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

CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI, GHANA
CSUC SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE
MSC ACCOUNTING AND FINANCE
END OF SECOND SEMESTER EXAMINATIONS – 2020/21 ACADEMIC YEAR

JANUARY ADMISSION

LEVEL 500

MACF 506: FINANCIAL STATEMENT ANALYSIS

AUGUST, 2022	**100 MARKS**	**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.

Examiners: Abraham Osei-Wusu **(CA)/Newman Amaning (CA)**

QUESTION 1

Angela acquired 800,000 of Adoma's equity shares of no par value issued at GHC1 each on 1st October 2019. One year later on 1st October 2020, Angela acquired 200,000 shares of par value issued at GHC1 each in Christy for GHC800,000. The statements of financial position of the three companies at 30th September 2021 are shown below.

	Angela	Adoma	Christy
Non-current assets	GHC000	GHC000	GHC000
Property, Plant and Equipment	3,980	2,300	1,400
Patents	250	420	nil
Investments: -in Adoma	2,500		
-in Christy	800		
-others	150	200	0
	7,680	2,920	1,400
Current assets			
Inventory	570	400	300
Trade receivables	420	380	400
Bank	Nil	150	120
	990	930	820
Total assets	8,670	3,850	2,220
Captital and reserves			
Equity shares	2,000	1,000	500
Share deals	1,000	500	100
Retained earnings	4,500	1,900	1,200
	7,500	3,400	1,800
Non-current liabilities			
Deferred tax	200	nil	80
Current liabilities			
Trade payables	550	330	280
Taxation	140	nil	60
Proposed dividends	200	120	Nil
Bank overdraft	80	nil	Nil
	970	450	420
	8,670	3,850	2,220

The following information is relevant

i) The balances of retained earnings of the three companies were:

	Angela	Adoma	Christy
	GHC000	GHC000	GHC000
At 1st October 2019	2,000	1,200	500
At 1st October 2020	3,000	1,500	800

ii) At the date of acquisition, the fair values of Adoma's net assets were equal to their carrying amounts with the exception of a plot of land that had a fair value of GHC200,000 in excess of its book value.

iii) On 26th September 2021, Angela processed an invoice for GHC50,000 in respect of an agreed allocation of central overhead expenses to Adoma, at 30th September 2021,

Adoma had not accounted for this transaction. Prior to this the current account between the two companies had been agreed at Adoma owing GHC70,000 to Angela.

iv) During the year Christy sold goods to Angela at a selling price of GHC140,000 which gave Christy a profit of 40% on cost. Angela had one half of these goods in inventory at 30th September, 2021.

v) Angela has not yet accounted for its share dividend from Adoma.

vi) One fifth of goodwill is impaired and should be written off.

You are required to:
Prepare a consolidated statement of financial position as at 30th September, 2021.

(20 marks)

QUESTION 2

Fairpoint Ltd is a prosperous private company, whose owners are also the directors. The directors have decided to sell their business and have begun a search for organisations interested in the purchase. They have asked for your assessment of the price per ordinary share a purchaser might be expected to offer. Relevant information available is as follows:

Statement of financial Position as at 31st December, 2021

	GH¢M	GH¢ M
Land and Buildings		800
Plant and equipment		450
Motor vehicles		55
Patents		22
		1,307
Current assets		
Inventories	250	
Receivables	125	
Cash	8	
	383	
Current Liabilities		
Payables	(180)	
Taxation	(50)	
	(230)	
Net Current assets		153
Loan secured on property		(400)
		1,060
Stated capital (300,000 ordinary shares)		300
Income Surplus		760
		1,060

The profit after tax and interest but before dividends over the last five years have been as follows.

Year	GH¢M
2017	80
2018	78
2019	87
2020	95
2021	100

The annual dividend has been GH¢45 million (gross) for the last 6 years. The company's five your plan forecasts an after-tax profit of GH¢ 100 million for the next 12 months with an increase of 4% a year over each of the next 4 years. As part of their preparations to sell the company, the direction of Fair Point Ltd have had the noncurrent assets re-valued by an independent expert with the following result

	GH¢M
Land and building	1,075
Plant and machinery	480
Motor vehicle	45

The dividend yield and the P/E ratios of three quoted companies in the same industry as ABC over the last three years have been as follows.

	A LTD		B LTD		C LTD	
	D/y %	P/E	D/y %	P/E	D/y %	P/E
2021	12.0	8.5	11.0	9.0	13.0	10.0
2020	12.0	8.0	10.6	8.5	12.6	9.5
2019	12.0	8.5	9.3	8.0	12.4	9.0
Average	12.0	8.33	10.3	8.5	12.7	9.5

Large companies in the industry apply an after-tax cost of capital of about 18% in acquisition proposals when the investment is not backed by tangible assets, as opposed to rate of only 14% on the tangible assets.

Your assessment of the net cash flows which will accrue to a purchasing company allowing for taxation and capital expenditure required after the acquisition to achieve the company's target five-year plan, is as follows

Year	Cash Flow (GH¢m)
1	120
2	120
3	140
4	70
5	120

You are required to:

To determine the value per share of the business using the following and interpret your answers:

i. Earnings yield / Price Earnings ratio method;
ii. Dividend yield basis;
iii. Dividend Growth method;
iv. Discounted Cashflow technique;
v. Replacement Cost based valuation; and

vi. Book value-based valuation

(20 marks)

QUESTION 3

Opuni Ltd has incurred losses for many years. However, the company is developing a new product, which is expected profits of GH¢400,000 per annum in anticipation of an immediate capital injection of GH¢2,000,000. The company's Statement of Financial Position as at 31st December, 2021 is as follows:

ASSETS	GH¢
Property, plant and equipment	3,250,000
Inventories	1,000,000
Accounts receivables	500,000
	4,750,000
LIABILITIES & EQUITY	
Ordinary share capital (GH¢1.00)	2,000,000
10% Preference shares	750,000
15% Debentures (unsecured)	1,000,000
Accounts payables	1,000,000
Bank overdraft	750,000
Income surplus	(750,000)
	4,750,000

The bank overdraft is secured against the property, plant and equipment.

In the event of a forced sale the assets would probably raise the following amounts.

	GH¢
Property, Plant and Equipment	1,500,000
Inventories	400,000
Account Receivables	350,000

The Directors are therefore proposing a capital re-organisation of the company on the following basis:

(i) The ordinary share capital should be written down to 200,000 share of GH¢1.00 each.

(ii) The 10% preference shares are to be converted into 150,000 ordinary shares valued at GH¢1 per share.

(iii) GH¢650,000 of the 15% debenture should be converted into GH¢350,000 10% Debentures.

(iv) Trade creditors to accept a moratorium of six (6) months in payment of amounts currently due them. New supplies will be paid for on delivery.

(v) A two for-one rights issue will be made at a price of GH¢1 per share for cash after the above conversions.

(vi) Property, plant and equipment are to be revalued at GH¢2,250,000, inventories at GH¢600,000 and account receivables at GH¢450,000.

(vii) The accumulated losses are to be written off.

(viii) The corporate tax rate is 25%.

(ix) Liquidation expenses will amount to GH¢10,000.

You are required to:

a) Prepare a statement of financial position after reconstruction on the assumption that the capital injection takes place.

(10 marks)

b) Prepare a statement of distribution if the company were to be liquidated now.

(10 marks)
(Total: 20 marks)

QUESTION 4

New Age 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
	GHS'm	GHS'm
Sales	5,000	5,000
Cost of sales	(3,100)	(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	
	GHS'm	GHS'm	GHS'm	GHS'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:
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
Return 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 5

a) On 1st January 2017 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 leave 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 leave 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 leave.

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) Best Era Ltd is a retail trading company in Ghana. Abigail Asantewaa (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. Abigail Asantewaa is finalizing the financial statements for the year ended 30th June, 2019.

On one hand, the warehouse manager of Fairpoint Ltd has recently advised Abigail Asantewaa 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 Abigail Asantewaa that it is not necessary to write down the inventory values in the yearend financial statements.

Abigail Asantewaa 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 Abigail Asantewaa that, if the proposed deal is indeed successful, all employees will keep their jobs (including Abigail Asantewaa) and the finance director (Abigail Asantewaa) will receive a pay rise.

You are required to:

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

(10 marks)

(Total: 20 marks)