UNIVERSITY OF EDUCATION, WINNEBA.

COLLEGE OF TECHNOLOGY EDUCATION - KUMASI

DEPARTMENT OF ACCOUNTING STUDIES EDUCATION

END OF SECOND SEMESTER EXAMINATIONS MAY 2015

COURSE TITLE	FINANCIAL REPORTING AND ANALYSIS
COURSE CODE	ACC 321
DURATION	TWO HOUR 30 MINUTES
NAME OF LECTURER	MR. STEPHEN ASANTE
INSTRUCTIONS	ANSWER QUESTIONS 1, 2, 3 AND EITHER QUESTION 4 OR 5

Question 1

In 2014, the shareholders of Alele Ltd decided to dispose of their shares in the company. The summarized financial statements of Alele Ltd for the year 2014 are given below:

Balance Sheet as at December 31, 2014

	GH¢'000
Patents	10,000
Tangible Assets	146,000
Current Assets	53,500
Current Liabilities	(32,000)
Long term loan	(87,500)
	90,000
Stated Capital	50,000
Income Surplus	40,000
	90,000

Profit and Loss Account for the year ended December 31, 2014

	GH¢'000
Profit before tax	62,000
Tax	20,000
Profit after tax	42,000
Proposed dividends	8,000
Retained profit	34,000

Additional information:

i. The stated capital of Alele Ltd is made up of 20,000,000 ordinary shares of no par value. The company is not listed.

ii. The fair value of the tangible fixed assets of Alele Ltd was GH¢290,000,000 Current assets include obsolete stock of GH¢16,500,000.

iii. The patents represent a licence to produce and sell a special product. This product is expected to generate a pre-tax profit of GH¢2,000,000 per annum over the next 5 years.

iv. The discounted present value of future cash payments in respect of the long term loan is GH¢122,000,000.

v. Profits after tax of Alele Ltd over the past 4 years were as follows:

Year	**GH¢'000**
2010	28,000
2011	30,000
2012	16,000
2013	36,000

vi. The discount rate of Alele Ltd is 10% per annum.

vii. Happy Ltd, a major competitor of Alele Ltd, is listed with a P/E ratio of 9 and dividend yield of 5.2%

Required:

a) Describe any four (4) situations that may lead to the valuation of shares.(4 marks)

b) Using four (4) methods of valuation, advise the directors of Alele Ltd on the values to be placed on the ordinary shares. (16marks)

Question 2

The balance sheets of Ansah and Sons Company Ltd as at 31 December, 2013 and 2014 are as follows:

	2014 **GH¢'000**	2013 **GH¢'000**
Stated capital	4900	2500
Income surplus	820	280
Debenture stocks	600	1400
Corporate tax payable	600	430
Creditors	960	680
Bank overdraft	-	280
Proposed dividend	300	150
Provision for depreciation:		
Plant & Machinery	1080	900
Fixtures and fittings	300	260
	9620	6880
Capital WIP	600	400
Building at cost & valuation	3200	2000
Plant & Machinery at cost	3020	2400
Fixtures & Fittings at cost	580	480
Stocks	1020	740
Debtors	880	856
Treasury Bills	100	-
Cash and bank	200	4
	9620	6880

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER, 2014

	GH¢'000
Earnings before interest and tax	1860
Less: Debenture interest	120
Profit before tax	1740
Tax	750
Profit after tax	990

Income Surplus Account for the year Ended 31 December, 2014

	GH¢'000
Balance b/f	280
Transfer from Profit & Loss A/c	990
Proposed dividend	(250)
Bonus Issue	(200)
	820

The following additional information is provided:

i) During the year GH¢250,000 of capital WIP was completed and transferred to building account.

ii) In February, 2014 an old machine with an initial cost of GH¢400,000 and accumulated depreciation of GH¢300,000 was traded in for a machine valued at GH¢250,000.

iii) Fittings costing GH¢100,000 four years ago with a net book value of GH¢40,000 was sold for GH¢30,000

iv) Premium of GH¢50,000 was paid on redemption of debentures and charged to Profit & Loss Account.

v) During the year GH¢300,000 debentures were converted into 600,000 ordinary shares valued at GH¢300,000.

vi) During the year 10,000 ordinary shares were issued as bonus to the existing shareholders for GH¢200,000

Required:

Prepare statement of cash flow for the year ended 31 December, 2014 in accordance with IAS 7.

Key ratios for the year to 31 December, 2013 were:

Pre-tax return on equity	22.5%
Current ratio	1.4:1
Liquidity ratio	07:1
Total debt: Total equity	1.2:1
Return on total funds	12.3%
Total asset turnover	1.4
Operating profit/sales	8.7%
Sales increase on previous year	2% (2014 sales GH¢63,200,000)
Stock turnover (based on cost of sales)	2.3 times
Days debtors	66 days

The directors of Lowe Company Ltd are interested in the use of accounting ratios as an analytical tool and wish to review what kind of material they can usefully compare with their own company's ratios.

You are required to:

a) Compute key ratios as shown above for the 2014 accounts

b) Comment on what the ratios you have computed reveal about the position and performance of Lowe Company Ltd

c) Identify four standards for useful comparisons to be made with the accounting ratios of the company for one year.

Question 4

a) Distinguish between the following terms:
   - i) Fair Value and Residual Value **(2 Marks)**
   - ii) Cost Model and Revaluation Model **(2 Marks)**

b) With an example in each case explain the following concepts
   - i) Changes in accounting estimates **(2 Marks)**
   - ii) Adjusting events **(2 Marks)**

c) Asomdwee Company Ltd revalues its buildings and decides to incorporate the revaluation into the financial statements. The following information is relevant:

   i. Extract from the statement of financial position at 31 December, 2013

	GH¢
Buildings at cost	60,000
Accumulated Depreciation	<u>18,000</u>
Net Book Value	<u>42,000</u>

   ii. Depreciation has been provided at 2% on a straight line.

   iii. The building is revalued at 30 June, 2014 at GH¢55,200. There is no change in the remaining estimated future life.

Required:

Show the extracts from the financial statements at 31 December, 2014 **(12 Marks)**

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Required:

Show the extracts from the financial statements at 31 December, 2014 **(12 Marks)**

Question 5

a) Explain the following concepts:
   i) Accounting policies
   ii) Prior period errors

(4 Marks)

b) Classify the following events as adjusting events or non-adjusting events:
   i) Insolvency of a customer with a balance owing at the year-end;
   ii) Evidence of a permanent diminution in the value of a long-term investment prior to the year end.
   iii) Major purchases and disposals of assets
   iv) Litigation commenced after the reporting period
   v) Discovery of error or fraud which shows that the financial statements were incorrect
   vi) Destruction of a production plant by fire after the reporting period.

(6 Marks)

c) Mama Do Ltd owns an asset with an original cost of GH¢600,000. On acquisition, management determined that the useful life was 10 years and the residual value would be GH¢60,000. The asset is now 8 years old, and during this time there has been no revisions to the assessed residual value. At the end of the 8th year, management reviewed the useful life and residual value and has determined that the useful life can be extended to 12 years in view of the maintenance programme adopted by the company. As a result, the residual value will reduce to GH¢30,000.

Required:
Account for this review of estimated useful life and estimated residual value.

(10 Marks)

