SOLUTION 1

a) Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries more than half of the voting power of an entity unless, an exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less the voting power of an entity when there is:

(a) power over more than half of the voting rights by virtue of an agreement with other investors;
(b) power to govern the financial and operating policies of the entity under a statute or an agreement;
(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

b) SKA Group
Consolidated Statement of Financial Position as at 31st December 2010

	GHS'000
Non-Current Assets	
Premises	70,000
Motor vehicles	80,000
Plant and machinery (60,000 + 30,000 – 1,000 + 100)	89,100
	239,000
Current Assets	
Inventory (70,000 + 75,000 – 2)	144,998
Trade receivables (50,000 + 30,000 – 750)	79,250
Cash and cash equivalent (12,5000 + 11,000)	23,500 +
	247,748
Total assets	486,848
Equity and liabilities	
Equity	
Ordinary shares	150,000
Capital surplus	50,000
Income surplus	72,098
Net	51,000
	323,098
Current liabilities	
Trade payables (45,000 + 30,000 – 750)	74,250
Loan (22,500 – 15,000)	7,500
Corporation tax (40,000 + 30,000)	70,000
Dividend payable: Group	10,000
NCI (5,000 – 3,000)	2,000
	163,750
Equity and liabilities	486,848

Marking (All figures are in GHS'1,000)

1) Control structure

SKA	60%
NCI	40%

2) Goodwill

Cost of acquisition		70,000
Less: pre-acquisition dividend (60% 0f 5,000 x 3.12) (W3iv)		(750)
Capital cost of acquisition		69,250
Net worth acquired		
Ordinary shares		60,000
Capital surplus		6,000
Income surplus 31/12/09		6,000
1/1/10 – 31/3/10 (60% of 8,500 x 3/12)		1,275
		73,275
Negative goodwill		4,025

3) Intra-group adjustment

i) URP on machine sold (20/100 x 5,000 = 1,000)

DR	Consolidated income surplus	600	
	NCI	400	
CR	Machine (SKA)		1,000

ii) Excess Depreciation adjustment (10% of 1,000 = 100)

DR	Machine (Accumulated depreciation	100	
CR	Consolidated income surplus		100

iii) URP on inventory (25/125 x 10 = 2

DR	Consolidated income surplus	2	
CR	Inventory (EAA)		2

iv) Dividend not recognized by Parent (60% of 5,000 = 3,000)

DR	Dividend payable (EAA)	3,000	
CR	Cost of acquisition (pre-acquisition)		750
	Consolidated income surplus (post acquisition)		2,250

v) Loan interest in arrears (10% of 15,000 x 6/12) =750

DR	Trade payable (EAA)	750	
CR	Trade receivable (SKA)		750

4) NCI

40% of 128,500	51,400
URP on machine sold	(400)
	51,000

5)	Consolidated income surplus		
	SKA: Bal b/f (30,000 + 32,500	62,500	
	Excess depreciation (w3ii)	100	
	URP on inventory (w3iii)	(2)	
	Post acq dividend receivable from EAA	2,250	(W3iv)
	EAA 60% of post-acquisition retained profit		
	60% of (9/12 x 8,500)	3,825	
	URP on sale of machine (w3i)	(600)	
	Negative Goodwill (w2)	4,025	
		72,098	

SOLUTION 2

Oforisuo Ltd
Statement of Cash Flow for the year ended 31 December 2009

	GHS'000	GHS'000
Operating Activities		
Profit before tax	880	
Adjustments:		
Finance costs	100	
Depreciation charge	560	
Loss on disposal of PPE	180	
Penalty payment on loan redemption	40	
Income from investment property		(80)
Investment property fair valuation surplus		(40)
Increase in warranty provision		200
Movement in workings capital elements		
Increase in inventory		(820)
Decrease in trade receivables		120
Increase in payables		160
Cash flow from operation profit before interest and tax		1,300
Finance costs		100)
Tax paid		(80)
Net cash inflow from operating activities		1,120
Investing Activities		
Purchase of PPE	(2,880)	
Sale of PPE	300	
Income from investment property	80	
Net cash outflow from investing activities		(2,500)

Financing Activities		
Issue of shares (1,800 + 200)	2,000	
Payment of Loan Note (800 + 400)	(840)	
Dividend paid (5 million shares x GHS0.06)	(300)	
Net cash inflow from financing activities		860
Decrease in cash and cash equivalent during the year		(520)
Balance of cash and cash equivalent at 1/1/09		100
Balance of cash and cash equivalent at 31/12/09		(420)

Workings

	GHS'000	GHS'000
Property, Plant and Equipment		
Balance as at 14/1/08	3,720	
Revaluation surplus	200	
		3,920
Depreciation	560	
Disposal	480	
Balance as at 31/12/08	5,760	
		6,800
Cash payment to acquired additional PPE		2,880
Taxation		
Balance as at 1/1/09 (60 + 100)	160	
i/S charge	320	
	480	
balance c/d (100 + 300)	(400)	
Tax paid	80	

SOLUTION 3

a) Application of firm's property

On the winding up of a firm, every partner and every former partner or his legal representative who has not been paid the amount due him shall be entitled to have the undertaking and assets of the firm sold and the proceeds applied in payment of the debts and liabilities of the firm. The surplus is applied to pay of what may be due to the partners respectively. In settling accounts between partners, the following rules shall, subject to any agreement, be observed:

- Losses, other than deficiencies of capital shall be paid, first out of profits, next out of capital and lastly, if necessary, by the partners individually in the proportion in which they were entitled to share profits;

- Deficiencies of capital shall not be made up but shall be borne by the partners in the proportion in which they were entitled to capital

- The assets of the firm shall be applied in the following manner and order;
  - In paying the debts and liabilities of the firm to persons who are not partners;
  - In paying to each partner rateably what is due from the firm to him for advances as opposed to his agreed share of capital;
  - In paying to each partner reteably what is due from the firm to him in respect of capital;
  - The ultimate residue, if any, shall be divided among the partners in the proportion in which profits are divisible

Realisation Account

	GHS'000		GHS'000
Non-current assets	30,000	Cash: Non-current assets	21,250
Inventories	187,500	Accounts receivable	7,500
Account receivable	50,000	Inventories	187,500
Cash: Dissolution expenses	4,375	Feyiase: Non-current assets	5,625
		Account receivable	42,500
		Loss on realisation	
		Sreso: (3/10)	2,250
		Jachie (4/10)	3,000
		Feyiase (3/10)	2,250
	271,875		271,875

	Sreso	Jachie	Feyiase
	GHS'000	GHS'000	GHS'000
Balance b/f	25,000	100,000	1250,000
Leasing company	3,750		
Accounts receivable			(42,500)
Accounts payable			1,875
Non-current assets			(5,625)
Loss on realisation	(2,250)	(3,000)	(5,625)
	26,500	97,000	76,500
Cash settlement	(26,500)	(97,000)	(76,500)

Cash

	GHS'000		GHS'000
Balance b/f	45,000	Accounts payable	56,875
		Dissolution expenses	4,375
Non-current assets	21,250	Capital Accounts: Sreso	26,500
Accounts receivables	7,500	Jachie	97,000
Inventories	187,500	Feyiase	76,500
	261,250		261,250

SOLUTION 4

a) Measurement of the elements of financial statements
The Framework identifies four possible measurements bases:

- Historical cost
- Current cost
- Realizable value
- Present value

Historical cost
Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation.

Current cost
Assets are carried at the amount of cash or cash equivalents required to acquire them currently. Liabilities are carried at the discounted amount currently required to settle them.

Realizable value
Assets are carried at the amount which could currently be obtained by an orderly disposal. Liabilities are carried at their settlement values-the amount to be paid to satisfy them in the normal course of business.

Present value
Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business, and liabilities at the present discounted value of the expected outflows necessary to settle them.

b) i. Commencement of capitalisation
The capitalisation of borrowing costs as part of the cost of a qualifying asset shall commence when:
(a) expenditures for the asset are being incurred;
(b) borrowing costs are being incurred; and

(c) activities that are necessary to prepare the asset for its intended use or sale are in progress.

Cessation of capitalisation
Capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

ii. **Income of financial position for the year ended 31 December 2010 (extract)**

	GHS'000	
Depreciation charge	272,500	
Interest expenses (10% of GHS18m x 3/12)	450,000	++

Statement of financial position for the year ended 31 December 2010 (extract)

	GHS'000
Shopping mall	19,350,000
Depreciation	272,550
	19,077,450

Workings

Initial recognised cost	GHS
Cost	
Leasehold land	3,000,000
Building	9,000,000
Fixtures and fittings	6,000,000
	18,000,000
Capitalised borrowing cost:	
10% of GHS18m x 9/12	1,350,000
	19,350,000

Depreciation calculation for 2010

Land GHS3,000,000/50 years	60,000
Building (9,810,000/50 years x 3/12)+	49,050
Fixtures and fittings 6,450,000 x 3/12+	163,500
	272,550

+ The capitalised borrowing cost is apportioned between the building and the furniture and fittings for the purpose of determining the depreciation value of the different components of the complex item of PPE.

++ The interest expense relating to 1 October 2010 to 31 December 2010, which cannot be capitalised (because the mall was completed and available for use) has to be expensed.

c) (a) Closing Rate Method

Item	Value in $	Rate GHS to $	DR GHS	CR GHS
Fixed assets	62,000	1.4	86,800	
Stocks 1 Jan 2003	15,000	1.4	21,000	
Purchases	87,120	1.5	130,680	
Goods from Head Office	9,680	Per HO Bks	14,500	
Trade debtors	9,216	1.6	14,746	
Bank	3,828	1.6	6,125	
Expenses	14,500	1.5	21,750	
Sales	120,886	1.5		181,329
Trade creditors	3,968	1.6		6,349
Head Office Current |Account*	76,490	Per HO Bks		114,400
Adjustments				
Closing Stocks in trade				
Income Statement**	44,286	1.5		66,429
Balance Sheet***	44,286	1.6	70,858	
Accrued Expenses***				
Income Statement**	500	1.5	750	
Balance Sheet***	500	1.6		800
Depreciation of .fixed Assets				
Income Statement**	6,200	1.4	8,680	
Balance Sheet***	6,200	1.4		8,680
			375,889	377,987
Difference on Exchange – Exchange Gain			2,098	
			377,987	377,987

SOLUTION 5

a) Calculations of the financial ratios follow:

Current ratio = current assets + current liabilities = GHS9,900 + GHS6,300 = 1.57

Acid-test ratio = (cash + marketable securities + net receivables) + current liabilities = (GHS400 + GHS500 + GHS3,200) + GHS6,300 = 0.65

Inventory turnover = cost of goods sold + average inventory = GHS17,600 + [1/2 (GHS5,800 + GHS5,400)] = 3.14 times

Times interest earned = income before interest and taxes + interest expenses = (GHS7,060 + GHS900) + GHS900 = 8.84 times

Debt-to-equity ratio = total liabilities + stockholders' equity = GHS8,300 + GHS8,700 = 0.95

b) The analytical use of each of these five ratios:

Current ratio:

- Measures ability to meet short-term obligations using short-term assets.

- We Are Done Limited's current ratio has declined slightly over the last three years from 1.62 to 1.57 and the level of the current ratio is a bit below the industry average. This may be cause for some concern, although the magnitudes are not large.

Acid-test ratio:

- Measures ability to meet short-term obligations using the most liquid assets.

- We Are Done Limited has improved its acid-test ratio over the last three years, but it is still below the industry average. Furthermore, an acid-test ratio below 1.0 indicates that We Are Done Limited may have difficulty meeting its short-term obligations.

Inventory turnover:

- Measures how quickly inventory is sold

- We Are done Limited's ratio has been steadily declining and is below the industry average. This may indicate a decline in operating efficiency, obsolete inventory, or a poor marketing strategy.

Times interest earned:

- Measures the ability to meet interest commitments from current earnings. The higher the ratio, the more safety there is for long-term creditors.

- We Are Done Limited's ratio has been improving over the last two years and is above the industry average. This indicates that the company has additional capacity to borrow and repay funds.

Debt-to-equity ratio:

- Measures the level of protection creditors have in the case of possible insolvency. It is also used to help gauge the company's capacity to take on additional debt.
- We Are done Limited's debt-to-equity ratio has deteriorated slightly but has been below the industry average over the last three years. We Are done Limited should be able to raise additional funds though debt and still remain below the industry average.

c) The difficulties and limitations of ratio analysis include the following:

i. Although ratios are useful as a starting point in financial analysis, they are not an end in themselves. Ratios can be used as indicators of what to pursue in a more detailed analysis.

ii. Different companies often use different accounting methods (e.g. FIFO versus LIFO inventory valuation) and this can have an impact on the financial ratios that does not reflect real differences in the operations and financial health of the companies.

iii. Making comparisons across industries can be difficult. Companies in different industries tend to have different financial ratios.

iv. Since the ratios are based on accounting statements, they measure what has happened in the past and not necessarily what will happen in the future.