QUESTION 1

a) A parent may be exempted from presenting consolidated financial statement s if and only if the following can e established:

(i) the parent is itself a wholly-owned subsidiary, or the parent is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not preparing consolidated financial statements;

(ii) the parent's debt or equity instruments are not traded in a public market

(iii) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and

(iv) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with International Financial Reporting Standards. The Standard clarifies the requirements for a parent exempted from preparing consolidated financial statements when the parent elects, or is required by local regulations, to present separate financial statements.

b) Nogbe Ltd

Consolidated statement of financial position as at 31 December 2010

	GHS'000	GHS'000
PPE (5250+1,200+100-80)		6,470
Goodwill		765
		7,235
Current Assets		
Inventory (2,200 + 700 – 90)		2,810
Receivables (1,450 + 1,050 – 500)		2,000
Bank		1,000
		5,810
Total assets		13,045
Equity		
Stated Capital		7,000
Income Surplus		2,214
		9,214
Non Controlling interest		831
		10,045

Current liabilities		
Payables (2,750 + 550 – 550)		2,800
Overdraft		200
		3,000
Equity and Liability		13,045

Workings (all figures in GHS'000)

Goodwill – Group

Cost of investment		2,000	*Note: A candidate may calculate 70% of each of the elements of the net worth*
Net Assets acquired			
Share capital	1,700		
Retained earnings	200		
Revaluation surplus	100		
	2,000		
70% share		1,400	
Goodwill		600	

Goodwill - NCI

Fair valuation (510 X 1.5)		765	*Note: A candidate may calculate 30% of each the elements of the net worth*
Proportionate share			
Share capital	1,700		
Retained earnings	200		
Revaluation surplus	100		
	2,000		
(0.3 x 2,000)		600	
Goodwill		165	
Total Goodwill		**765**	

Consolidated Income Surplus

Nogbe : Bal. c/d	2,150	
Unrealised profit (25/125 x 450/1)	(90)	
Excess dep on plant (0.7 x 80)	(56)	
		2,004
Baba : 70% of (500-200)		210
		2,214

Non controlling interest at SoFP date

Stated capital	1,700	
Retained Earnings	500	
Revaluation surplus	100	
Excess Depreciation	(80)	
	2,220	
30% share		666
Goodwill		165
		831

Alternative Calculation of NCI

Fair value of NCI at acquisition	765
Post acquisition retained profit	
30% of (500 -200)	90
Excess Depreciation (30 % of 80)	(24)
	831

Ac Depreciation on revalued plant	
20% of 100 x4 years	80

QUESTION 2

Anidaso Company Ltd
Statement of Comprehensive Income for the year ended 31 December 2010

	Notes	GHS'000
Sales Revenue		10,800
Cost of sales		(6.896)
Gross Profit		3,904
Administration and selling expenses (3,436 + 308)		(3,744)
Net operating profit		160
Other Income		344
Net Profit before interest and tax		504
Finance charge (20% of 600)		(120)
Net Profit before taxation		384
Taxation (100+ 30 – 10)		(120)
Net Profit for the period		264
Other Comprehensive Income (Revaluation surplus)		1,184
Total Comprehensive Income		1,448

Statement of Changes in Equity for the year ended 31 December 2010

	Stated Capital GHS'000	Revalua. Surplus GHS'000	Income Surplus GHS'000	Total GHS'000
Balance as at 1 December 2010	400	-	4,480	4,840
Bonus Issue	500		(500)	
Statement of Comprehensive Income		1184	264	1,488
Dividend			(24)	(24)
Balance as at 31 December 2010	900	1,184	4,220	6,304

Statement of Financial Position as at 31 December 2010

	Notes	GHS'000
Assets		
Non-Current Assets		
Property, Plant and Equipment		2,612
Investment Property		2,320
		4,932
Current Assets		
Inventories		1,600
Trade Receivables		2,180
Cash and cash receivables		112
		3,892
Total Assets		8,824
Equity and Liabilities		
Equity		
Stated capital		900
Revaluation surplus		1,184
Income Surplus		4,220
		6,304
Non-Current Liabilities		
20% Debentures		600
Deferred tax provision		30
		630
Current Liabilities		
Trade payables		1,678
VAT payable		52
Loan interest payable		60
Tax		100
		1,890
Equity and Liabilities		8,824

Notes to the financial statements

1. Corporate Information
Adom Limited is a company incorporated in Ghana. The company deals in hardware. It is listed on the Ghana Stock Exchange. The address of the registered office of the company is Adom Limited, High Street, Accra.

2 Bases of Preparation

a) Statement of Compliance
The financial statements of Adom Ltd have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by IASB and adopted by ICAG.

b) Basis of Measurement
The financial statements have been prepared under the historical cost convention as modified to include the fair valuation of certain items of PPE and investment property.

c). Use of Estimates and Judgement
The preparation of financial statements in conformity with IFRS requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and the associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgement about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

d. Functional and Presentation Currency
The financial statements are presented in Ghana Cedis (GHS), which is the company's functional and presentational currency.

3 Significant Accounting Policies
The significant accounting policies adopted by the company which have been used in preparing these financial statements include the following:

a) Depreciation
Properties, plant and equipment are depreciated over their estimated useful lives. The rates applicable are as follows:

Buildings	2% on cost
Motor vehicles	25% on cost

b) Deferred Tax
The company accounts for deferred tax under the liability method as applied to all temporary timing differences

c) *Inventory*

Inventories are valued on a 'first in first out' basis at the lower of cost and net realizable value. Cost includes all direct expenses incurred in bringing the stocks to their current state under normal operating conditions.

c) ***Trade receivables***

Debtors are stated after making provision for debts considered to be doubtful

d) Investment Properties

The company adopts the fair value model in measuring the value of investment properties subsequent to initial recognition and any fair valuation surplus or deficit is dealt with in the SoCI

e) Revenue

Sales revenue is stated net of discounts, allowances and Value Added Tax

Workings

a) Sales = GHS12,420,000 X 100/115 = GHS10,800,000

b) Purchases = GHS 7,728,000 X 100/115 = GHS 6,720,000

c) **Cost of sales**

	GHS'000
Open inventory	1,776
Purchases	6,720
Closing inventory (1624-(40-16)	(1,600)
	6,896

d) **Other Income**

	GHS'000
Profit on sale of motor veh. (32- 8)	24
Income from inv property	192
Fair valuation surplus of inv property	128
	344

f) **PPE Schedule**

	Building GHS'000	Motor Vehicle GHS'000	Total GHS'000
Balance at 1 Dec 2010	1,520	1,032	2,552
Revaluation surplus	1,184		1,184
Depreciation adjustment	(304)		(304)
Disposal		(40)	(40)
Balance as at 31 Dec 2010	2,400	992	3,392

Accumulated Depreciation			
Balance as at 1 Dec 2010	304	504	808
Charge for the year	60	248	308
Revaluation adjustment	(304)		304)

Disposal		(32)	(32)
Balance as at 31 Dec 2010	60	720	780
NBV at 31 December 2010	2,340	272	2,612

QUESTION 3

Realization Account

	GHS		GHS
Freehold buildings	24,000	Capital Agnes (Car)	4,000
Vehicles	9,600	Creditors	6,000
Equipment	5,000	Peace Ltd (Purchase consid.)	80,000
Stocks	12,250		
Debtors	9,630		
Share of realization profit			
Capital Esther	14,760		
Florence	11,070		
Agnes	3,690		
	90,000		90,000

Partners' Capital Account

	Esther GHS	Florence GHS	Agnes GHS		Esther GHS	Florence GHS	Agnes GHS
Realization – car			4,000	Balance b/d	24,000	16,000	10,000
Shares in Peace*	38,400	25,600	16,000	Current a/c	1,040	1,280	2 560
Bank – Final settlement		1,400	2,750 -	Realizat. profits	14, 760	11,070	3,690
				Bank –Final settle			3,750
	39,800	28,350	20,000		39,800	28,350	20,000

.

Bank

	GHS		GHS
Balance b/d	4,400	Loan from Esther	4,000
Capital – Agnes (final settlement)	3,750	Capital Esther	1,400
		Florence	2,750
	8,150		8,150

Alternative presentation is to use the revalued amounts for the realization accounts

Revaluation Accounts

		GHS		GHS
Vehicles		4,800	Buildings	22,000
Equipment		1,800		
Inventory		4,250		
Receivable		1,630		
Share of surplus on revaluation:				
Esther	4,760			
Florence	3,570			
Agnes	1,190			
		9,520		
		22,000		22,000

Note
No marks would be allocated to the revaluation account because it is not a requirement of the question.

Realisation Account

		GHS		GHS
Freehold buildings		46,000	Capital Agnes (Car)	4,000
Vehicles		4,800	Creditors	6,000
Equipment		3,200	Peace Ltd (Purchase consid.)	80,000
Stocks		8,000		
Debtors		8,000		
Share of realization profit				
Capital Esther	10,000			
Florence	7,500			
Agnes	2,500			
		20,000		
		90,000		90,000

Partners' Account

	Esther	Florence	Agnes		Esther	Florence	Agnes
	GHS	GHS	GHS		GHS	GHS	GHS
Realisation – car			4,000	Balance b/d	24,000	16,000	10,000

Shares in Peace*	38,400	25,600	16,000	Current accounts	1,040	1,280	2 560
Bank – Final settlement	1,400	2,750	-	Realization profit	10,000	7,500	2,500
				Revaluation surpl	4,760	3,570	1,190
				Bank –Final settle			3,750
	39,800	28,350	20,000		39,800	28,350	20,000

Bank

	GHS		GHS
Balance b/d	4,400	Loan from Esther	4,000
Capital – Agnes (final settlement)	3,750	Capital Esther	1,400
		Florence	2,750
	8,150		8,150

QUESTION 4

a) Gearing is the relationship between fixed interest bearing long term loans plus fixed dividend bearing shares on one hand and equity share capital or equity fund on the other. An alternative term for gearing is leverage.

b)

i. Gearing = $\frac{\text{long Term Loan + Preference Shares}}{\text{Equity Fund}}$

Boafo Ltd	Nhyira Ltd
$\frac{\text{GHS5.2m}}{\text{GHS2.8 m}}$ =1.85:1	$\frac{\text{GHS2m}}{\text{GHS6m}}$ = 0.33:1

ii.

	Highly geared Boafo Ltd GHS'000	Lowly geared Nhyira Ltd GHS'000
Net Profit before Interest and Tax	2,000	2,000
Less Interest	720	360
Net Profit before tax	1,280	1,640
Less Tax	320	410
Net Profit after tax	960	1,230
Preference dividend	(180)	-
Profit avail. for ord.shareholders	780	1,230
Maximum dividend per share without utilizing or adding to Income surplus is equal to	EPS = $\frac{\text{Earning}}{\text{No. of shares}}$	$\frac{\text{Earning}}{\text{No. of shares}}$
	EPS $\frac{\text{GHS780,000}}{\text{600,000 shares}}$	$\frac{\text{GHS1,230,000}}{\text{1,800,000 shares}}$

GHS1.30 GHS0.68

c)

It can be seen that in Boafo Ltd , the highly geared company, EPS is substantially better than in Nhyira Ltd which is lowly geared, although both companies have the same net profit before interest and tax . This is due to the fact that the return on capital employed earned was higher than the fixed interest rate and fixed dividend rate. This means that when a Company's ROCE is higher than cost of debt capital, the equity shareholders worth is enhanced if …… expansion is financed by debt capital rather than equity capital.

QUESTION 5

a) **Statement of Comprehensive Income for the year ended 31 December**

	2006	2007	2008	2009	2010
	GHS	GHS	GHS	GHS	GHS
Depreciation charge	20,850	20,850	20,850	20,850	20,850
Finance Charge	7,925	6,218	4,339	2,268	-

Statement of financial position as at 31 December

	2006	2007	2008	2009	2010
	GHS	GHS	GHS	GHS	GHS
Non-Current Assets					
PPE	104,250	104,250	104,250	104,250	104,250
Accumulated Depreciation	20,850	41,700	62,550	83,400	104,250
Net Book Value	83,400	62,550	41,700	20,850	-
Non-Current Liabilities					
Oblig under finance lease (capital)	62,175	43,393	22,732	-	-
Current Liabilities					
Obligation under finance lease					
Capital	17,075	18,782	20,661	22,732	-
Finance Charge	7,925	6,218	4,339	2,268	-
	25,000	25,000	25,000	25,000	-
	87,175	68,393	42,732	25,000	-

Workings

a)

	Obligation	Rental	Obligation	Interest	Obligation

	at start GHS	Payment GHS	during year GHS	@10% GHS	at close GHS
2006	104,250	(25,000)	79,250	7,925	87,175
2007	87,175	(25,000)	62,175	6,218	68,393
2008	68,393	(25,000)	43,393	4,339	47,732
2009	47,732	(25,000)	22,732	2,268+	25,000
2010	25,000	(25,000)	-	-	-
		125,000		20,750	

+ Approximation error

Note

No marks are allocated to the workings.

(b)

i. According to IAS 2, accounting for inventory, inventories are valued at the lower of cost or net realizable value (NRV). The cost of stock is GSH 8,000 and the NRV is GHS 250 (GHS 6,500 – GHS 250). The carrying value of the stock is therefore GHS 6,250. The loss in the value of stock GHS 1,750 (GHS 8,000 – GHS 6,250). The loss in the value of stock of GHS 1,750(GHS 8,000 – GHS 6,250) should be written off in the income statement.

ii. The change in the provision for irrecoverable accounts receivable from 3% - 5% by management can be described as a change in accounting estimate. The requirements of IAS 8 provides that the effect of a change in accounting estimate should be included in the income statements in the period of the change and in subsequent periods should be included in the same income or expense classification as was used for the original estimate and finally if the effect of the change is material, its nature and amount must be disclosed. From the above, increase of 2% must be included in the income statement and subsequently the income statement of financial position and if material, the change must be disclosed.

iii. Under IAS 10, an event after the reporting date is an event which occurs between the financial period end and the date on which the financial statements are approved by the Board of Directors. The fraud committed at one of the divisions resulting in the overstatement of revenue by 20% is an adjusting event which requires the financial statements to be adjusted before issue on 9th May 2011 by restating revenues less 20% and loss arising from the fraud charged against profit. This is because the condition (revenues) existed at the financial year end of 31st December 2010.

c) **Objectives/Role of the IASB**

The formal objectives of the IASB, formulated in its mission statement are:

(a) To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements.

(b) To co-operate with national accounting standard setters to achieve convergence in accounting standards around the world.

Structure of the IASB

The structure of the IASB has the following main features.

(a) The Board consists of 12 full-time members and two part-time members.

(b) It operates under the umbrella of The IASC foundation (which is an independent corporation having two main bodies – the Trustees and the IASB.)

(c) The IASC Foundation trustees appoint the IASB members, exercise oversight and raise the funds needed.

(d) The IASB has sole responsibility for setting accounting standards.

(e) There are also two further bodies, the Standard Advisory Council and the International Financial Reporting Interpretations Committee.