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 500

MACF 503: FINANCIAL REPORTING

APRIL, 2022 **100 MARKS** **TIME ALLOWED: 3 HRS**

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); Newman Amaning (CA)

QUESTION 1

The following trial balance relates to Fairpoint Ltd at 31st March 2021.

	GHS'000	GHS'000
Revenue (note i)		490,000
Cost of sales	290,600	
Distribution costs	33,500	
Administrative expenses	36,800	
Loan note interest and dividends paid (notes iv and v)	13,380	
Bank interest	900	
20-year leased property at cost (note ii)	100,000	
Plant and equipment at cost (note ii)	155,500	
Accumulated amortisation/depreciation at 1st April 2020:		
Leased property		25,000
Plant and equipment		43,500
Inventory at 31st March 2021	61,000	
Trade receivables	63,000	
Trade payables		32,200
Bank		5,500
Equity shares of 25Gp each (note iii)		78,400
Capital reserve		2,600
Income surplus at 1st April 2020		26,080
5% convertible loan note (note iv)		50,000
Current tax (note vi)	3,200	
Deferred tax (note vi)		4,600
	757,880	757,880

The following notes are relevant:

(i) Revenue includes an amount of GH¢20 million for cash sales made through Fairpoint Ltd's retail outlets during the year on behalf of Bremensu. Fairpoint Ltd, acting as an agent, is entitled to a commission of 10% of the selling price of these goods. By 31st March 2021, Fairpoint Ltd had remitted to Bremensu GH¢15 million (of the GH¢20 million sales) and recorded this amount in cost of sales.

(ii) Plant and equipment is depreciated at 12 1/2% percent (twelve and half) on the reducing balance basis. All amortization/depreciation of non-current assets is charged to cost of sales.

(iii) Fairpoint Ltd was incorporated five years ago with a fully paid up capital of no par value issued at 25Gp. No further issue of shares was made up to 30th July 2020. On 1st August 2020, Fairpoint Ltd made a fully subscribed rights issue of 64 million equity shares of no par value issued at 35Gp each.

(iv) On 1st April 2020, Fairpoint Ltd issued 5% GH¢50 million convertible loan note at par. Interest is payable annually in arrears on 31st March each year. The loan note is redeemable at par or convertible into equity shares at the option of the loan note holders on 31st March 2023. The interest on an equivalent loan note without the conversion rights would be 8% per annum.

The present values of GH¢1 receivable at the end of each year, based on discount rate of 5% and 8% are:

		5%	8%
End of year	1	0.95	0.93
	2	0.91	0.86
	3	0.86	0.79

(v) An equity dividend of 4 pesewas per share was paid on 30th May 2020 and after the rights issue, a further dividend of 2 pesewas per share was paid on 30th November 2020.

(vi) The balance on current tax represents the under/over provision of the tax liability for the year ended 31st March 2020. A provision of GH¢28 million is required for current tax for the year ended 31st March 2021 and at this date the deferred tax liability was assessed at GH¢8.3 million.

You are required to:

(a) Prepare the income statement for Fairpoint Ltd for the year ended 31st March 2021. ***(10 marks)***

(b) Prepare the statement of financial position for Fairpoint as at 31st March 2021. ***(10 marks)***

(Total = 20 marks)

QUESTION 2

(a) On 1st July 2021, the JD Group acquired a newly constructed oil platform at a cost of GH₵60million together with the right to extract oil from an offshore oilfield under a government licence. The terms of the licence are that JD Group will have to remove the platform (which will then have no value) and restore the sea bed to an environmentally satisfactory condition in 10 years' time when the oil reserves have been exhausted. The estimated cost of this on 30th June 2031 will be GH₵30million. The present value of GH₵1 receivable in 10 years at the appropriate discount rate for JD Group of 8% is GH₵0.46.

You are required to:

Explain and quantify how the oil platform should be treated in the financial statements of the JD Group for the year ended 30th June 2021. ***(6 marks)***

(b) CSUC Msc Ltd. has the following items, among many others, in its trial balance:

	Debit	Credit
	GH¢	GH¢
Tax	200	
Deferred tax at start of year		17,500

The following notes are relevant:
The balance of tax represents the amount left after payment of tax for the previous year. The directors have estimated the provision for corporation tax for the current year at GH¢22 million. The opening deferred tax provision is to be adjusted to a credit balance of GH¢14 million.

You are required to:
Show how much to be charged to the income statement in respect of tax for the current year, and how should these items be presented in the statement of financial position?

(7 marks)

(c) Alfa limited issued a GH¢5,000,000 18% convertible loan note at par on 1 July 2015 with interest payable annually in arrears. Three years later, on 30 June 2018, the loan note becomes convertible into equity shares on the basis of GH¢100 of loan note for 50 equity shares or it may be redeemed at par in cash at the option of the loan note holder. The Financial Accountant of Alfa Limited has observed that the use of a convertible loan not was preferable to a non-convertible loan as the latter would have required an interest rate of 24% in order to make it attractive to investors.

The present value of GH¢1 receivable at the end of the year, based on discount rates of 18% and 24% can be taken as:

Year	18%	24%
1	0.847	0.806
2	0.718	0.650
3	0.609	0.524

You are required to:
Show the accounting treatments for the convertible loan note in Alfa Limited's:
(i) Income statement for the years ended 30 June 2016, 2017 and 2018
(ii) The statement of financial position as at 30 June 2016, 2017 and 2018.

(10 marks)

(d) A socially responsible multinational corporation (AB and Baidoo Ltd) decided to construct a tunnel that will link two sides of the village that were separated by a natural disaster years ago. Realizing its role as a good corporate citizen, the AB and Baidoo Ltd. has been in this village for a couple of years exploring oil and gas in the nearby offshore area. The tunnel would take two years to build and the total capital outlay needed for the construction would be not less than GH¢20 million. To allow itself a margin of safety, the (AB and Baidoo Ltd. borrowed GH¢22 million from three sources and used the extra GH¢2 million for its working capital purposes. Financing was arranged in this way:

- Bank term loans: GH¢5 million at 7% per annum
- Institutional borrowings: GHS7 million at 8% per annum
- Corporate bonds: GH¢10 million at 9% per annum

In the first year, the idle funds were invested for a period of six months. Income from this investment was GHS500, 000.

You are required to:
Under IAS 23, Show how AB and Baidoo Ltd. will treat the borrowing costs under IAS 23.

(10 marks)

(e) Odwira Ltd operates in the mining industry with a financial year end 31st December, 2020. On 1st January, 2020, Odwira Ltd began to lease a group of machines that were used in the production process. The lease was for five years, and the total annual rental (payable in arrears) was GH¢8 million. The lessor paid GH¢30 million for the machines on 31 December 2019. The lessor has advised Odwira Ltd that the interest rate implicit in the lease can be taken as 10%. The estimated useful economic life of the machines were five years.

You are required to:
Show the accounting treatment of the above transaction, in accordance with IFRS 16: Leases.

(7 marks)

(Total: 40 marks)

QUESTION 3

The draft statement of financial positions of New Age Ltd as on 30 September 2021 and 2020 are given below:

	30/09/21	30/09/20
	GH¢	GH¢
Freehold property at cost or valuation	225,000	186,700
Plant and Machinery at cost	194,300	190,200
Fixtures and Fittings at cost	94,800	89,200
15% Treasury stock at cost (at par)	40,000	50,000
Stocks	129,300	112,500
Debtors	126,800	145,300
Bank	87,600	=
	897,800	**773,900**
Bank loan	-	5,000
Bank overdraft	-	48,800
Creditors	132,700	91,700
Corporation Tax	46,800	47,800
Dividends	24,300	15,900
Depreciation on plant and machinery	58,800	41,500
Depreciation of fixtures and fittings	31,400	22,700
Mortgage	138,000	174,000
Stated Capital	250,000	200,000
Income Surplus	153,700	126,500
Revaluation surplus	38,300	–
Hire Purchase Liability (capital element)	23,800	=
	897,800	**773,900**

You also obtain the following information:

i) The mortgage was taken out in 2020 for a period of 5 years. Interest and capital repayments are made monthly and during the year ended 30 September 2021, net interest paid to the lender was GH¢13,200.

ii) Plant and equipment costing GH¢30,400 was purchased half way through the year under a hire purchase agreement. Hire purchase interest of GH¢1,900 has been charged to the Profit and Loss account.

iii) Interest on the treasury stock, part of which was sold on 30th September 2013 at book value, was received on 1st January and 1st July 2021.

iv) Machinery costing GH¢26,300 had been written down to GH¢5,900 was sold for GH¢3,700.

v) The dividend payable for the year ended 30th September 2020 was paid on 1st February 2021. Corporation tax relating to the year ended 30th September 2020 was paid in November 2021.