FINANCIAL REPORTING ANALYSIS AND PLANNING
APRIL 2020
MARKING SCHEME

Q.1

ZAMSI LTD

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENED 31/12/2019

	GH¢000
Sales	3,800,000
Cost of Sales	(2,195,000)
Gross Profit	1,605,000
Other Income	55,500
Selling & Distribution expenses	(435,000)
Administrative Expenses	(534,000)
Finance Expenses	(80,000)
Profit before tax	611,500
Taxation expenses	(241,125)
Profit after tax	370,375
Other Comprehensive Income	-
Total Comprehensive Income	370,375

ZAMSI LTD

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER, 2019

	SHARE CAPITAL GH¢000	CAPITAL SUPLUS GH¢000	RETAINED EARNING GH¢000	TOTAL GH¢000
Opening balance	1,500,000	100,000	(95,000)	1,505,000
Profit after tax			370,375	370,375
Interim dividends			(40,000)	(40,000)
	1,500,000	100,000	235,375	1,835,375

ZAMSI LTD

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER, 2019

NON-CURRENT ASSETS:	**GH¢,000**
Buildings	1,050,000
Office Equipment	449,000
Delivery Van	400,000
	1,899,000
Current Assets:	
Inventories	45,000
Receivables (90,000 – 9,000)	81,000
Investment – Fixed Deposits	210,000
Bank balance	200,000
Cash in hand (13,000 + 1,500)	14,500
	550,500
Total Assets	**2,449,500**
Equity:	
Share Capital	1,500,000
Capital Surplus	100,000
Retained Earnings	235,375
	1,835,375
Non-Current Liability	
20% Debentures	400,000
Deferred Taxation	750
	400,750
Current Liabilities	
Payables	75,000
Accruals (40,000 + 3,000)	43,000
Taxation	95,375
	213,375
Total Equity and Liabilities	**2,449,500**

SCHEDULE OF WORKINGS

1. Cost of Sales	**GH¢,000**
Opening Inventories	40,000
Purchases	2,200,000
Closing Inventories (50,000 – 5,000)	(45,000)
	2,195,000
2. Other Income	
Interest on fixed deposits	5,000
Gain on disposal of Equipment	500
Fair value gain of investment property	50,000
	55,500
3 Disposal of Equipment	
Cost of equipment	5,000
Less Accumulative depreciation	4,000
Net Book Value	1,000
Proceeds from sales	1,500
Gain on disposal of equipment	**500**
4. Selling & Distribution Expenses	
Repairs of delivery vans	165,000
Sales Promotion	45,000
Advertising expenses	25,000
Depreciation of delivery van 25% 800,000	200,000
	435,000
5. Administrative Expenses	
Depreciation of office equipment	150,000
Wages & Salaries	252,000
General expenses	130,000
Decrease in provision for doubtful debts	(1,000)
Accrued rental of shops	3,000
	534,000
20% of 400,000	80,000
Less Payment	40,000
	40,000

6. TAXATION	**CURRENT TAXES**	**DEFERRED TAXES**	**TOTAL**
	GH¢,000	**GH¢,000**	**GH¢,000**
Opening balance	20,000	-	20,000
Charge for the year	240,375	750	**241,125**
Payment during the year	(165,000)		(165,000)
Closing balance	**95,375**	**750**	**96,125**

7. Deferred Tax

Accounting base of assets	12,000
Tax base of assets	9,000
Taxable temporary difference	3,000
Deferred Tax liability at 31/12/19 @ 25%	**750**

8. Accruals

Interest	40,000
Rent	3,000
	43,000

9. FIXED ASSETS SCHEDULE

COST	BUILDINGS	OFFICE EQUIPMENT	DELIVERY VEHICLE
Balance b/f	1,000,000	750,000	800,000
Fair Value	50,000	-	-
Disposal	-	(5,000)	
	1,050,000	745,000	800,000
Depreciation:			
Balance b/f		150,000	200,000
Disposal		(4,000)	
Charge for the year		150,000	200,000
	1,050,000	296,000	400,000

Q. 1 b

a. POSITION IN CASE OF LIQUIDATION

Proceeds from sales of assets	GH¢	GH¢
Freehold land & Buildings	8,000	
Plant and Equipment	15,000	
Furniture & Fixtures	5,000	
Investments	5,500	
Inventories (7,000 – 2,000)	5,000	
Trade Receivables (5,000 – 500)	4,500	
Cash & Bank balances	1,000	44,000
Settlement of Claimants:		
Bank loan – Mugu Bank	8,000	
- Other bank loans	13,000	
Bank overdraft	11,000	40,000
Residue available for settling unsecured creditors		4,000
Bank loan – Mugu Bank	2,000	500
Trade Payables	10,000	2,500
Sundry payables	4,000	1,000
	16,000	4,000

Advise

All unsecured creditors will only recover 25% of their debts. Mugu Bank's loan was secured on the land and Buildings and will first be repaid from the proceeds realized from land and Buildings.

Mugu Bank will therefore receive the entire GH¢8 million proceeds from the sale of Land and Buildings and be left with GH¢2 million which then becomes unsecured.

The total unsecured debts of GH¢16 million, including the GH¢2 million loan from Mugu Bank will share the remaining proceeds of GH¢4 million. There is therefore a recovery of 25% for every unsecured debt.

Mugu Bank will therefore recover the GH¢8 million from the land and building plus 25% of the GH¢2 million which comes to GH¢500,000 and lose GH¢1.5 million

My advice is that the bank should support a capital reduction scheme that requires the bank to lose less than GH¢1.5 million.

b) Maximum Capital loss

Income surplus	12,000
Pref. Div. in arrears	1,200
Freehold land & Buildings	(3,500)
Plant & Equipment	2,000
Furniture & Fittings	500
Investments	3,500
Dev. Expenditure	13,000
Receivables	500
Inventories	2,000
	31,200

Allocation of loss	Original	Sacrifice	Balance
Ordinary shareholders	30,000	22,500	7,500
Preference Shareholders	10,000	7,500	2,500
Pref. Div. in arrears	1,200	1,200	
		31,200	10,000

Working Capital

Desired ratio: Current ratio of 2:1 existing current liabilities

Bank overdraft	11,000		
Trade payables	10,000		
Sundry Payables	4,000		
	25,000 = 1		
Desired current assets =	2 times of current liabilities		= 50,000
But existing current assets are:			
Inventories		5,000	
Trade Receivables		4,500	
Cash & Bank		1,000	10,500
Deficit or short fall in current assets			39,500
Proceeds from sale of investment			5,500
Additional working capital			34,000

PROPOSED SCHEME OF CAPITAL REDUCTION

1. Eliminate the negative retained earnings
2. Revalue the assets as follows **GH¢**
   Freehold land and buildings 18,500
   Plant and equipment 16,000
   Furniture and fittings 7,500
3. Write off obsolete inventories of GH¢2 million and bad debts of 10% of Trade Receivables
4. Write off 75% of ordinary share capital and have the ordinary shareholders introduce additional capital in cash of GH¢34 million
5. Write off 75% of preference share capital
6. The preference shareholders should cancel their preference dividends in arrears in consideration for increasing the preference dividend rate from 12% to 15%
7. Investments should be realized for GH¢5.5 million

BRIGHTER DAYS LTD
STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER, 2019 (AFTER CAPITAL REDUCTION)

Non-Current Assets	**GH¢000**
Freehold land and Buildings	18,500
Plant and equipment	16,000
Furniture and Fittings	7,500
	42,000
Current Assets	
Inventories	5,000
Trade Receivables	4,500
Cash & Bank Balances	
(1,000 + 5,500 + 34,000)	40,500
	50,000
Total Assets	**92,000**
Equity	
Ordinary Share Capital (7,500 + 34,000)	41,500
Preference share capital	2,500
	44,000
Non-Current Liabilities	
Bank Loans	23,000
Current Liabilities	
Bank Overdraft	11,000
Trade Payables	10,000
Sundry Payables	4,000
	25,000
Equity and liabilities	**92,000**

Q.2

a) Cost of Plant

	GH¢,000
List price	350,000
Delivery Cost	50,000
Installation Cost	30,000
Present value of decommissioning cost	34,150
	464,150

The plant should be recognized at GH¢464,150,000 and depreciated over its useful life of four years in the statement of financial position.

Annual depreciation should be charged as depreciation expenses in the profit or loss statement of GH¢116,037,500

b) Cost of Software

	GH¢,000
At 1/1/18	48,000
Less accumulated amortization at 31/12/18 20% of 48,000	9,600
Net Book value 31/12/18	38,400
Revalued amount at 31/12/18	56,500
Revaluation Reserve on 31/12/18	18,000
1/1/19 Carrying Amount	56,500
Less accumulated Depreciation (25% of 56,500)	(14,125)
Net Book value 31/12/19	42,375
Revalued amount	30,000
	12,375

Treatment

The software should be recognized in the balance sheet at GH¢30,000,000

An amortization charge of GH¢14,125,000 should be charged as expense in the statement of profit or loss.

The impairment loss of GH¢12,375,000 should be charged against the previous Revaluation Reserve created in the 2018 Revaluation of the software.

Thus in 2019, Revaluation Reserve on the statement of financial position which is part of equity will be GH¢18,000,000 – GH¢12,375,000 = GH¢5,625,000
The impairment loss will therefore not be treated as an expense

c)

	GH¢,000
Cost of property, plant & equipment on 1/1/2014	50,000
Less accumulated depreciation for 5 years 50,000,000/50 x 5	5,000
Net Book value on 31/12/18	45,000
Less half year depreciation in 2019	(500)
Net book value on 1/7/19	44,500
Reclassified Investment Property	44,500
Fair value at 31/12/19	60,000
Fair value gain or investment property	15,500

Treatment

In the 2019 financial statements, Recognize Investment property in the statement of financial position at GH¢60,000,000.

Charge depreciation in the statement of profit or loss for the half year at GH¢500,000 when the Building was still Property, Plant and Equipment.
Recognize gain on fair value in other income in profit and loss at GH¢15,500,000 in respect of the period when the item became Investment Property.

d)

Carrying Amount of Assets:	GH¢,000
Tangible Assets	5,000
Goodwill	500
	5,500
Recoverable amount of assets	3,500
Total impairment loss (5,500 – 3,500)	2,000

Allocation of impairment loss

Assets	Carrying Amount	Impairment Loss	Revised Carrying amount
	GH¢,000	GH¢,000	GH¢,000
Plant	3,000	375	2,625
Vehicles	2,000	1,125	875
Goodwill	500	500	-
		2,000	3,500

Treatment

Charge the impairment loss of GH¢2 million as expenses in the profit or loss statement and recognize the tangible assets at the impaired value of GH¢3,500,000 which should now be depreciated over the remaining useful life of the assets.

Q.3

a)

Sales budget for each quarter is 32,000 bottles spread equally = 8,000 bottles per quarter. Since there are no closing and opening inventories of the hand sanitizers, the production per quarter is also 8,000 bottles.

Material requirements for production

Material	A	B	C
Requirements per bottle of hand sanitizer (Units)	4	3	2
Total requirement for 8000 bottles (Units)	32,000	24,000	16,000
Closing stock is half of production requirement (Units)	16,000	12,000	8,000
Opening inventories	(25,000)	20,000	(15,000)
Materials to be purchased	23,000	16,000	9,000
Value of opening Stock	¢150,000	¢40,000	¢30,000
Quantity of opening stock (Units)	25,000	20,000	150,000
Price per unit (Value of opening stock/ quantity)	¢6.0	¢2.0	¢2.0
Increase by 25%	¢1.5	¢0.5	¢0.5
Revised Unit Price	**¢7.5**	**¢2.5**	**¢2.5**
a) Units required for production	23,000	16,000	9,000
Value of materials required	GH¢172,500	GH¢40,000	GH¢22,500

b) Main uses of a cash budget

i) Estimate and plan for all cash receipt items

ii) Estimate and schedule all cash payment items

iii) Determine periods of anticipated cash deficits and surpluses

iv) Plan judicious investments of surplus cash

v) Plan financing for cash deficits

vi) Used as a tool to synchronize timing of payments of discretionary items.

Q.4

a)

Ratio	Formula	Computation
Current Ratio	Current assets/Current liabilities	405,000/12,600 = 34.14
Quick ratio	Current assets – stock/Current Liabilities	405,000 – 33,500/12,600 = 29.48
Debt/Equity ratio	Long term Debt x 100 / Equity	102,600 x 100 / 542,755 = 18.9%

The company has a very strong liquidity position. The current ratio shows that the company can pay its current liabilities 32.14 times using all of its current assets. Without the use of inventories, the company can pay its current liabilities 29.48 times. There is a strong ability to pay immediate liabilities. The company may actually be under trading. There is more the company can do, given its present liquidity position.

The debt/equity ratio shows that a greater part of the company's capital is financed by shareholders' funds. Only 18.9% of equity is in debt. This again show the company is not under stress of excessive of debt.

b)

MPUNTUO LIMITED

COMMON SIZE STATEMENT OF FINANCIAL POSITION AS AT 31/12/19

Non-Current assets:	%
Long-term investment	22.80
Furniture and Fittings	5.47
Motor vehicles	6.99
Equipment	3.02
Software	0.16
Total Non-Current assets	**38.45**
Current Assets	
Inventories	5.09
Trade Receivables	0.74
Grants Receivable	0.24
Prepayment	0.76
Cash & Bank	54.71
Total Current Assets	**61.55**
Total Assets	**100.00**

Equity	
Stated Capital	45.60
Income surplus	31.67
Capital surplus	5.23
Total equity	**82.49**
Non-Current liabilities	
18% Debentures	15.20
Deferred Grant Income	0.24
Deferred Taxation	0.15
Total Non-Current Liabilities	**15.59**
Current Liabilities	
Trade payables	1.08
Interest payable	0.61
Taxation payable	0.23
Total current liabilities	**1.92**
Total equity and liabilities	**100.00**

Analysis of the common size statement

Of the total assets of the company, 38.45% is in non-current assets whilst 61.55% is in current assets. The implication is that the company holds more liquid assets than it holds long term assets for production purposes. The bulk of the non-current assets is in investments. This clearly indicates that the company is not a manufacturing company as it has less assets for production. In the current assets, a huge chunk of 54,71% is in cash. The company holds too much cash and near cash resources.

The total assets are finance mainly from equity. 82.49% of total assets is financed by equity and only 15.59% of total assets is financed by long term debt and 1.92% financed by current liabilities. The company is thus less exposed to the stress of debt.

A bank facility to the company is recommended subject to the profitability of the projects the company wishes to put the facility to.

Q.5

a)

Assumptions underlying cost-volume-profit analysis

1. Linear variable cost where variable cost per unit is constant
2. Costs are easily separable into their variable and fixed cost components
3. Fixed cost remain constant at the relevant activity level
4. Total variable cost is proportional to volume of production
5. Selling price does not change as volume changes
6. There is only one product, but where there are multiple products, the sales mix remains constant.
7. There will be no change in the general price level
8. Productivity per employee remains unchanged
9. There is synchronization between production and sales
10. Revenue and costs are compared with a common activity base
11. Plant efficiency can be predicted.

b)

$$\text{Breakeven – point units} = \frac{\text{Total Fixed Cost}}{\text{Contribution per unit}}$$

Fixed Cost		GH¢
Production overheads		5,000
Selling overheads		10,000
Administration Overheads		10,000
		25,000
Profit Statement for 2,500 Units		
Selling value		100,000
Less variable cost		
Direct labour	15,000	
Direct materials	14,000	
Variable overheads	10,000	
Variable selling Expenses	6,000	
Variable Administration Expenses	5,000	50,000
Total contribution		**50,000**

Contribution per unit = 50,000/2,500 = ¢20 per unit

i) Break-even point in demand $= \frac{25,000}{20}$

$= \underline{1,250 \text{ units}}$

ii) To break even, 1,250 units should be produced and sold at ¢40 = GH¢50,000 iii)

APOLINYA LTD

REVISED OPERATING INCOME STATEMENT FOR QUARTER 3 OF 2019

Sales units [(2,500(1.5)]					3,750 units
					GH¢
Sales Value (3,750 @ ¢40)					150,000
Manufacturing cost of goods sold					
Direct labour	3,750	@	6	22,500	
Direct materials	3,750	@	5.6	21,000	
Variable factory overheads	3,750	@	4.0	15,000	63,500
Gross profit					86,500
Selling expenses					
Variable selling expenses	3,750	@	2.4	9,000	
Fixed selling expenses				10,000	
Administrative Expenses					
Variable Administrative Expenses	3,750	@	2.0	7,500	
Fixed Administrative Expenses				10,000	36,500
Operating Income					**50,000**

Q.6

a) “corporate governance” from a banking industry perspective, refers to the manner in which the business and affairs of a bank, SDI or Financial Holding Company (FHC) are governed by its board and senior management, including how they set the regulated financial institution, strategy and objectives; determine the regulated financial institution’s risk tolerance/appetite; operate the regulated financial institution’s business on a day-to-day basis; protect the interests of depositors, meet shareholder obligations, and take into account the interests of other recognised stakeholders; and align corporate activities and behaviour with the expectation that the regulated financial institution will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations.

The key issues arising from this definition are:

1. The key actors in the corporate governance process are: board of directors and senior management of corporate entities
2. The institutions covered by the directive are: banks, Specialised Deposit taking Institutions, and Financial Holding Companies
3. The corporate governance process objectives include:
    - Setting the regulated financial institution’s strategy and objectives;
    - Determining the regulated financial institution’s risk tolerance/appetite;
    - Operating the regulated financial institution’s business on a day-to-day basis;
    - Protecting the interests of depositors, and meeting shareholder obligations, by taking into account the interests of other recognised stakeholders; and
    - Aligning corporate activities and behaviour with the expectation that the regulated financial institution will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations.

b) Section 58 of the Banks and Specialised Deposit-taking Institutions Act, 2016 (Act 930) prohibits a person from being appointed or elected or from accepting an appointment or election as a director, chief executive officer or key management personnel of a regulated financial institution if that person

1. has been adjudged to be of unsound mind or is detained as a person with a mental disorder under any relevant enactment;

2. has been declared insolvent, has entered into any agreement with another person for payment of that person’s debt and has suspended payment of the debt;

3. has been convicted of an offence involving fraud, dishonesty or moral turpitude;

4. has been a director, key management personnel associated with the management of an institution which is being or has been wound up by a court of competent jurisdiction on account of bankruptcy or an offence committed under an enactment;

5. is a director or key management personnel of another bank, Specialised Deposit taking Institution or Financial Holding Company in the country,

6. is under the age of eighteen years (18 years),

7. does not have the prior written approval of the Bank of Ghana; or

8. has defaulted in the repayment of the financial exposure of that person.

c) Section 60 of the Banks and Specialised Deposit-taking Institutions Act, 2016 (Act 930) requires among others, the following interventions by the Bank of Ghana in the appointment of key management personnel:

1. A regulated financial institution shall seek prior written approval of the Bank of Ghana before it appoints a Chief Executive Officer or a Deputy Chief Executive Officer of the bank or Specialised Deposit-taking Institution each of whom shall be ordinarily resident in the country;

2. A regulated financial institution shall not appoint key management personnel without the prior written approval of the Bank of Ghana

3. The Bank of Ghana shall not grant approval for a person to be appointed as a Chief Executive or Deputy Chief Executive of a regulated financial institution, if in the opinion of the Bank of Ghana that person is not "fit and proper" to be appointed in that capacity.

4. Where the Bank of Ghana considers that a director or key management personnel is not a fit and proper person, to act in that capacity, the Bank of Ghana shall direct the removal of such person(s) from the board of the regulated financial institution one (1) month after hearing representations made by that regulated financial institution.