CIB GHANA

HONESTY AND INTEGRITY

CHARTERED INSTITUTE OF BANKERS, GHANA
ASSOCIATESHIP EXAMINATION
LEVEL III
FINANCIAL REPORTING, PLANNING AND ANALYSIS
OCTOBER 2022

N.B.

1. Read carefully the instructions on the cover of the answer book.

2. Answer **FOUR (4)** questions as follows:

   SECTION A – ONE COMPULSORY question (**40** marks)
   SECTION B – THREE questions (**20** marks each)

3. Marks allotted are shown in brackets.

4. Silent, non-programmable electronic calculators may be used in this examination. Whether or not candidates use them, it is in their interest to show the basic figures from which their calculations are made.

5. No other aids such as books, dictionaries, papers or mathematical tables are permitted in this examination.

6. Time allowed: **THREE HOURS.**

7. <u>Additional **15** minutes</u> reading time is allowed at the beginning of the examination when candidates may write on this paper but N**OT** in the answer book.

8. The total number of questions in this paper is **SIX (6).**

9. Candidates must ensure that they answer questions in the appropriate answer book and **NOT on loose sheets** which are used only as supplementary sheets. Such answers will be cancelled.

10. **DO NOT WRITE YOUR NAME ON THE ANSWER BOOK.**

11. **DO NOT OPEN THIS QUESTION BOOKLET UNTIL INSTRUCTED TO DO SO.**

QUESTION 1A

IAS 2: Inventories, prescribes the accounting treatment for inventories in financial statements.

You are required to:

(a) Briefly explain how IAS 2: Inventories requires the following to be dealt with.

(i) Fixed production overhead costs.

(ii) The valuation of closing inventories.

(iii) The method to use in the identification of costs when there are large numbers of items which are ordinarily interchangeable.

(12 marks)

(b) State four disclosure requirements of IAS 2: Inventories, in respect of closing inventories.

(8 marks)

(Total: 20marks)

QUESTION 1B

EASY WAY LIMITED

The list of balances of Easy Way Limited shows the following balances at 31st December 2021.

	Dr GH¢000	*Cr* GH¢000
Share capital (600,000 shares)		320
General reserve		20
Accumulated profit 1 January 2021		50
Inventory (goods for resale) at 1 January 2021	60	
Revenue		1,000
Purchases	540	
Purchases returns		26
Sales returns	28	
Carriage outwards	28	
Warehouse wages	80	
Sales representatives salaries	60	
Administrative wages	40	
Warehouse plant and equipment cost	126	
Accumulated depreciation — 1 January 2021		50
Delivery vehicle hire	20	
Goodwill	100	
Distribution expenses	10	
Administrative expenses	30	
Directors' salaries (charge to administrative expenses)	30	
Rental income		16
Trade receivables	330	
Cash at bank	60	
Trade payables		60
	1,542	1,542

The following additional information has been provided:

(1) Inventory of goods for resale at 31 December 2021 amounted to GH¢100,000.
(2) Annual depreciation on warehouse plant and equipment of GH¢32,000 should be provided.
(3) Income tax expense for 2021 amounts to GH¢50,000.
(4) The recoverable amount of goodwill was GH¢90,000.

You are required to prepare:

a) the company's statement of comprehensive income for the year to 31 December 2021; and

b) a statement of financial position at that date in accordance with IAS 1: Presentation of Financial Statements. **(20 marks)**

QUESTION 2

ADJEBINGE LTD.

(a) Adjebinge Ltd. is a wholesaler and retailer of office furniture. Extracts from the company's financial statements are set out below:

Statement of comprehensive Income for the year ended:

		31 March 2022		31 March 2021	
		GH¢'000	GH¢'000	GH¢'000	GH¢'000
Revenue:	— cash	12,800		26,500	
	— credit	53,000	65,800	28,500	55,000
Cost of sales			(43,800)		(33,000)
Gross profit			22,000		22,000
Operating expenses			(11,200)		(6,920)
Finance costs:	— loan notes	(380)		(180)	
	— overdraft	(220)	(600)		(180)
Profit before tax			10,200		14,900
Income tax expense			(3,200)		(4,400)
Profit for the year			7,000		10,500
Other comprehensive income:					
Gain on property revaluation			5,000		1,200
Total comprehensive income			12,000		11,700

Statement of changes in equity for the year ended 31 March 2022

	Stated Capital	Capital Surplus	Income Surplus	Total
	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Balances b/f	8,500	2,500	15,800	26,800
Share issue	12,900			12,900
Comprehensive income		5,000	7,000	12,000
Dividends paid	—	—	(4,000)	(4,000)
Balances c/f	**21,400**	**7,500**	**18,800**	47,700

Statements of financial position as at 31 March:

	2022		2021	
	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Asset				
Non-current assets (see note)				
Cost		93,500		80,000
Accumulated depreciation		(43,000)		(48,000)
		50,500		32,000
Current assets				
Inventories	5,200		4,400	
Trade receivables	7,800		2,800	
Bank		13,000	700	7,900
Total assets		**63,500**		**39,900**
Stated capital		21,400		8,500
Capital surplus		7,500		2,500
Income surplus		18,800		15,800
		47,700		26,800
Non-current liabilities				
10% loan notes		4,000		3,000
Current liabilities				
Bank overdraft	3,600			
Trade payables	4,200		4,500	
Taxation	3,000		5,300	
Warranty provision	1,000	11,800	300	10,100
		63,500		**39,900**

The following additional information has been provided:

1. During the year, the company redesigned its display areas in all of its outlets. The previous displays had cost GH¢10million and had been written down by GH¢9million. There was an unexpected cost of GH¢500,000 for the removal and disposal of the old display areas.

2. The company also revalued the carrying amount of its property during the year upwards by GH¢5million and the accumulated depreciation on these properties of GH¢2million was reset to zero.

3. All depreciation is charged to operating expenses.

You are required to:

Prepare a statement of cash flows for Adjebinge Ltd. for the year ended 31 March 2022 in accordance with IAS 7: Statement of Cash Flows.

(20 marks)

QUESTION 3

SKY Co LTD. is considering acquiring an interest in its competitor, SMART Co LTD. The managing director of SKY Co LTD. has obtained the statements of financial position of SMART Co LTD for the last three years as shown below.

SMART Co LTD. - Statement of financial position at 31st December

	2019	2020	2021
	GH¢000	GH¢000	GH¢000
Non - current assets			
Land and buildings	11,460	12,121	11,081
Plant and equipment	8,896	9,020	9,130
	20,356	21,141	20,211
Current assets			
Inventories	1,775	2,663	3,995
Trade receivables	1,440	2,260	3,164
Cash	50	53	55
	3,265	4,976	7,214
Total assets	**23,621**	**26,117**	**27,425**
Equity			
Share capital	8,000	8,000	8000
Retained earnings	6,434	7,313	7,584
	14,434	15,313	15,584
Non - current liabilities			
12% debentures 2022 - 2025	5,000	5,000	5,000
Current liabilities			
Trade payable	390	388	446
Bank	1,300	2,300	3,400
Income taxes payable	897	1,420	1,195
Dividend payable	1,600	1,696	1,800
	4,187	5,804	6,841
	23,621	**26,117**	**27,425**

You are required to:

Prepare a report for the managing director of SKY Co. LTD. commenting on the financial position of SMART Co Ltd. and highlight any areas that require further investigation (using gearing and liquidity ratios only). **(20 marks)**

QUESTION 4

At the last Annual General Meeting of OJB Ltd., the shareholders were unhappy about the delay in submitting the audited accounts to them for study before the meeting. Management of OJB Ltd attributed the delay in finalizing the accounts to the time spent by the External Auditors in auditing the accounts. It has been discovered that the delay in presenting the accounts for audit is because the Accounts Officer was not sure of the treatment of the following transactions in the financial statements of OJB Ltd. for the year ended 31st December 2016.

1. Stocks of raw materials and finished goods in the company's warehouse have the following details:

	GH¢**000**
Stocks of finished goods	
Direct cost	50,000
Proportion of fixed overhead	10,000
Proportion of selling expenses	5,000
Net Realizable Value	62,000

2. A customer who owed OJB Ltd. an amount of GH¢25,000,000 lost all his business assets through a fire outbreak. OJB Ltd. had not taken an insurance cover over receivables.

3. Research and Development expenditure capitalized during the year amounted to GH¢100,000,000. On further examination, it was noted that an amount of GH¢25,000,000 relating to market research was included in the Research and Development cost capitalized.

4. The company entered into a non-cancellable lease which covered the useful life of the asset. At the inception of the lease, the fair value of the asset was GH¢45,000,000 and was equal to the present value of the minimum lease rentals. The lessee was responsible for both insurance and maintenance of the lease asset. The accounts officer has included only the annual lease rentals of GH¢9,000,000 as a charge in the Statement of Profit and Loss.

<u>You are required to:</u>

Present a report that details out the treatment of the above transactions in accordance with appropriate accounting standards. **(20 marks)**

QUESTION 5

Abenwoha Ltd. produces two products: products Asana and Pito. The two products use two materials: A and B in their production. Employees engaged to produce both products work in two departments: Dept. X and Dept. Y. The company uses a marginal costing system.

You have just assumed the post of Management Accountant at Abenwoha Ltd. After your induction week, the Financial Controller gives you the data below:

Budgeted Data

	Product Asana	Product Pito
	GH¢'000	GH¢'000
Sales for the year	15,000	20,000

Standard data per unit of product:

	Standard price	Product Asana	Product Pito
Direct materials	GH¢ Per Kg	Kg	Kg
A	2	50	100
B	4	100	50

Wages to direct workers:

	Standard wage rate	Product Asana	Product Pito
	GH¢ Per hour	hours required	hours required
Dept. X	20	5	4
Dept. Y	40	4	5

The company's budgeted total variable production overheads and fixed production overheads are GH¢6,000,000 and GH¢3,000,000 respectively. Budgeted labour hours is 600,000 hours. The company earns a markup of 20% on marginal production cost.

Finished goods inventories are valued at standard marginal production cost per unit and are as follows:

	Product Asana	Product Pito
	GH¢'000	GH¢'000
Opening inventories	720	840
Closing inventories	432	798

You are required to:

Use the data given above to prepare the following budgets:

(a) Production budget in units

(b) Direct materials cost budget

(c) Direct materials purchases budget

(d) Direct labour utilization budget

(e) Direct wages cost budget **(Total: 20 marks)**

QUESTION 6

Explain FIVE (5) characteristics of a Good Corporate Governance System.

(Total: 20 marks)