Index Number……………………………Signature…………………………………Date……………

CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI, GHANA
CSUC SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE

END OF FIRST SEMESTER EXAMINATIONS – 2021/22 ACADEMIC YEAR

LEVEL 400

CSBF 414: CORPORATE REPORTING

JUNE, 2022 **100 MARKS** **TIME ALLOWED: 3 HOURS**

GENERAL INSTRUCTIONS TO CANDIDATES:

- Answer *all* questions.
- Write your index number on top of the question paper and every page of the answer booklet used.

Examiner: Abraham Osei-Wusu (CA)

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QUESTION 1

The following are the draft statements of financial position of Yvette Ltd and its subsidiary, Angela Ltd as at 31st December 2020.

	Yvette	Angela
Non-current assets	GHC	GHC
Property, plant and equipment	100,000	76,000
Investment in Angela Ltd 40,000 equity shares	50,000	
	150,000	76,000
Current assets		
Inventory	95,000	40,000
Receivables	70,000	19,000
Bank	30,000	3,000
Current account with Angela	8,000	
	203,000	62,000
Total assets	353,000	138,000
Capital and reserves		
Equity shares issued at GHS 1 each	100,000	60,000
Income surplus	90,000	36,000
	190,000	96,000
Current liabilities		
Sundry	163,000	36,000
Current account with Yvette		6,000
Total equity and liabilities	353,000	138,000

You ascertain the following additional information:

1. Yvette purchased its shareholding in Angel on 30th June 2020.
   The income surplus of Angela consists of the following:

	GHS
Balance as at 31st December 2019	18,000
Profit for the year	18,000
	36,000

2. On June 30th 2020, the fair value of Angela's property, plant and equipment exceeded their book value by GHS3,000. It is the group policy to depreciate such assets over five years.
3. In July 2020, Angela paid an ordinary dividend for 2019 of GHS6,000. The dividend had been provided for in Angela's statement of financial position as at 31st December 2019. Yvette has credited its share of the dividend received to income.
4. On 1st November 2020, Yvette sold goods to Angela for GHS15,000 at a profit of 20% on selling price. One half of the goods are still in inventory of Angela at 31st December 2020.
5. The difference in the current account balances represents cash in transit.
6. Any goodwill on consolidation should be treated in accordance with IFRS 3.

Required:
Prepare Yvette Ltd's consolidated statement of financial position as at 31st December, 2020.

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(20 marks)

QUESTION 2

Esthy Ltd is a medium-sized manufacturing company that plans to increase its capacity. The following are the most recent financial statements of the company:

Income statements for years ending 31st December,

	2021	2020
	GH¢'m	GH¢'m
Sales	5,000	5,000
Cost of sales	(3,000)	(3,000)
Gross profit	1,900	2,000
Administrative and distribution expenses	(400)	(250)
Profit before interest and tax	1,500	1,750
Interest	(400)	(380)
Profit before tax	1,100	1,370
Tax	(330)	(400)
Profit after tax	770	970
Dividends	(390)	(390)
Profit after taxation transferred to income surplus account	380	580

Statements of financial position as at 31st December,

	2021		2,020	
	GH¢'m	GH¢'m	GH¢'m	GH¢'m
Non-current assets		6,500		6,400
Current assets				
Inventory	1,170		1,000	
Debtors	850		900	
Cash	130		100	
	2,150		2,000	
Current liabilities	(1,150)		(1,280)	
		1,000		720
		7,500		7,120
10% Debentures		(3,500)		(3,500)
Net assets		4,000		3,620
Capital and surplus		4,000		3,620

Additional information:

The average data for the business sector in which Esthy Ltd. operates is as follows:

Gearing (book value of debt/book value of equity	60%
Interest cover	4 times
Current ratio	2:1
Inventory days	90 days
Profit before interest and tax/capital employed	25%

You are required to:

Analyse and comment on the performance of the company based on the above sector average data.
(20 marks)

QUESTION 3

In 2021, the shareholders of Vero Ltd decided to sell their equity stake in the company. The company is not listed and the new shareholders plan to prepare the company for listing once the acquisition was completed. The summarized financial statements of Vero Ltd for the year ended 30th June, 2021 are stated below:

Statement of income for the year ended

	GH¢
Profit before tax	24,800,000
Taxation	(8,000,000)
Profit after tax	16,800,000
Dividends	(3,200,000)
Retained Earnings	13,600,000

Statement of Financial Position as at 30th June, 2021

	GH¢
Non-Current Assets	62,400,000
Current Assets	21,400,000
	83,800,000
Current Liabilities	12,800,000
Long Term Liabilities	35,000,000
	47,800,000
Net Assets	36,000,000
Stated Capital	20,000,000
Retained Earnings	16,000,000
	36,000,000

The following additional information is provided; GH¢

(i) The discounted present value of future cash payments in respect of the long term loan is GH¢48,800,000.

(ii) The stated capital of Vero Ltd is made up of 25,000,000 ordinary shares of no par value.

(iii) Current Assets include inventory of GH¢6,600,000 representing goods received from a major supplier on "not for sale but display only" basis.

(iv) The fair value of the tangible non-current assets was GH¢116,000,000.

(v) The profit for the current year includes VAT of 17.5% on turnover of GH¢8,500,000 being
invoice amount sold to a customer.

(vi) The discount rate of Vero Ltd is 10% per annum.

(vii) Warehouse Ltd, a major competitor of Vero Ltd is listed with a P/E ratio of 9 and dividend yield of 5.2.

(viii) Profits after tax over the 4 years were as follows;

	GH¢
30th June 2014	12,000,000
30th June 2013	14,400,000
30th June 2012	6,400,000
30th June 2011	11,200,000

Required:
Compute the value to be placed on the ordinary shares using three methods of valuation (Earnings, Dividend Yield and the Price Earnings) and advise the Directors accordingly.

(20 marks)

QUESTION 4

(a) On 1st January, 2018 an entity grants 100 shares options to each of its 500 employees. Each grant is conditional upon the employee working for the entity until 31st December, 2020. At the grant date the fair value of each share option is GH¢15.

During 2018 20 employees left and the entity estimated that a total of 20% of the 500 employees will leave during the three-year period.
During 2019, a further 20 employees left and the entity now estimates that only a total of 15% of its 500 employees will leave during the three-year period.
During 2020, a further 10 employees left.

You are required to:
Calculate the remuneration expense that will be recognized in respect of the share-based payment transaction for each of the three years ended 31st December, 2020.

(10 marks)

(b) A company that extracts natural gas and oil has a drilling platform in the Caspain Sea. It is required by legislation of the country concerned to remove and dismantle the platform at the end of its useful life. Accordingly, the company has included an amount in its accounts for removal and dismantling costs, and is depreciating this amount over the platform's expected life.

The company is carrying out an exercise to establish whether there has been an impairment of the platform. Its carrying amount in the statement of financial position is GH¢3m. The company has received an offer of GH¢2.8m for the platform from another oil company. The bidder would take over the responsibility (and loss for dismantling and removing the platform at the end of its life).

The present value of the estimated cash flows from the platform's continued use is GH¢3.3m. The carrying amount in the statement of financial position for the provision for dismantling and removal is currently GH¢0.6m

You are required to
What should be the value of the drilling platform in the statement of financial position, and what, if anything, is the impairment loss?

(10 marks)
(Total: 20 marks)

QUESTION 5
Fairpoint Ltd is a retail trading company in Ghana. Nana Yaa Dufie (member of ICAG) is the finance director and has been in this role for many years. Fairpoint Ltd has a year-end of 30th June each year. Nana Yaa Dufie is finalizing the financial statements for the year ended 30th June, 2019.

On one hand, the warehouse manager of Fairpoint Ltd has recently advised Nana Yaa Dufie of a significant level of slow moving inventory, and that the inventory in question is now more than seven months old and per the company policy would usually have been written down some months previously.

On the other hand, the shareholders of Fairpoint Ltd are trying to sell the company, and the Chief Executive Officer (CEO) who happens to be the majority shareholder of Fairpoint Ltd. has told Nana Yaa Dufie that it is not necessary to write down the inventory values in the yearend financial statements.

Nana Yaa Dufie is sure that the CEO wants the financial statements to carry an inflated inventory valuation because he has found a prospective buyer for the company. The CEO has indicated to Nana Yaa Dufie that, if the proposed deal is indeed successful, all employees will keep their jobs (including Nana Yaa Dufie) and the finance director (Nana Yaa Dufie) will receive a pay rise.

Required:
Explain how the finance director could potentially act in order not to breach the fundamental principles of the IFAC's code of ethics.

(20 marks)