SOLUTION: CORPORATE REPORTING STRATEGY, NOV 2007

(a) **Shareholding**

	B Ltd	C Ltd	D Ltd
	%	%	%
Group - 1/10/2005	70		
Group - 1/4/2004			25
Group - 30/6/2006			
70% x 60	70	42	-
Minority Interest	30	58	
	100	100	25
	Sub	**Sub**	**Ass**

COST OF CONTROL - GOODWILL ACCOUNT B LTD

Investment	400,000	Stated Capital 500,000 x 70%	350,000
Cost of benefit	210,000	Grant 100,000 x 70%	70,000
		Inc. Surplus 200,000 x 42%	140,000
		Goodwill	50,000
	610,000		610,000

COST OF CONTROL - GOODWILL ACCOUNT C LTD

Investment 230,000 x 70%	161,000	Stated Capital 400,000 x 42%	168,000
Income surplus 120,000 x 42%	50,400	Grant 200,000 x 70%	8,400
Cost of benefit		Goodwill	35,000
	211,400		211,400

COST OF CONTROL - GOODWILL ACCOUNT D LTD

Investment	160,000	Stated Capital 400,000 x 25%	100,000
		Inc. Surplus 148,000 x 25%	37,000
		Goodwill	23,000
	160,000		160,000

MINORITY INTEREST ACCOUNT

Investment 230,000 x 30%	69,000	B Ltd Stated Capital – Ord. 500,000 x 30%	150,000
CBS	834167	Pref. Shares	100,000
		Inc. Surplus 450,000 x 30%	135,000
		C Ltd Stated Capital 400,000 x 58%	232,000
		Pref. Shares 197,530 x 58%	100,000
		Inc. Surplus 197,530 x 58%	114,567
		Rev. surplus 20,000 x 58%	11,600
		Capital 200,000 x 30%	60,000
	903,167		903,167

CONSOLIDATED INCOME SURPLUS

			GH¢
Unrealized Profit		Bal B/f	500,341
		Post Ag. Of B Ltd (450,000	
(20% x 50,000)	10,000	- 200,000) x 70%	175,000
Goodwill		Post Acq of C Ltd (197,530	
B Ltd	50,000	+ 120,000) x 42%	133,363
C Ltd	35,000	Post Acq of D Ltd (300,617	
		- 148,000) x 25%	38,154
D Ltd	23,000		
		A Ltd Pension payment to B Ltd	210,000
CBS	939,858	Over provision of Dep. (10,000 x 20%) x ½	1,000
	1,057,858		1,057,858

Investment in Associated Company – D Ltd

Cost of Investment		160,000
Add post Acq. Profits		38,154
Less Goodwill written off		(23,000)
		175,154

OR

Shareholders fund:		
Stated capital	400,000	
Inc. surplus	300,617	
	700,617	
Group share of 25%		175,154

A LTD AND ITS SUBSIDIARIES CONSOLIDATED
BALANCE SHEET AS AT 30 SEPTEMBER 2007

		GH¢
Non-Current Assets		
Buildings (193,727 + 237,123 + (20,000 + 20,000)		570,850
Plant & equipment (325,320 + 210,000 + 234,500 (10,000 – 1,000)		760,820
Furniture/Fitting (187,435 + 221,451 + 205,760)		614,647
		1,946,317
Investment in Associated		175,154
		2,121,471
Current Assets		
Stock (313,781 + 462,180 + 222,148)	998,109	
Account December (272,400 + 377,246 - 40,000 + 177,115)	786,761	
Cash and Bank (217,681 + 200,000 + 173,174 + 40,000)	630,855	
		2,415,725
		4,537,196
Stated Capital		800,000
Capital Grant (235,000 x 70% x 100,000)		305,000
Income Surplus		939,858
		2,044,888
Minority Interest	834,167	
Long term loan (200,000 + 240,000)	440,000	
		1,274,167
		3,319,025
Current liabilities		
Trade creditors (225,500 + 316,740 + 315,760)	858,000	
Sundry creditors (101000 + 120,000 + 105,422)	326,422	
Accruals (8,504 + 11,260 + 13,985)	33,749	
		1,218,171
		4,537,196

(b) Section 48 of Ghana National Accounting Standard No.20, Accounting for Business Combinations deals with factors to be considered in estimating the useful life of goodwill.

The factors include:

i. the foreseeable life of the business or industry;
ii. the effects of product obsolescence, changes in demand and other economic factors;
iii. the service life expectancies of key individuals or groups of employees;
iv. expected actions by competitors or potential competitors; and
v. legal, regulatory or contractual provisions affecting the useful life.

A Ltd and its subsidiaries - Workings

1. Group structure

	Group	Minority
	%	%
B Ltd – direct holding	70	30
C Ltd – Indirect holding		
70% * 60%	42	58

B Ltd and C Ltd are subsidiaries
D Ltd is an associate

2. Consolidation schedule

	Total	Cost of control in B Ltd	Cost of control in C Ltd	Minority	Capital Grant	Cons. income surplus
	GH¢	GH¢	GH¢	GH¢	GH¢	GH¢
Ordinary shares:						
B Ltd	500,000	350,000		150,000		
C Ltd	400,000		168,000	232,000		
Preference shares						
B Ltd	100,000			100,000		
C Ltd	100,000			100,000		
Capital grant						
A Ltd	235,000				235,000	
B Ltd at acquisition	100,000	70,000		30,000		
B Ltd post acquisition	100,000			30,000	70,000	
Capital surplus						
C Ltd at acquisition	20,000		8,400	11,600		
Income surplus						
A Ltd	500,341					500,341
B Ltd at acquisition	200,000	140,000		60,000		
C Ltd post acquisition	(120,000)		(50,400)	(69,600)		
B Ltd (450,000 –200,000)	250,000			75,000		
C Ltd (120,000+197,530)	317,530			184,167		175,000
Cost of investment						133,363
A Ltd in B Ltd	400,000	(400,000)				
Terminal benefits paid	210,000	(210,000)				210,000
B Ltd in C Ltd	230,000		(138,000)	(92,000)		
Intergroup sale						
Unrealized profit						
20% * 50,000	10,000					(10,000)
Depreciation adjustment						
(20% *6/12 *10,000)	1,000					1,000
Associate						
Post acquisition profit of D Ltd (300,617 – 148,000)	152,617					38,154
		(50,000)	(12,000)	811,167	305,000	1,047,858
Transfer to Cons income surplus		50,000	12,000			(62,000)
Cons. Balance sheet balances		-	-	811,167	305,000	985,858

3. Consolidating balance sheets

	A Ltd	B Ltd	C Ltd	Adj.	Cons. B/S
	GH¢	GH¢	GH¢	GH¢	GH¢
Assets					
Non-current Assets					
Buildings	193,727	237,123	120,000	20,000	570,850
Plant & equipment	325,320	210,000	234,500	(9,000)	760,820
Furniture & fittings	187,436	221,451	205,760		614,647
Long term investments	560,000	230,000	-	(790,000)	-
	1,266,483	898,574	560,260	(779,000)	1,946,317
Investment in Associate					175,154
Current Assets					
Stocks	313,781	462,180	222,148		998,109
Accounts receivable	272,400	377,246	177,115	(40,000)	786,761
Cash & bank balances	217,681	200,000	173,174	40,000	630,855
	803,862	1,039,426	572,437	-	2,415,725
Total Assets	2,070,345	1,938,000	1,132,697	(799,000)	4,560,196
Liabilities and Owners' Equity					
Current Liabilities					
Trade creditors	225,500	316,740	315,760		858,000
Sundry creditors	101,000	120,000	105,422		326,422
Accruals	8,504	11,260	13,985		33,749
	335,004	448,000	435,167	-	1,218,171
Long-term loans	200,000	240,000	-	-	440,000
Minority interest					834,167
Owners' Equity					
Stated capital	800,000	600,000	500,000	(1,100,000)	800,000
Capital grant	235,000	200,000	-	(130,000)	305,000
Capital surplus					-
Income surplus	500,341	450,000	197,530		985,858
	1,535,341	1,1250,000	697,530	(1,230,000)	2,090,858
Total Liabilities Owners' Equity	2,070,345	1,938,000	1,938,000	(1,230,000)	4,560,196

QUESTION 2

DISCOUNTED CASH FLOW

YEAR	PBT	DEP	PROVISIONS	DEV. EXP.	NCF	DIS. FACTOR	PV
2007	7,210	800	100	12,200	20,310	0.8333	16,924
2008	8,050	1,050	(135)	12,200	21,165	0.6944	14,697
2009	8,400	1,100	0	11,800	21,300	0.5787	12,326
2010	12,618	1,350	140	7,640	21,748	0.4823	10,489
2011	10,088	1,500	120	2,810	14,518	0.4019	5,835
							60,271

Price per share = PV of Net Cash Flows/No. of Issued Shares
= 6,027 million/40 million shares
= ¢151 per share

NET ASSETS METHOD

ASSETS:			
Goodwill			5,000
Investments	(4,000 + 12,000)	16,000	
Less decline in market value		2,200	13,800
Fixtures & Equipment			17,000
Copyrights		5,000	
Less decline in value		4,100	900
Motor vehicles			4,300
Computers & accessories			10,360
Development expenditure		49,400	
Less decline in value		17,290	32,110
Stocks		4,700	
Write off		800	3,900
Debtors		5,800	
Less bad debts		2,320	3,480
Cash & bank		11,800	
Less charges & shortages		235	11,565
			102,415
Les Liabilities			
Creditors	59,534		
Less overstatement	20,000	39,534	
Audit fees		201	
Tax		1,400	
Dividends		1,000	
Debentures		11,500	53,635
NET ASSETS			48,780

Price per share = Net Assets/No. of Issued Shares
= 48,780 million/400 million shares

= ¢122 per share

QUESTION 3

a) <u>Contents of Prospectus</u>

(i) A statement at the head that a copy of the prospectus has been delivered to the Registrar of Companies, Ghana for registration. The Registrar has not checked and will not check the accuracy of any statements made and accepts no responsibility therefore for the financial soundness of the company or the value of the securities concerned.

(ii) Full name of the company.

(iii) Full description of the securities which the public are being invited to acquire and terms.

(iv) Whether the application is being made to a stock exchange and if so whether in an approved exchange within the meaning of the code.

(v) Full name, address and occupations of persons making the invitation.

(vi) Company's registered office.

(vii) Name, address and qualification of company auditors.

(viii) Name and address of registration officer if any.

(ix) Name and address of underwriter of the invitation if any.

(x) Name and address of company's bankers, stockbrokers and solicitors

(xi) Description of the authorized business of the company.

(xii) Brief summary of the history of the company.

(xiii) Where the company is proposing to acquire a business, a full description of the nature of that business

(xiv) The situation, area and tenure including where appropriate, rent and unexpired term of any lease or concession of the main places of business and its subsidiaries.

(xv) A statement as to financial and trading prospects of the company.

(xvi) A statement by the directors that in their opinion the company's working capital is sufficient and if not to provide as necessary.

(xvii) The amount or estimated cost of the flotation.

(xviii) A statement of the estimated net proceeds of the issue and how such proceeds were to be applied.

(xix) A statement on the minimum amount which in the opinion of the directors must be raised.

(xx) Particulars of any bank overdraft and a statement to the effect of nill balances.

(xxi) Where the prospectus includes a statement purporting to be made by an expert, a statement that the expert has given and has not withdrawn his written consent to the publication.

(xxii) A reasonable time within 28 days ……… and place certain documents may be inspected:

- Company regulations
- Audited accounts
- Expert opinion
- Accountants report

(xxiii) Management and staff.

b) To: The Directors
XYZ Company Limited

Dear Sirs,

We have performed our limited assurance engagement in respect of the projected financial information set out on papers ---- to ---- of the prospectus dated ------ issued in connection with the proposed raising of $ …….. m by way of invitation to the public.

The projected financial information has been prepared in accordance with the Listing Requirement of the Ghana Stock Exchange.

Directors' Responsibility
The Directors are responsible for the compilation contents and presentation of the projected financial information. Their responsibility includes determining that the forecast financial information has been properly compiled on the basis stated.

Reporting Accountants' Responsibility

Our responsibility is to express our limited assurance conclusion on the financial information included in the prospectus/circular to shareholders.

We conducted our assurance engagement in accordance with the informational standard on Assurance Engagement.

In arriving at our conclusion we have relied on financial information prepared by the directors of ---------- and other information from public and industry sources.

Conclusion

Based on our examination of the evidence obtained, nothing has come to our attention which causes us to believe that in term of the GSE requirements.

- the proposed financial information has not been properly compiled on the basis stated;
- Such basis is not consistent with the accounting policies of the company; and
- The adjustments are not appropriate for the purposes of the financial information disclosed.

QUESTION 4

a) Comments on Company's Performance

Profitability

Profitability may be explained as the amount of income left after a company has settled or made provision for the settlement of all its liabilities and commitments. If so, the figure of profit after tax is the relevant one to consider. Star Ltd has the least proportion of income left after settlements of its liabilities and commitments. Even though it has the least cost of sales, it is unable to manage its selling, general and administrative expenses thus leading to high overhead cost which has eluded its potential profit. Also, the overdraft facility coupled with its high preparation of external financing means a sharp increase in its finance cost.

Light Ltd is slightly better than Star Ltd and this is also caused by increased finance cost resulting from a high overdraft as well as external financing.

Moon Ltd is the best performer and this was achieved largely by its ability to operate within its own resources. Thus, it has no overdraft facility or external borrowing. What is even more, the high level of creditors means that Moon Ltd is indirectly borrowing from them at no cost.

Gearing

Gearing expresses the level at which external stakeholders are financing the operations of the company on a long-term basis and is an indication of the level to which the company is exposed, Star Ltd's 35% external borrowing is really worrisome as the debenture holders can cause a liquidation of the company if its huge debenture interest is not paid.

Light Ltd's 20% is also high but Moon Ltd must be commended highly for its ability to operate from its own resources. This way, the risk of a sudden liquidation of Moon Ltd is effectively zero. This efficiency is reflected in its high dividend pay-out rate resulting from savings of cost that would have gone into interest payment.

<u>Liquidity</u>

Star Ltd is the most liquid of the three companies followed by Light Ltd. However, a close scrutiny shows that Moon Ltd is the best manager of short term resources by being able to collect most of its debts and yet pile up most of its creditors. The almost nil cash balance shows that cash is continually being turned around in investment and is not allowed to sit idle in the form of huge cash/bank balances.

<u>Investment in Fixed Assets</u>

The poor investment in fixed assets by Star Ltd is reflected in its huge selling, general and administrative expenses which effectively wipes away the savings in cost of sales. It could be that some processing machines or haulage vehicles are being hired at huge cost rather than purchased. Even though Light Ltd has some investment in fixed assets, it is Moon Ltd who really has its operations well secured on a portfolio of fixed assets. This way, operation can be guaranteed to continue for a long time to come.

ii. (a) <u>Impart of Redenomination Exercise</u>

- Figures would be simpler and easier to deal with
- Rounding all gains and losses would affect the income statement
- The mid-year change-over from the old to the new currency would require a careful cut-off and merger of accounts.
- Figures may appear unrealistic to a mindset which is accustomed to large numbers
- Price round ups may cause artificial inflation and increase cost of operations
- Past financial statements (e.g. 5 year summaries) may have to be restated to enhance effective comparison.

b) i) Better access is gained to foreign investor funds

ii) Appraisal of companies and oganisations for take-overs and mergers is more straight forward

iii) It is easier to comply with the reporting requirements of overseas Stock Exchanges

iv) Companies and organizations stand to benefit from a reduction in audit cost/fees

v) Transfer of accounting staff across national borders is easier

vi) Facilitates and makes consolidation of foreign subsidiaries easier.

QUESTION 5

COMMODITIES LTD
CPP INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2006

			GH¢	GH¢
Turnover:		$180{,}000 \times \frac{195}{175}$		200,571
Cost of Sales				
Opening stock		$10{,}000 \times \frac{195}{140}$	13,929	
Purchases		$156{,}8000 \times \frac{195}{175}$	174,720	
			188,649	
Closing stock		$22{,}000 \times \frac{195}{190}$	22,579	
			166,070	166,070
Gross Profit				34,501
Depreciation:	i)	$24{,}000 \times 1/5 = 4{,}800 \times \frac{195}{140}$	6,686	
	ii)	$4{,}500 \times 1/5 \times 4/12 = 300 \times \frac{195}{170}$	344	
Interest:	i)	$12{,}000 \times 1/10 \times ½ = 600 \times \frac{195}{160}$	731	
	ii)	$12{,}000 \times 1/10 \times ½ = 600 \times \frac{195}{195}$	600	8,361
Profit before tax				26,140
Taxation		$10{,}000 \times \frac{195}{195}$		10,000
Profit after tax				16,140
Proposed dividend		$4{,}500 \times \frac{195}{195}$		4,500
				11,640
Add: Gain or Net		Monetary Liabilities		3,642
Retained profit				15,282

COMMODITIES LTD
CPP BALANCE SHEET AS AT 31ST DECEMBER 2006

		GH¢	GH¢
Fixed Assets:	i) 24,000 x $\frac{195}{140}$		33,429
	ii) 4,500 x $\frac{195}{170}$		5,162
			38,591
Depreciation (per Income Statement)			7,030
			31,561
Current Assets			
Stock (income statement)		22,579	
Debtors (monetary)		20,000	
Bank (monetary)		7,500	
		50,079	
Current Liabilities			
Creditors (monetary)		12,000	
Taxation (monetary)		10,000	
Proposed dividend (monetary)		45,000	
		26,500	
Net Current Assets			23,579
			55,140
10% Debentures (monetary)			(12,000)
Net Assets			43,140
Financed By			
Stated Capital:	20,000 x $\frac{195}{140}$		27,857
Income Surplus (income statement)			15,282
			43,139

Note

Difference of 1 due to rounded off errors.

NET MONETARY ASSETS ACCOUNT

	GH¢	CPP		GH¢	CPP
Opening Balance			Opening Balance		
Debtors (1/1)	8,000	11,143	Creditors (1/1)	14,000	19,500
Bank (1/1)	4,000	5,571	10% Debentures (1/1)	12,000	16,714
Sales (AV)	180,000	200,571	Purchases (AV)	156,800	174,720
Closing Balance			Loan Interest (30/6)	600	731
Creditors (monetary)	12,000	12,000	Loan Interest (31/12)	600	600
Taxation (monetary)	10,000	10,000	PPE (31/8)	4,500	5,162
Dividend (monetary)	4,500	4,500	Taxation (monetary)	10,000	10,000
10% Debentures (mon.)	12,000	12,000	Dividend (monetary)	4,500	4,500
		255,785			
Gain on Net Monetary					
Liabilities		3,642	Closing Balance		
			Debtors (monetary)	20,000	20,000
			Bank (monetary)	7,500	7,500
	230,500	259,427		230,500	259,427

Workings

i) Calculation of Purchases

Opening stock + Purchases - Closing Stock = COS

10,000 + x - 22,000 = 144,800

x = 144,800 + 22,000 - 10,000

x = 156,800

CALCULATION OF GAIN OR LOSS ON CURRENT MONETARY ITEM

	Historical Cost	Factor	CPP
Net Current Monetary Item at 1/1/06	(2,000)	195/140	(2,786)
Receipts			
Sales	180,000	195/175	200,571
	178,000		197,785
Payments			
Purchases & Expenses	156,800	195/175	174,720
Interest on Loan – 30/6	600	195/160	731
31/12	600	195/195	600
Taxation	10,000	195/195	10,000
Dividend	4,500	195/195	4,500
Purchase of P, P & Equipment	4,500	195/170	5,162
	177,000		195,713
Net current Monetary item at 31/12/06	1,000		2,072
Less H/C net monetary item at 31/12/06			(1,000)
Loss on current monetary item			1,072
Gain in holding monetary liabilities			
10% Debenture 12,000 x 195/140			16,714
Less Historical Cost			12,000
Gain			4,714

INCOME STATEMENT FOR THE YEAR ENDED 31/12/06

	Historical Cost	Factor	CPP
	GH¢		GH¢
Sales	180,000	195/175	200,571
Cost of sales			
Opening stock	10,000	195/140	13,929
Purchases	156,800	195/175	174,720
Closing stock	(22,000)	195/190	(22,579)
	144,800		166,070
Gross Profit	35,200		34,501
Depreciation – 1/1/06	4,800	195/140	6,686
31/8/06	300	195/170	344
Interest on loan 30/6/06	600	195/160	731
31/12/06	600	195/195	600
	6,300		8,361
Profit before tax	28,900		26,140
Loss on net current interest	-		(1,072)
Gain on monetary liabilities	-		4,714
	28,900		29,782
Taxation	(10,000)		(10,000)
Profit after tax	18,900		19,782
Dividend	(4,500)		(4,500)
	14,400		15,282

BALANCE SHEET AS AT 31/12/06

	Historical Cost	Factor	CPP
	GH¢		GH¢
Property Plant & Equipment	24,000	195/140	33,428
30/6/06	4,500	195/170	5,162
	28,500		38,590
Depreciation	(5,100)		(7,030)
	23,400		31,560
Current Assets			
Stock	22,000	195/190	22,579
Debtors	20,000		20,000
Bank	7,500		7,500
	49,500		50,079
Current Liabilities			
Creditors	12,000		12,000
Taxation	10,000		10,000
Dividend	4,500		4,5000
	26,500		26,500
Net Current Assets	23,000		23,579
	46,400		55,139
10% Debenture	(12,000)		(12,000)
Net Assets	34,400		43,139
Financed By			
Stated Capital	20,000	195/140	27,857
Income Surplus	14,400		15,282
	34,400		43,139