UNIVERSITY OF EDUCATION, WINNEBA

DEPARTMENT OF ACCOUNTING STUDIES EDUCATION
END OF 2ND SEMESTER EXAMINATIONS
BSc Accounting Education
MAY 2019

PAPER CODE	ACC 362
PAPER TITLE	FINANCIAL REPORTING AND ANALYSIS
DURATION	THREE HOURS
LECTURER(S)	DR JOSEPH MBAWUNI/MR. OFORI DEBRAH
INSTRUCTIONS	1. ANSWER ALL QUESTIONS 2. PLEASE WRITE ALL YOUR ANSWERS IN THE ANSWER BOOKLET PROVIDED

QUESTION 1

KELL started a sole proprietorship business 1st April 2018, trading in plastics. He later registered an incorporated company on 1st August, 2018 to take over the business with effect from 1st April 2018. The first accounts are drawn up to 31st December, 2018.

	GH¢
Gross Profit for the period	112,000
General Expenses	28,440
Directors' Fees	24,000 per annum
Incorporation Expenses	3,000

i. The net sales are GH¢1,640,000, the monthly average of which for the first four months is one-half (½) of that of the remaining period. The company earned a uniform profit.

ii. Rent up to 30 September 2018 was GH¢2,400 per annum after which it was increased to GH¢6,000 per annum.

iii. Salary of Mr Chucks the manager who upon incorporation of the company was made a director is GH¢12,000 per annum. This is included in the directors' fees. Interest and tax may be ignored.

Required:

(a) i. Prepare the statement of profit or loss for the period showing the Pre and Post incorporation profits. **(8 marks)**

(ii). State how Pre-incorporation profits and losses should be shown in the Statement of Financial Position **(2 marks)**

(Total 10 Marks)

QUESTION 2

Bebe Limited was wound up on 31 December 2018 and its Statement of Financial Position as at that date was given below:

BEBE LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	GH¢	GH¢
Non-Current Assets:		
Property, Plant and Equipment		964,000
Current Assets:		
Stock	775,000	
Trade Debtors (Less Provision of GHS8,000 for doubtful debts)	152,000	
Other Debtors	30,000	
Cash at Bank	329,000	
	1,286,000	
Current Liabilities:		
Accrued Expenses	40,000	
Trade Creditors	226,000	
Taxation Provision	220,000	
	486,000	
		800,000
		1,764,000
FINANCED BY:		
120,000 Equity Shares of GH¢10 each		1,200,000
Capital Surplus		270,000
Income Surplus		294,000
		1,764,000

Mamma Limited took over the following assets at values shown below:

	GH¢
Property, Plant and Equipment	1,280,000
Stock	770,000
Other Debtors	30,000

Additional Information:

i. Purchase consideration was settled by Mamma Limited as follows:

ii. GH¢510,000 of the consideration was satisfied by the issue of fully paid 10% Preference shares of GH¢100 each. The balance was settled by issuing equity shares at GH¢8.00 per share.

iii. Trade Debtors realised GHS150,000.

iv. Accrued expenses were settled for GH¢38,000.00.

v. Ghana Revenue Authority fixed the final tax assessment at GH¢222,000 which was paid off by Bebe Ltd.

vi. After meeting liquidation expenses amounting to GH¢8,000.00 the balance remaining on the bank account was paid to Trade Creditors as final settlement.

You are required to:

(a) Calculate the number of preference shares and equity shares to be allocated by Mamma Limited in discharge of the purchase consideration. **(5 marks)**

(b) Prepare the

(i) Realisation account **(8 marks)**

(ii) Bank account **(3 marks)**

(iii) Equity Shareholders account **(3 marks)** and

(iv) Mamma Limited account to close the books of Bebe Limited. **(1 mark)**

(c) Prepare the Statement of Financial Position of Mamma Limited soon after the take-over. **(6 marks)**

(d) According to IFRS 3, a business combination must be accounted for by applying the Acquisition Method. Clearly state the four steps required to be followed in the application of the acquisition method. **(4 marks)**

(Total 30 Marks)

QUESTION 3

Gavy Ltd found itself in financial difficulty. The following is a trial balance as at 2018 extracted from the books of the company.

ASSETS	GH¢
Land	156,000
Building (net)	27,000
Equipment (net)	11,000
Goodwill	60,000
Investment	27,000
Inventory	120,000
Trade Receivables	70,000
	471,000
EQUITY & LIABILITIES	
Ordinary Shares GH¢1	200,000
5% Preference Shares GH¢1	70,000
Income Surplus	(40,000)
8% Debentures	80,000
Interest payable on debenture	13,000
Trade Payables	96,000
Loans from Directors	16,000
Bank Overdraft	36,000
	471,000

The following scheme has been agreed

1. The existing 70,000 preference shares are to be exchanged for a new issue of 30,000 8% preference shares and 40,000 ordinary shares both issued at GH¢1
2. The existing ordinary shareholders are to accept a reduction of 50% of their shareholdings. They are also to subscribe for a rights issue on the basis of one for one at GH¢1 per share.
3. The debenture holders are to accept 5,000 ordinary shares credited as to GH¢1 each in full settlement of the interest payable. Post reconstruction debenture interest rate is to be increased to 10%. A further GH¢20,000 of the 10% debenture is to be issued at a discount of 2% and taken up by the existing holders
4. GH¢6,000 of directors loans is to be cancelled. The balance is to be settled by issue of 10,000 ordinary shares credited as to GH¢1 per share
5. Goodwill and the income surplus are to be written off
6. The Investment in shares is to be sold at the current market price of GH¢50,000
7. The bank overdraft is to be repaid
8. GH¢46,000 is to be paid to trade creditors now and the balance to be deferred to third quarter of year 2019
9. 10% of the trade receivables are to be considered irrecoverable
10. The remaining assets were valued as
    i) Land GH¢166,000
    ii) Building GH¢60,000
    iii) Equipment GH¢10,000
    iv) Inventory GH¢50,000

REQUIRED

(a) Prepare the capital reduction account, Bank and Ordinary Shares account to record the reconstruction scheme. **(20 marks)**

(b) Prepare the Statement of Financial Position as at 01 January 2019 soon after the reconstruction. **(10 marks)** **(Total 30 Marks)**

QUESTION 4

On 1 January 2016 City Ltd purchased 9,000 GH¢1 ordinary shares in Villa Ltd for a total of GH¢14,200. On that date the Income Surplus of Villa Ltd was GH¢2,800.

Statements of Financial Position on 31st December, 2018 for both companies were as follows:

	City Ltd	Villa Ltd
Non-Current Assets	**GH¢**	**GH¢**
Buildings	40,000	10,000
Machinery	25,000	12,000
Investment in Villa Ltd	14,200	-
	79,200	22,000
Current Assets		
Inventory	5,000	1,000
Trade Receivables	4,000	500
Current Account	400	-
Bank	1,000	100
	10,400	1,600
TOTAL ASSETS	**89,600**	**23,600**
EQUITY AND LIABILITIES		
Shareholders' Funds		
GH¢1 Ordinary Shares	55,000	12,000
Capital Surplus	6,000	1,800
Revaluation Surplus	5,400	-
Income Surplus	5,700	2,900
	72,100	16,700
Current Liabilities		
Trade Payables	2,500	800
Current Account	-	100
Long-term Loans	15,000	6,000
	17,500	6,900
TOTAL EQUITY AND LIABILITIES	**89,600**	**23,600**

During December 2018, City Ltd sold goods to Villa Ltd. These had cost GH¢600 to produce and were sold at a price allowing City Ltd a gross profit of 25% on sales. Only 40% of these goods had been sold by Villa Ltd by 31 December 2018.

During the last week of 2018, a cheque for GH¢300 had been sent by Villa Ltd to City Ltd, but this had not been received by City Ltd by the end of the year.

Goodwill is to be written down by 10% (straight line) for each year.

Required:

(a) Calculate:

(i) Goodwill **(4 marks)**

(ii) Non-Controlling Interest **(4 marks)**

(iii) Unrealized profits in stock holding **(2 mark)**

(iv) Post Acquisition Profits **(2 mark)**

(v) Consolidated Income Surplus at 31 December 2018 **(3 marks)**

(b) Prepare the Consolidated Statement of Financial Position as at 31 December, 2018. **(10 marks)**

(c) According to IFRS 10, 'a parent company prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances'. However, a parent company need not present consolidated financial statements if it meets certain conditions.

Mention all the conditions that have to be met for a parent to be exempted from preparing consolidated financial statements. (5 marks) (TOTAL 30 MARKS)