SOLUTION 1

(a) i. <u>Components of Financial Statements</u>:

(i) A statement of Financial Position as at the end of the period;
(ii) A statement of Comprehensive Income for the period;
(iii) A statement of changes in equity for the period;
(iv) Notes, comprising a summary of significant accounting policies and other explanatory information;
(v) A statement of cash flow for the period; and
(vi) A statement of Financial Position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in it Financial Statement.

ii. <u>Elements of Financial Statements</u>

Financial statements portray the financial effect of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed "the Elements of Financial Statements".

The elements directly related to the measurement of Financial Position in the Statement of financial position are: Assets, Liabilities and Equity. Assets and Liabilities are sub-divided into Non-Current and Current Assets and Liabilities.

The Elements directly related to the measurement of performance in the statement of comprehensive income are Expenses and Income.

Expenses is sub-divided into Expenses and Losses while Income is sub-divided into Sales/Revenue/Turnover and Gains.

(b) GOVERNMENT GRANT – There are two types of Government Grants
The first is a Government Grant related to Assets, while the second is a grant Related to Income.

Grant Related to Assets: - are government grants whose primary conditions is that an entity qualifying for them should purchase, construct, or otherwise, acquire long-term assets.

Grant related to Assets, shall be presented in the statement of financial position either

(i) by setting up the grant as deferred income and amortized over the useful life of the Assets or
(ii) by deducting the grant in arriving at the carrying amount of the asset.

Of the above treatment the first (i) is preferred.
Therefore the Grant of GHS500,000 will be amortized at the annual rate GHC20,000.

Grant related to Income are Government Grants other than those related to Assets.

Grant related to income are:

(i) sometimes presented as a credit in the statement of Comprehensive Income as other separately or

(ii) they are deducted in exporting the related expense

Of the two methods of treating grant related to Income the first (i) method is preferred. Thus the grant GHC50,000 will be credited to the statement of comprehensive income as a gain.

(c) Schedule of Lease payment and finance charge

Period	Liability at start	Lease Payment	Liability during the period	Finance charge @ 13.7%	Liability at end of period
1	10,000	3,000	7,000	959	7,959
2	7,959	3,000	4,959	679	5,638
3	5,638	3,000	2,638	361	2,999
4	2,999	3,000	-	-	-

Income Statement Extracts

	2010	2011	2012	2013
Finance charge	959	679	361	-
Annual depreciation (10,000/4)	2,500	2,500	2,500	2,500

Statement of financial Position (Extracts)

Current Liability

Obligation under finance lease:

2010	2011	2012	2013
2,321	2,698	2,999	-

Non-Current Liability

Obligation under finance lease:

2010	2011	2012	2013
7,959	5,638	-	-

	2010	2011	2012	2013
Non-Current Assets				
Leasehold Musical Instruments	10,000	10,000	10,000	10,000
Depreciation	(2,500)	(5,000)	(7,500)	10,000
	7,500	5,000	2,500	-

(d)

Year ended as at 31 December	2009	2010	2011
Income statement	GHC,000	GHC'000	GHC'000
Depreciation (see workings)	720	1,080	476
Maintenance (60,000/3 years)	80	80	80
Staff training	160		
	960	1,160	556

Statement of financial position (see below)			
Property, plant and equipment			
Cost	3,680	3,680	2,680
Accumulated depreciation	(720)	(1,800)	(472)
Carrying amount	2,960	1,880	2,204

Workings	GHC'000
Manufacturer's base price	4,200
Less trade discount (20%)	(840)
Base cost	3,360
Freight charges	120
Electrical installation cost	112
Pre-production testing	88
Initial capitalised cost	3,680

The depreciation amount is GHC3,600,000 (3,680,000 – 80,000 residual value) and, based on an estimated machine life of 24,000 hectolitres, this gives depreciation of GHC150 per hectolitres. Therefore depreciation for the year ended 31 December 2009 is GHC720,000 (GHC150 x 4,800 hl) and for the year ended 31 December 2010 is GHC1,080,000 (GHC150, x 7,200 hours).

Note: Staff training in use of machine and maintenance are all revenue items and cannot be part of capitalized costs.

	GHC'000
Carrying amount at 1 January 2011	1,880
Subsequent expenditure	800
Revised 'cost'	2,680

The revised depreciation amount is GHC2,520,000 (2,680,000 – 160,000 residual value0 and with a revised remaining life of 18,000 hours, this gives a depreciation charge of GHC140 per hectoliter of beer. Therefore depreciation for the year ended 31 December 201 is GHC476,000 (GHC140 x 3,400 hl).

SOLUTION 2

Happy Ltd

Consolidated Comprehensive Income Schedule for the year ended 30 June 2011

	Happy Ltd GHC	Joy Limited GHC	Group GHC
Revenues	500,000	100,000	600,000
Inter-company sales (2,500 + 4,500)	-	-	(7,000)
	500,000	100,000	593,000
Cost of sales	(300,000)	(50,000)	(350,000)
Inter-company purchases	-	-	7,000
	(300,000)	(50,000)	(343,000)
Gross profit	200,000	50,000	250,000
Distribution cost	(52,500)	(7,500)	(60,000)
Administrative expenses	(39,000)	(12,500)	(51,500)
Prov. Unralised profit	(125)	(750)	(875)
Additional depreciation	-	(1,250)	(1,250)
Impairment of Goodwill	-	(2,000)	(2,000)
Operating profit	108,375	26,000	134,375
Other income	-	14,500	14,500
PBIT	108,375	40,500	148,875
Interest charges	(15,000)	(3,750)	(18,750)
PBT	93,375	36,750	130,125
Tax	(17,500)	(3,250)	(20,750)
PAT	75,875	33,500	109,375
NCI @ 10%	-	(3,350)	(3,350)
Group profit	75,875	30,150	106,025
Inter-company Dividend	2,250	(2,250)	106,025
	78,125	27,900	-
Dividend paid	(5,000)	-	(5,000)
Retained profit for the year	73,125	27,900	101,025
Retained profit b/f	319,000	-	319,000
Retained profit c/fwd	392,125	27,900	420,025

Happy Ltd Group

Consolidated Statement of Financial Position as at 30 June 2012

	GHC	GHC
Assets		
Non-current assets		
Goodwill		53,000
PPE (400,000 + 100,000 + 5,000 – 1,250)		503,750
		556,750

Current Assets		
Inventories (58,000 + 9,000 – 125,750)	66,125	
Trade Rec. (30,000 + 7,000)	39,000	
Bank (12,000 + 7,000)	19,000	124,125
Total assets		680,875
Equity and liabilities		125,000
Stated capital		420,025
Income surplus		545,025
NCI		8,100
		553,125
Liabilities:		
Current liabilities		
Trade payables (62,000 + 35,000)	97,000	
Bank Dividend (20,750 + 10,000)	30,750	127,750
Total equity an liabilities		680,875

Goodwill on Acquisition of Joy Ltd

	GHC	GHC
Cost of investment		100,000
Net Assets at Acquisition		
Stated capital	28,000	
Income surplus	20,000	
Fair value adj.	5,000	
	50,000	
Group (090 x 50.000)		(45,000)
Goodwill		55,000
Impairment		(2,000)
Goodwill c/fwd		53,000

NCI

Net Assets @ …… Date	GHC
State capital	25,000
Income surplus (55,000 – 1,250 – 750 – 2,000)	51,000
Fair value Adj.	5,000
	81,000
NCI (0.10 x 8,100)	8,100

<u>Consolidated Retained Earnings</u>

	GHC
Happy Ltd	392,250
URP	(125)
Joy Ltd	
Share of post-Acq profit $\left(\begin{array}{c} 55{,}000 - 20{,}000 - 750 \\ 0.90 - 1{,}250 - 2{,}000 \end{array}\right)$	27,900
	420,000

SOLUTION 3

Balahu and Gazu

(a) Partners' Profit and Loss Appropriation Account for the year to 31st December 20011.

	GHC	GHC
Net profit for the year		372,500
Less: Interest on capital accounts		
Balahu (GHC10,000 @ 10%)	1,000	
Gazu (GHC2,500 @ 10%)	250	(1,250)
Add: Interest on drawings		
Balahu (GHC37,500 @ 15% x 6/12)	2,813	
Gazu (GHC25,000 @ 15% x 6/12)	1,875	
		4,688
Less: salary to Gazu		(50,000)
Profit to be shared		325,938
Balahu (4/6)		(217,292)
Gazu (2/6)		(108,646)
		NIL

(b) The requirement of part (b) can be tackled with the balances on the drawings accounts and the salary of Gazu being transferred to the partners' capital account. In order to complete the closing process the asset and liability accounts should be transferred to the realization account. Students must remember to record all the pre-incorporation activities i.e. part (b) (i) and (iv) of the question. The purchase consideration can be determined simply by computing the value of the shares issued in exchange for the partnership (i.e. GHC150,000 @ GHC3.10) which amounts to GHC465,000.

Another method of determining the purchase consideration is by aggregating the fair values of the net assets in part (b) (ii) and adding the goodwill figure determined in accordance with part (b) (iii) of the question.

Computation of Purchase Consideration

	GHC	GHC
Cars	45,000	
Furniture	25,000	
Stocks	185,000	
Trade debtors	200,000	
		455,000
Trade creditors	290,000	
Accruals	25,000	
		(315,000)
Net Asset		140,000

Goodwill:

1 x 182,500	=	182,500	
2 x 325,000	=	650,000	
3 x 372,500	=	1,117,500	
		1,950,000	
	=	1,950,000 ÷ 6	325,000
Purchase consideration			465,000

REALIZATION ACCOUNT

	GHC		GHC
Furniture (cost) a/c	50,000	Accruals a/c	22,500
Prepayment a/c	7,500	Acc. Depn. on cars a/c	62,500
Stock a/c	175,000	Acc. Depn. on furniture a/c	20,000
Debtors a/c	250,000	Creditors	295,000
Cash (Expense)	7,500	Capital	
Cars (cost) a/c	137,500	(Car taken by Gazu)	12,500
Capital a/c		Piotorico Ltd	465,000
Profit on realization			
Balahu (4/6)	166,667		
Gazu (2/6)	83,333		
	877,500		877,500

CAPITAL ACCOUNT

	Balahu GHC	Gazu GHC		Balahu GHC	Gazu GHC
31/12/01					
P & L appn. a/c:			11/1/01 bal. b/d	10,000	2,500
Int. on drawings	2,813	1,875	31/12/01:		
Drawings a/c	37,500	25,000	P & L appn. a/c		
Realization a/c car			Int. on capital	1,000	250
taken over		12,500	Salary	-	50,000
Salary a/c cash paid		50,000	Profit shared from		
			P & L appn. a/c	217,292	108,646
Piotorico Ltd (shares)	232,500	232,500	Realization Profit	166,667	83,333
			Cash a/c	-	77,146
Cash a/c	122,146	-			
	394,959	321,875		394,959	321,875

CASH AT BANK ACCOUNT

	GHC		GHC
Balance b/d	52,500	Realization (Expenses)	7,500
Capital a/c	77,146	Capital - Balahu	122,146
Gazu -	129,646		129,646

PIOTORIC LTD ACCOUNT

	GHC		GHC
Realization	465,000	Capital a/c	
		Balahu	232,500
		Gazu	232,500
	129,646		465,000

STATEMENT OF FINANCIAL STATEMENTS
PIOTORICO LTD'S BALANCE SHEET AS AT JANUARY 1, 2002

	GHC	GHC
Fixed Assets:		
Intangible Goodwill		325,000
Tangible Assets (as valuation)		
Furniture	25,000	
Cars	45,000	
		70,000
		395,000
Current Assets:		
Stocks	185,000	
Trade Debtors	200,000	
	385,000	

Current Liabilities:			
Trade Creditors	GHC290,000		
Accruals	25,000		
		(315,000)	
			70,000
Net assets			465,000
Financed By:			
Stated Capital			465,000

PURCHASE OF BUSINESS ACCOUNT

	GHC		GHC
Trade Creditors	290,000	Cars	45,000
Accruals	25,000	Furniture	25,000
Shares issued in exchange		Stocks	185,000
for the partnership	465,000	Trade Debtors	200,000
		Goodwill	325,000
		(Balancing figure)	
	780,000		780,000

SOLUTION 4

FAITH RURAL BANK LTD

Statement of Comprehensive Income for the year ended 31st December 2010

	Workings	GHC
Interest Income	1	7,753
Interest Expense		(3,515)
Net Interest Income		4,238
Commission and Fees Income		1,388
Other Operating Income	2	196
		5,822
Less Operating Expenses	3	3,719
		2,031
Less Doubtful Debts	4	238
		1,793
Other Income		2,328
Profit before Tax		4,121
Tax Provision (20 + 1,030)		1,050
Net Profit after Tax		3,071

Statement of Changes in Equity for the year ended 31st December, 2011

	Stated Capital GHC000	Share Deals GHC000	Capital Surplus GHC000	Income Surplus GHC000	Statutory Res. Fund GHC000	Total GHC000
Balance Bfwd	4,823	34	410	1,146	648	7,061
Transfer Income Statement	-	-	-	3,071	-	3,071
Transfer Statutory Reserve	-	-	-	(384)	384	-
Balance Cfwd.	4,823	34	410	3,833	1,032	10,132

FAITH RURAL BANK LIMITED

Statement of Financial Position as at 31st December, 2011

	Working		GHC000
Assets:			
Cash and Short-Term Funds	5		6,295
Government Securities			19,593
Balance due from other Banks			12,794
Loans and Advances			7,381
Trade Investments			1,343
Other Assets	6		1,238
Fixed assets	7		1,292
Total assets			49,936
Financed By:			
Shareholders' Fund and Liabilities			
Stated Capital		4,823	
Capital Surplus		410	
Share Deals		34	
Statutory Reserve Funds		1,032	
Income Surplus		3,833	
			10,132
Liabilities			
Customers Deposit	8	34,168	
Balance due to other Banks		3,871	
Sundry Creditors	9	835	
Taxation	10	870	
Accrued Auditors Fees		60	
			39,804
Total shareholders fund & Liabilities			49,936

Workings

		GHC 000
1	Interest Income:	
	Interest from Short Term Funds	243
	Interest on Government Securities	7,137
	Interest on Loans & Advances	373
		7,753
2	Other Operating Income:	
	Profit on foreign exchange	141
	Dividends from investment	55
		196
3	Operating Expenses:	
	Directors Remuneration	39
	Staff costs	2,213
	Donations	24
	Operating expenses	987
	Audit fees	60
	Bonus	72
	Depreciation	396
		3,791
4	Provision for Doubtful Debts:	
	Balance c/fwd	852
	Less balance b/fwd	614
	Income statement	238
5	Cash & Shirt term Funds:	
	Cash	1,629
	Balance with Bank of Ghana	4,666
		6,295
6	Other Assets Account:	
	Other Accounts	789
	Staff allowances	449
		1,238
8	Customer Deposits:	
	Current Accounts	22,767
	Time Deposits	3,582
	Savings Accounts	7,819
		34,168

9 Other Liabilities:

Sundry Payables	763
bonus	72
	835

10 Taxation Schedule

	Balance at 01/01 GHC000	Charge for the year GHC000	Payment GHC000	Balance at 31/12 GHC000
For 2010	200	-	(220)	(20)
For 2011	-	1,050	(160)	890
	200	11,052	(380)	870

W7 Fixed Assets Schedule

	Capital WIP GHC 000	Land & Buildings GHC 000	Computer GHC 000	Equip. & Furniture GHC 000	Motor Vehicle GHC 000	Total GHC 000
Cost						
At 01.01.2011	168	776	390	588	327	2,249
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Bal at 31.12.2011	168	776	390	588	327	2,249
Acc. Depreciation						
As at 01.01.2011	-	83	133	163	182	561
Change for the year	-	39	130	118	109	396
Bal at 31.12.2011	0	122	263	281	291	957
NBV at 31.12	168	654	127	307	36	1,292

SOLUTION 5

(1) Profitability Ratios

	Tomah Ltd	Yagao Ltd
Gross Profit Margin	$\frac{90,000}{150,000} \times 100$	$\frac{490,000}{700,000} \times 100\%$
	60%	70%
Net Operating Profit Margin	$\frac{61.5}{150} \times 100$	$\frac{371}{700} \times 100$
	41%	53%

Return on Capital Employed	61.5 x 100 / 217.4	371 x 100 / 815.6
	28.3%	45.5%
Net Asset Turnover	150 / 217.4	700 / 815.6
	0.69	0.86
Liquidity and Working Capital Ratios		
Current Ratio	50,000 / 22,605	153,250 / 117,670
	2.21:1	1.3:1
Quick Ratio	38,000 / 22,605	127,000 / 117,670
	1.68:1	1.08:1
Stock Turnover	60,000 / 12,000	210,000 / 26,250
	5 times	8 times
Debtors Collection Period	37,500 x 365 / 150,000	105,000 x 365 / 700,000
	91 days	55 days
Creditors Payment Period	10,605 x 365 / 60,000	67,670 x 365 / 210,000
	64½ days	118 days
Gearing Ratios	130,000 x 100 / 217,395	370,000 x 100 / 815,580
	60%	45%
Compared to Equity only	130,000 x 100 / 87,395	370,000 x 100 / 32,000
	149%	83%
Interest Cover	61,500 / 30,000	371,000 / 32,000
	20.5 times	11.6 times

Comment:

Profitability:

From the angle of profitability, Yagao appears to be better company because it has a higher gross profit margin and a higher net operating profit margin than Tomah. It is apparent that

Yagao is much larger company than Tomah and therefore may be benefiting from discounts from suppliers that might not be available to Tomah, and economies of scale.

Yagao has a higher ROCE caused by better net profit margin and higher asset turnover indicating a more efficient use of assets.

Liquidity & Working Capital Management
Yagao appears to be the stronger company with regard to working capital control.

Both companies have high current and quick ratios which may be the norm in this business. However, Tomah appears to have higher ratios indicating that best use is not being made of the assets of the company.

Tomah'sdebtors collection period are seemingly long at 91 days compared with both Yagao's collection period of 55 days and Tomah's creditors payment period of 64 days.

Tomah is paying its creditors faster than it is receiving money from its own debtors.

Yagao's creditors payment period do appear long at 118 days but this may be due to the negotiating power of a much larger business.

Gearing:
Both companies have fairly high level of gearing and the following could be noted:

Although the gearing levels appear quite high, so does the interest cover in each companies showing that there is no problem with servicing the debt finance.

On the face of it, Tomah has a much higher interest cover than Yagao despite being more highly geared.

The interest rate that Tomah appears to have paid is only 2.3% (3,000/130,000 x 100) which would indicate that Tomah has only recently taken out the loan finance.

Yagao's effective interest rate of 8.6% is much more realistic [(32,000 ÷ 370,000) x 100].