(a) (i)

- Employees
- Providers of capital
- Government
- The Business as an entity

(ii)

- The statement is merely a restatement of information that appears in the statement of financial position and statement of comprehensive income .
- The statement only reports data capable of being reported in monetary terms.
- That the individual elements of social benefits are limited to the traditional ones of shareholders, employees and the government with others such as society and customers ignored.
- There is no Accounting Standard on Value Added Statement, so that expenditure could be aggregated or calculated to disclose a misleading picture.

(iii)

ARMOUR LTD
VALUE ADDED STATEMENT FOR THE YEAR
ENDED 31ST DECEMBER, 2010

	31/12/2010			31/12/2009		
	GHS'000	GHS'000		GHS'000	GHS'000	
Sales		5,124			4,604	
Bought-in-materials						
Material Consumed	2,394			2,452		
Fuel Consumed	290			242		
Hire of Plant and Equipment	41			38		
Auditors Remuneration	10	3,275		8	2,740	
VALUE ADDED		1,849	100%		1,864	100%
Distributed as follows:						
To Employees:						
	GHS'000	GHS'000		GHS'000	GHS'000	
Wages	607			598		
Salaries	203	810	44%	198	796	43%
To Provider of capital:						

Dividend	288			256		
Interest	120	408	22%	108	364	20%
To Government						
Corporate Tax		402	21%		393	21%
To Business						
Depreciation	115			114		
Retained Profit	114	229	12%	197	311	16%
		1,849	100%		1,864	100%

QUESTION 2

(a) IFRS 3 – Business combination requires goodwill on acquisition to be calculated at date control is gained. The second acquisition gave ROBIN 75% holding, indicating that control is achieved. The first acquisition would be valued at fair price at date of second acquisition and the difference posted to Income Surplus. The Goodwill now includes the first and second investment, calculated at the date the second acquisition was made.

ROBIN

- 90% (COBIN)

- May 2008 - 15%
- April 2010 - 60%

BOBIN 75%

COBIN

	BOBIN	COBIN
	%	%
Group Interest		
Direct	75	90
N. C. I.	25	10
	100	100

Shareholders

(b) Calculation of Cost of Investment

	GHS
Cash Cons.-Cash Paid	5,000,000
Shares Exchange Shares Issue	

1,000,000 shares @35 each	35,000,000
Deferred Consideration	
2,000,000 @ 0.826	1,652,000
Contingent Consideration	
5,000,000 @ 0.625	3,105,000
	44,757,000

BOBIN – INCOME SURPLUS

Bal. b/f	10,000
½ x 12,000	6,000
	16,000

Bal. b/f	22,000
P & L Account	12,000
Bal. b/f.	10,000

CONSOLIDATED INCOME SURPLUS

	GHS
Balance b/f.	15,500,000
Post Acquisition of Subsidiary	
BOBIN (22,000 x (16,000) x 75%	4,500,000
COBIN (23,000 – 14,000) x 90%	8,100,000
Interest on deferred liabilities	(165,200)
Impairment loss on Goodwill	(720,000)
Interest on Contingent liabilities	(310,500)
Unrealized Profit	
20/100 x200,000	(40,000)
Plant – Additional Depreciation	(800,000)
Revaluation of Available- for- sales financial assets	(2,000,000)
	24,064,300

Non-controlling Interest at Fair Value at statement of f inancial position date

	BOBIN	COBIN
	GHS'000	GHS'000
Stated Capital –Ordinary shareholders	20,000	30,000
Income surplus	22,000	23,000
Arbitration Awards	2,050	-
Grant Capital	-	4,000

	44,050	57,000
	x 25%	x 10%
NCI	11,012,500	5,700,000
Add Goodwill	737,500	1,800,000
	11,750,000	7,500,000
Total NCI (11750,000+7,500,000)	19,250,000	

ROBIN LTD AND ITS SUDSIDIARIES

CONSOILDATED STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER, 2010

	GHS	GHS
Property, Plant and Property		133,200,000
Goodwill		13,437,000
		146,637,000
Current Assets		
Inventory	58,160,000	
Receivables	60,600,000	
Bank	41,250,000	160,010,000
		306,647,000
Financed By:		
Stated Capital (35,000 + 30,000)		65,000,000
Income surplus		24,064,300
Capital Surplus		1,500,000
Government Grant		3,600,000
		94,164,300
NCI		19,250,000
Deferred Payment	1,817,200	
Contingent liabilities	3,415,500	
		5,232,700
		120,647,000

Current liabilities (68,000 + 66,000 + 54,000)	188,000,000
	306,647,000

QUESTION 3

(a) Concepts of Capital Maintenance

i. The Money Amount Concept.

Under this concept, the measurement of periodic profit should ensure that the monetary value of the shareholder' equity is maintained intact. The profit of the period is the increase in monetary terms of the shareholder's equity measured between the beginning and the end of the period. The distribution of this profit will leave the value of capital unchanged.

ii. The Investment Purchasing Power Concept.

This concept defines the assets of an enterprise in terms of their potential earning power. The potential earning power is expressed as the present value of all the cash flows to be generated in the future. This in effect is the economic which is the change in earning power of the enterprise in respect of any period plus distributions made to shareholders during the period.

iii. The Financial Capital Concept

Under this concept, profit is earned only if the financial (or money) amount of the net assets at the end of the period exceeds the financial (or money) amount at the beginning of the period after excluding any distributions to, and contributions from owners during the period.

iv. The Operating Capability Concept

Here the prime concern is on the entity itself. The productive (operating) capacity of the enterprise should be maintained in the course of profit measurement. Capital is maintained if the firm is able to replace its assets with the assets of the same type or if it is able to maintain its productive capacity to produce a constant supply of goods and services.

v. The Disposable of Wealth Concept

Under this concept, maintenance of capital is viewed from the perspective of realizable value of assets. Measurement of periodic profit is required to take account of realizable of assets attributable to the shareholder' equity. Capital is valued by the reference to the realizable values of assets less realizable expenses.

(b.)

i. Current Entry Price (Replacement Cost)

Current entry price is the amount of cash or other consideration required to obtain the same asset or its equivalent. Current entry price could mean replacement cost or reproduction cost. Replacement cost has been defined as the amount of cash or other consideration that is needed to purchase equivalent assets on the second-hand market having the same remaining useful life.

ii. Current Exit Price (Net Realisable Value Accounting)

Current exit price is the amount of cash for which an asset might be sold in an orderly condition or a liability might be refrained. Net realizable value is obtained from market quotations but adjusted for selling cost. In the absence of market quotations, specific sales price indexes computed either by external sources or internally and the appraisals by external appraisers or management can be used.

iii. Current Purchasing Power Accounting (CPP)

With this method, all items in the financial statements are restricted to change in the general price level. The emphasis is on the general price level changes and as such it does not take into credit consideration changes in the value of individual assets.

iv. Current Cost Accounting (CCA)

CCA seeks to ensure that adequate provisions are made to ensure the maintenance and replacement of the operating capacity of the firm. This is to ensure that the firm operates efficiently for the future. Operating assets are fixed assets, stocks and net monetary working capital. CCA attempts to show the current values. Consequently, fixed assets are shown at their value to the business. Value to the business means the amount of which the firm would lose if it were deprived of the asset.

(c.)

KOKOSEKYE LIMITED

RECONCILIATION OF EFFECTIVE TAX

	GHS
Profit before Taxation	15,650,000

Corporate Tax at applicable tax rate of 25%	3,912,500
Tax effect of items that are not allowable in determining taxable profit:	
Capital allowance	(550,612)
Penalty for non-payment of SSNIT deductions	230,600
Provision for Depreciation	102,650
Gain on Disposal of fixed assets	(732,000)
Increase in deferred tax expense	126,000
Income Tax Expense	3,089,138
Effective Tax Rate	19.74%

QUESTION 4

(ii) **Financial Assets fair valued through profit or loss**

These are financial assets held for trading. Upon initial recognition it is designated by the entity as at fair value through profit and loss. Any financial asset within the scope of this Standard may be designated when initially recognized as a financial asset or financial liability at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has positive intention and ability to hold to maturity other than:

a. Those that the entity upon initial recognition designates as at fair value through profit or loss.
b. Those that the entity designates as available for sale; and
c. Those that meet the definition of loans and receivables.

An entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

i. Are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value.

ii. Occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

iii. Are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Loans and receivables originated by the enterprise are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

a. those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading , and those that the entity upon initial recognition designates as at fair value through profit or loss;

b. those that entity upon initial recognition designates as available for sale; or

c. Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

An interest acquired in a pool of assets that are not loans or receivables (for example, an interest in a mutual fund or a similar fund) is not a loan or receivable.

Available-for-sale financial assets are those non-derivate financial assets that are designated as available or are not classified as

(a) loans and receivables,

(b) held-to-maturity investments or

(c) Financial assets at fair value through profit or loss.

(b) <u>EVENTS AND CHANGES IN CIRCUMSTANCES THAT INDICATE THAT IMPAIRMENT HAS OCCURED</u>

(1.) A decline in the market value of fixed assets during the period.

(2.) Evidence has emerged of obsolescence or damage.

(3.) A commitment by management to undergo a significant re-organization.

(4.) A major loss of key employees.

(5.) A current period operating loss or net cash outflow from operating activities.

(6.) There has been a significant adverse change in the commercial environment in which the entity operates.

(c.)

i. NET ASSET BASIS

Net Assets	GHS'000
PPE (70,000 + 2,000 – 2,000)	70,000
Investment Property	21,000
Financial Assets	10,000
Current Assets (8,000 – 1,100 – 2,300)	4,600
Debenture stocks	(15,000)
Deep discount bond – amortized cost (w1)	(5,600)
Current liabilities	(5,000)
	80,000

	GHS'000
Alternative Presentation :	
Stated Capital	20,000
Revaluation Surplus	2,000
Retained Earnings (62,000 – 4,000)	58,000
	80,000

Value per share $\frac{\text{GHS } 80{,}000{,}000}{20{,}000{,}000 \text{ Shares}}$

= GHS 4.00

W1. Amortized cost

Year	Amortized cost at 1st January	Interest in SoCI @ 12%	Amortized Cost at 31st December
2010	5,000,000	600,000	5,600,000
2011	5,600,000	672,000	6,272,000 (redemption)

ii. EARNINGS BASED

Price Per share	=	EPS X PE Ratio
EPS	=	GHS 20,000,000 / 20,000,000 shares
	=	GHS 1.00
PE Ratio	=	That of Bredi as discounted by 25% to give recognition to lack of marketability.
	=	GHS 3.20/ GHS 0.40 = 8 discounted to 6
Price per share	=	GHS 1.00 X 6
	=	GHS 6.00

Revised Profit for 2010

	GHS'000
Profit before tax per draft accounts	30,000
Adjustments;	
Impairment of plant (10,000 – 8,000)	(2,000)
Fair valuation surplus on inventory property	1,000
Obsolete inventory	(1,100)
Irrecoverable debts	(2,300)
Interest (premium) on deep discount bond	(600)
Revised profit before tax	25,000
Tax @ 20%	(5,000)
Profit after tax	20,000

Weighted Average Earnings

Year	Profit GHS'000	Weight	Weighted profit GHS'000
2009	20,000	1	20,000
2010	20,000	2	40,000
		3	60,000

Weighted earnings GHS60m/3 = GHS 20,000,000

iii. DIVIDEND GROWTH MODEL

Price per share	=	$\frac{Do\ (1 + g)}{R-g}$
Do	=	GHS 15m/20 m shares= GHS 0.75
g	=	5% or 0.05
R	=	Rf + b(Rm- Rf)
	=	15% + 1.2(25% - 15%)
	=	27%
Price /share	=	$\frac{GHS0.75\ (1.05)}{0.27 - 0.05}$
	=	GHS0.7875/0.22
	=	GHS3.58

Dividend paid in 2010

	GHS'000
Retained Profit b/f	53,000
Profit per draft accounts	24,000
	77,000
Retained profit c/d	62,000
Dividend paid	15,000

QUESTION 5

ADOMFA LTD

Position of the company if it is liquidated and proceeds distributed.

	Realisable Value	
	GHS	GHS
Land and Buildings		120,000
Fixtures and Fittings		10,000
Plant		30,000
Investment		55,000
Account Receivable		100,000
Inventories		45,000
		360,000

	GHS	GHS
Less Distribution		
Debenture	50,000	
Debenture Interest	4,000	54,000
Reconstruction Cost		
Preferential creditors	6,000	
Tax	500	
SSNIT	600	
Bank Overdraft	20,000	
Trade creditors	60,000	
Director's loan	15,000	
		156,100
Amount available to shareholders		203,900

Preference Shareholders	GHS
Preference share capital	100,000
Preference Dividend 20% + 100,000 x 5	40,000
	140,000
Amount available to ordinary shareholders	63,900

Analyses of Liquidation

If the company liquidate all stakeholders will be fully paid except ordinary shareholders who will proceed 63,900/200,000 x 100 p = 32 per GHS1.

POSITION ON RECONSTRUCTIONS

	Book value	GHS	GHS
Goodwill	30,000	-	30,000
Dev. Exp.	30,000	-	30,000
Land and Buildings	80,000	110,000	(30,000)
Fixtures and fittings	15,000	12,000	3,000
Plant	33,000	25,000	8,000
Investment	65,000	60,000	(5,000)
Inventory	50,000	24,000	26,000
Account Receivable	120,000	115,000	5,000
Income surplus			45,000
Capital Surplus			(8,000)

Preference Dividends	4,000
Director's loans	(15,000)
Reconstruction cost	5,000
Maximum Capital loss	98,000

If the company liquidates, the maximum loss of GHS 98,000 should be borne by the ordinary shareholders who should have sustained a loss if the company should have liquidated.

Bank Accounts

Inflows:		GHS
Balance b/f		(20,0000
Debenture additional		50,000
Ordinary shares		100,000
		130,000
Outflows:		
Accrued cost on debenture	4,000	
Reconstruction cost	5,000	
Trade creditors – Tax	500	
SSNIT	600	
Plant	30,000	
		40,100
Bank balance		89,900

ADOMFA LIMITED

RECONSTRUCTED FINANCIAL POSITION

	GHS	GHS
Land and Buildings		110,000
Furniture and fittings		12,000
Plant (25,000 + 30,000)		55,000
Investment		60,000
		237,000
Current Assets		
Inventory	24,000	
Account Receivable	115,000	
Bank	89,900	

	228,900	
Current Liabilities		
Trade Creditors (60,000 – 500+600)	(58,900)	170,000
		407,000
Financed By		
Stated Capital		
Ordinary shares		167,000
Preferential shares		140,000
		307.000
Debenture		100,000
		407,000