Net Worth of Happy per Draft SFOP	860
Adjustments:	
Fair Value Adjustment	200
Additional depreciation 20% x 200 x 2years	(80)
Bad debts	(20)
	960
25% Interest	240

(v) Retained Earnings:

Peace: Balance b/f	1,210
PURP: Plant	(12)
Inventory	(5)
	1,193
Happy	
75% of (220 – 20 – 80) – 140	(15)
Goodwill impairment	(400)
Balance c/d	778

(vi) Capital Surplus

Peace Ltd	200
Happy 75% of (40 – 28)	9
	209