Index Number..............................Signature..Date..............

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

END OF FIRST SEMESTER EXAMINATIONS – 2020/21 ACADEMIC YEAR

LEVEL 400
CSBF 414: CORPORATE REPORTING

MAY, 2021 **40 MARKS** **TIME ALLOWED: 1 HR, 20 MINUTES**

GENERAL INSTRUCTIONS TO CANDIDATES:

- Answer *two* questions. Question one is *compulsory* and choose any other question.
- Write your index number on top of the question paper and every page of the answer booklet used.

Examiner: Abraham Osei-Wusu (CA)

Index Number.................................Signature...Date..............

QUESTION 1

The summarized Statements of Financial Position of Patrick Ltd and Collins Ltd as at 31st December, 2020 were as follows:

	Patrick	Collins
	GHS	GHS
Non-Current Assets	80,000	58,200
Investment	84,000	
Total Non-Current Assets	164,000	58,200
Current Asset:		
Inventory	18,000	12,000
Trade & Other Receivables	62,700	21,100
Cash & Bank Balances	10,000	5,500
Current Account: Patrick Ltd.		3,200
Total Current Assets	90,700	1,800
Total Assets	254,700	100,000
Equity & Liabilities		
Trade & Other Payables	35,000	11,000
Current Accounts: Collins Ltd	2,700	
Total Liabilities	37,700	11,000
Equity Funds		
Stated Capital	120,000	60,000
Income Surplus	56,000	16,000
Capital Surplus	41,000	13,000
Total Equity Funds	217,000	89,000
Total Liabilities & Equity	254,700	100,000

The following information is relevant:

1. On 1st January, 2019, Patrick Ltd acquired 48,000 of the equity shares in Collins Ltd for GHS84,000 cash when the balance on the income surplus of Collins Ltd was GHS8,000 whilst the balance on the capital surplus account was GHS13,000.

2. On the date of acquisition, one item of plant of Collins Ltd with a book value of GHS4,000 had a fair value of GHS6,000. The plant had a remaining economic life of four years. The fair valuation had not been reflected in the separate statement of financial position of Collins Ltd.

3. During the year, Collins Ltd sold goods to Patrick Ltd at a mark-up of 25%. As at the end of the year inventories of Patrick Ltd included GHS4,000 of goods from Collins Ltd.

4. A cheque for GHS500 from Patrick Ltd to Collins sent before 31st December, 2020 was not received by the latter company until January, 2021

5. An impairment review at 31st December, 2020 revealed that the goodwill in respect of Collins Ltd had fallen in value over the year by GHS500. By 1st January, 2021, this good would have already suffered impairments totalling GHS1,700.

6. The stated capitals of Patrick Ltd and Collins Ltd are made up of 120,000 and 60,000 issued ordinary shares respectively. The shares were issued at GHS1.00 each.

You are required to:
Prepare the consolidated statement of financial position of the Patrick Ltd group as at 31st December, 2020.

(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,

	2019	2018
	GHC'm	GHC'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,

	2019		2,018	
	GHC'm	GHC'm	GHC'm	GHC'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

Rita is a public listed company. Its summarized financial statements for the year ended 31st March, 2019 and comparative figures are shown below.
Statement of comprehensive income for the year ended 31st March:

	2019	**2018**
	GHC'm	**GHC'm**
Revenue	2,700	1,802
Cost of sales	(1,890)	(1,902)
Gross profit	810	728
Distribution costs	(230)	(130)
Administrative expenses	(345)	(200)
Finance costs	(40)	(5)
Profit for the year	195	393
Income tax expense	(60)	(113)
Profit for the year	135	280
Other comprehensive income	80	Nil
Total comprehensive income	215	280

Statement of financial position as at 31st March:

	2019	2018
	GHC'm	GHC'm
Non-current assets		
Property, plant and equipment	680	410
Intangible asset: manufacturing licence	300	200
Investment at costs: shares in Nich Mall	230	Nil
	1,210	610
Current assets		
Inventory	200	110
Trade receivables	195	75
Bank	nil	120
Total assets	**1,605**	**915**
Equity and liabilities		
Equity shares of GHS1 each	350	250
Reserves:		
Revaluation	80	Nil
Income surplus	375	295
	805	545
Non-current liabilities		
5% loan notes	100	100
10% secured loan notes	300	Nil
Current liabilities		
Bank overdraft	110	Nil
Trade payables	210	160
Current tax payable	80	110
Total equity and liabilities	**1,605**	**915**

The following information is relevant:

1. Depreciation/amortization charges for the year ended 31st March, 2019 were:

	GHC'm
Property, plant and equipment	115
Intangible asset: manufacturing licence	25

2. There were no sales of non-current assets during the year, although property has been revalued.

You are required to:

Prepare the statement of cash flows for the year ended 31st March, 2019 for Rita in accordance with the indirect method in accordance with IAS 7 Statement of Cash Flows.

(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 GHs15.

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) On 1st January, 2018, Fairpoint Ltd. issued a GH¢50 million three year convertible bond at par.

- There were no issue costs.
- The coupon rate is 10% payable annually in arrears on 31st December.
- Bondholders may opt for conversion. The terms of conversion are two shares for every GH¢1 owed to each bondholder on 1st January, 2021.
- Bonds issued by similar companies without any conversion rights currently bear interest at 15%.
- Assume that all bondholders opt for conversion in full.

You are required to:
How this will be accounted for by Fairpoint Ltd.?

(10 marks)
(Total: 20 marks)