NOVEMBER 2016 PROFESSIONAL EXAMINATION
CORPORATE REPORTING (PAPER 3.1)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

This paper covered all the topics in the syllabus and the questions were clear in their requirements. The questions were spread well enough to cover all areas of the syllabus.

GENERAL PERFORMANCE

Generally, there was improvement in performance as compared to previous diets. However, general performance in centres outside Accra continued to be poor. ICAG should consider providing tuition for students in those locations. There was no similarity of answers to suggest any possible copying.

Strengths of Candidates

Candidates showed improved understanding of appraisal of financial performance and implementing capital reduction schemes; they scored high marks in those areas.

Weaknesses of Candidates

Weaknesses of candidates can be summarized as follows:

- Candidates were weak in emerging areas of accounting such as integrated reporting, professional ethics and accounting for financial instruments. They will need intensive tuition to catch up in those areas.
- Some candidates showed lack of effective time management in answering questions. They spent too much time on questions they believed they could handle; this left them little time to tackle other questions satisfactorily. Candidates should be taught how to allocate time to questions according to the allotted marks and to strictly respect time allocation. They should move to another question when the time allocated is spent.
- Some candidates answered the same question on several non-consecutive pages without cross-referencing the pages. Also, some answered two different questions on the same page. These give impression that they jumped into answering the questions without proper planning.
- Some candidates presented themselves for the examination without adequate preparation and as a result scored very low marks. Obviously, they were not ready for the examination. They wasted time and money.
- In question 5a) candidates were asked *to discuss ethical and professional issues* in a given scenario. Also, in question 5b) candidates were asked *to discuss professional and potential ethical conflicts* in a given scenario.
- Surprisingly, in answering these, many candidates wrote long answers dealing with either the professional aspects or ethical aspects while neglecting the other. In an answer to question 5b, a candidate brought in bribery, defined what bribery was, and

then wrote almost a full page on the evils of bribery. Such an effort does not score any mark and so precious time is wasted.

- Several candidates did not attempt all parts of the questions. Also, there were instances where whole questions were not attempted. This attitude reduced candidates' chances of scoring pass marks.

CORPORATE REPORTING QUESTIONS

QUESTION ONE

Below are the separate financial statements of Broad Ltd and two investee companies which also operate in the same industry as the investor entity.

Statements of profit or loss and other comprehensive income for the year ended 30 June 2016

	Broad Ltd	Narrow Ltd	Shadow Ltd
	GH¢'000	GH¢'000	GH¢'000
Revenue	92,500	48,000	30,000
Cost of sales	(70,500)	(36,000)	(18,000)
Gross profit	22,000	12,000	12,000
Distribution costs	(2,500)	(1,200)	(1,000)
Administrative expenses	(5,500)	(2,400)	(2,000)
Finance costs	(100)	-	-
Profit before tax	13,900	8,400	9,000
Income tax	(3,900)	(1,600)	(2,200)
Profit for the year	10,000	6,800	6,800
Other comprehensive income:			
Gain on revaluation of land	500	-	-
Total comprehensive income	**10,500**	**6,800**	**6,800**

Statements of financial position as at 30 June 2016

Assets			
Non-current assets:	**GH¢'000**	**GH¢'000**	**GH¢'000**
Property, plant and equipment	18,300	18,900	15,000
Investments	12,600	-	-
	30,900	18,900	15,000
Current assets	12,500	2,400	3,000
Total assets	**43,400**	**21,300**	**18,000**
Equity and liabilities			
Equity:			
Equity shares of GH¢1 each	15,000	5,000	6,000
Land revaluation reserve – 30 June 2016	2,000	-	-
Other equity reserve – 30 June 2015	500	-	-
Retained earnings	12,900	9,500	5,000
	30,400	14,500	11,000
Non-current liabilities:			

6% loan notes	3,000	-	-
Current liabilities	10,000	6,800	7,000
Total equity and liabilities	**43,400**	**21,300**	**18,000**

The following information is relevant:

i) On 1 March 2016, Broad Ltd acquired 80% of the equity share capital of Narrow Ltd. The consideration consisted of two elements: a share exchange of three shares in Broad Ltd for every five acquired shares in Narrow Ltd and the issue of a GH¢100 6% loan note for every 500 shares acquired in Narrow Ltd. The share issue has not yet been recorded by Broad Ltd, but the issue of the loan notes has been recorded. At the date of acquisition, shares in Broad Ltd had a market value of GH¢5 each and the shares of Narrow Ltd had a stock market price of GH¢3.50 each.

Broad Ltd had earlier on acquired 2.4 million shares in Shadow Ltd on the stock market at a price of GH¢1.50 per share on 1 January 2016.

ii) At the date of acquisition, the fair values of Narrow Ltd.'s assets were equal to their carrying amounts with the exception of its property. This had a fair value of GH¢1.2 million below its carrying amount. This would lead to a reduction of the depreciation charge (in cost of sales) of GH¢50,000 in the post-acquisition period. Narrow Ltd has not incorporated this value change into its separate financial statements.

iii) Broad's group policy is to revalue all properties to current value at each year end. On 30 June 2016, the value of Narrow's property was unchanged from its value at acquisition, but the land element of Broad Ltd.'s property had increased in value by GH¢500,000 as shown in other comprehensive income.

iv) Sales from Narrow Ltd to Broad Ltd throughout the year ended 30 June 2016 was GH¢12 million. Narrow made a mark-up on cost of 25% on these sales. Broad Ltd had GH¢2 million (at cost to Broad Ltd) of inventory that had been supplied in the post-acquisition period by Narrow Ltd as at 30 June 2016.

v) In June 2016, Broad Ltd sold goods to Shadow Ltd for GH¢2,000,000, thus achieving a profit mark-up of 25%. The entire consignment remained unsold and was included in the inventory of Shadow Ltd as at 30 June 2016.

vi) Broad's investments include some available-for-sale investments that have increased in value by GH¢300,000 during the year. The other equity reserve relates to these investments and is based on their value as at 30 June 2015. There were no acquisitions or disposals of any of these investments during the year ended 30 June 2016.

vii) Broad's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, Narrow's share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

viii) It was determined at the year-end that 10% of the goodwill relating to the acquisition of Narrow was impaired.

Required:

a) Prepare the consolidated statement of profit or loss and other comprehensive income for Broad Ltd. Group for the year ended 30 June 2016. **(10 marks)**

b) Prepare the consolidated statement of financial position for Broad Ltd. Group as at 30 June 2016. **(10 marks)**

(Total: 20 marks)

QUESTION TWO

a) Hard -Work Ltd is a public limited company in Ghana and it owned a building on which it raised finance to support its operations. Hard -Work Ltd disposed the building for GH¢5 million to a finance company on 1 June 2015 when the carrying amount of the building was GH¢3.5 million. However, the same building was immediately leased back from the finance company for a period of 20 years, which was considered to be equivalent to the majority of the asset's useful economic life. The lease rentals for the period amounted to GH¢441,000 payable annually in arrears. The interest rate implicit in the lease is 7%. The present value of the guaranteed minimum lease payments is the same as the sale proceeds.

Required:
Demonstrate how Hard-Work Ltd will account for the above transaction for the year ended 31 May 2016 in accordance with ***IAS 17 Leases***. Show relevant extracts to the statement of profit or loss and the statement of financial position all at 31 May 2016.

(5 marks)

b) The following information relates to the pension scheme of Patience Pass All Limited for the year ended 30 April 2016:

	GH¢000
Plan assets at 1 May 2015	96,000
Defined benefit obligation at 1 May 2015	100,000
Service cost for year ended 30 April 2016	8,000
Discount rate at 1 May 2015	10%
Re-measurement loss in year ended 30 April 2016	4,000
Past service cost 1 May 2015	6,000

The pension costs have not been accounted for in the total comprehensive income as the Accountant of the company is not qualified yet and lacks sufficient knowledge on the provisions of ***IAS 19 employee Benefits.***

Required:
Demonstrate how the above transaction would be accounted for under the provisions of ***IAS 19 Employee Benefits*** including relevant extracts to the financial statements for the year ended 30 April 2016. **(5 marks)**

c) Abiba Limited is a company operating in Northern Ghana and provides loans to customers and funds the loans by selling bonds in the market. The financial liability is designated as fair value through profit or loss. The bonds have a fair value increase of GH¢100 million in the year to 31 December 2015 of which GH¢5 million relates to the reduction in Abiba's creditworthiness. The directors of Abiba Ltd have contacted your consultancy firm for your advice on how to account for this movement.

Required:
Discuss, with appropriate computations where necessary, the accounting treatment of the above transactions in the financial statements of Abiba Ltd for the year ended 31 December 2015. **(5 marks)**

d) Afoko Ltd acquired a car taxi business on 1 January 2015 for GH¢230,000. The value of the assets of the business at that date based on net selling price were as follows:

	GH¢000
Vehicles	120
Intangible assets	30
Trade receivables	10
Cash	50
Trade payables	(20)
	190

On 1 February 2015, the taxi business had three (3) of its vehicles stolen. The net selling values of these vehicles was GH¢30,000 and because of non-disclosure of certain risk to the insurance company, the business was uninsured. As a result of this event, Afoko Ltd wishes to recognise an impairment loss of GH¢45,000 inclusive of the loss of the stolen vehicles due to the decline in value of the stolen income generating unit, that is the taxi business. On 1 March 2015, a rival taxi company commenced business in the same area. It is anticipated that the business revenue of Afoko Ltd would be reduced by 25% leading to a decline in the present value in use of the business which is calculated at GH¢150,000. The net selling value of the taxi license has fallen to GH¢25,000 as a result of the rival taxi operator. The net selling values of the other assets have remained the same as at 1 January 2015.

Required:
Recommend how Afoko Ltd should account for the above transaction in its financial statements in accordance with ***IAS 36 Impairment of Assets***. **(6 marks)**

e) Mane is an entity specializing in importing a wide range of non-food items and selling them to retailers. Aqeel is Mane's CEO and founder and owns 40% of Mane's equity shares:

i) Mane's largest customer, Zico accounts for 35% of Mane's revenue. Zico has just completed negotiations with Mane for a special 5% discount on all sales.

ii) During the accounting period, Aqeel purchased a property from Mane for GH¢500,000. Mane had previously declared the property surplus to its requirements and had valued it at GH¢750,000.

iii) Aqeel's son, Sherif is a director in a financial institution, Cheap Capital. During the accounting period, Cheap Capital advanced GH¢2 million to Mane as an unsecured loan at a favourable rate of interest.

Required:

Explain, with reasons, the extent to which each of the above transactions should be classified and disclosed in accordance with **IAS 24 *Related Party Disclosures*** in Mane's financial statements for the period. **(4 marks)**

(Total: 25 marks)

QUESTION THREE

MM Ltd, producers of telecommunication equipment has been making losses in recent times. The directors have proposed a scheme of reorganization, to take effect on 1 October 2013. The statement of financial position of the company at 30 September 2013 is as follows:

Statement of Financial Position as at 30 September 2013

Non-current assets	**GH¢**
Premises	80,000
Plant & Equipment	190,000
Vehicles	30,000
	300,000
Current assets	
Inventory	40,000
Trade receivables	30,000
Bank	10,000
	80,000
Current liabilities	
Trade payables	(140,000)
	(60,000)
Net assets	**240,000**
Financed by:	
Stated capital	
Issued and fully paid	
100,000 7% Preference shares of GH¢1 Per share	100,000
400,000 ordinary shares of GH¢0.75 fully paid	300,000
	400,000
Retained Earnings	(160,000)
	240,000

Additional information.

i) The ordinary shares are to be written down to GH¢0.25 per share and then to be converted into new ordinary shares of GH¢1.0 per fully paid.
ii) The preference shareholders are to receive 40,000 ordinary shares of GH¢1 per share, fully paid in exchange for their preference shares.
iii) Dividends of 7% preference shares are two years in arrears. In consideration of waiving their rights to arrears of preference dividend, the Preference shareholders have agreed to accept 10,000 new ordinary shares of GH¢1.00 per share, fully paid in final settlement.
iv) The creditors have agreed to take 100,000 new ordinary shares of GH¢1 per share fully paid in part settlement of the amounts due them.
v) The balance on the retain earnings account is to be written off.
vi) Some assets of the company have been revalued and are to be incorporated into the accounts as follows:

	GH¢
• Freehold premises	100,000
• Plant and equipment	125,000
• Vehicles	25,000
• Inventories	36,000

vii) An allowance of GH¢3,500 is to be made for doubtful debts
viii) The ordinary shareholders have agreed to inject additional GH¢90,000 cash by acquiring 120,000 ordinary shares at 0.75 per share fully paid.
ix) Reorganization costs amounted to GH¢7, 500.

Required:

a) Prepare a capital reduction account, stated capital account and bank account **(9 marks)**
b) Prepare a statement of financial position of MM Ltd as at 1 October 2016, after the reorganization **(6 marks)**

(Total: 15 marks)

QUESTION FOUR

a) It has been suggested that ratio analysis is not necessarily the best way of assessing a company's performance.

Required:

i) Describe **TWO** uses of accounting ratios other than performance assessment. **(2 marks)**
ii) Explain any **THREE** limitations of the use of accounting ratios in appraisal of financial performance. **(3 marks)**

b) Below are the financial ratios for the year 2015 for Decimal Limited, a company engaged in the buying and shipment of agricultural products. The ratios for the industry have also been provided.

	Decimal Limited	***Industry Average***
Quick ratio	0.52:1	0.84:1
Current ratio	1.20:1	1.80:1
Debtors collection period	46 days	41 days
Creditors payment period	70 days	50 days
Inventory holding period	58 days	48 days
Dividend yield	3.6%	9 %
Debt to equity	85%	45%
Dividend cover	1.4 times	3.4 times
Gross profit margin	18%	28%
Net profit margin	8%	12.8%
Return on capital employed	28%	14%
Net assets turnover	4.2 times	1.9 times

Required:

Write a report to the Shareholders of Decimal Ltd assessing its performance in comparison with the industry in respect of profitability, liquidity, efficiency and shareholders' investment. **(10 marks)**

(Total: 15 marks)

QUESTION FIVE

a) Mordern Technology Ghana Limited plans to upgrade its production process and the directors believe that technology-led production is the only feasible way to remain competitive in recent times. However, the company operates from a leased property and the leasing arrangement was established in order to maximise taxation benefits. Surprisingly, the financial statements have not shown a lease asset or liability to date.

A new financial accountant joined Modern Technology Ghana Limited just after the financial year end of 31 July 2016 and is currently reviewing the financial statements to prepare for the upcoming audit and to begin making a loan application to finance the new technology.

The financial accountant believes that the lease relating to both the land and buildings should be treated as a finance lease but the finance director completely disagrees. The finance director does not wish to recognise the lease in the statement of financial position and as a result wishes to continue to treat it as an operating lease. The finance director believes that the lease does not meet the criteria for a finance lease, and it was made clear by the finance director that showing the lease as a finance lease could adversely affect the loan application.

Required:

Discuss the ***ethical and professional issues*** which face the financial accountant in the above transaction. **(5 marks)**

b) The board of directors of Nyamekye Plc, a company listed on the Ghana Stock Exchange need a significant capital injection in order to finance a capital intensive project to consolidate the company's market share failure of which will result in a loss of 25% of its market share. The management of the company has approached National Commercial Bank (NCB) for a loan facility to undertake the project.

However, the bank's current lending policies require borrowers to demonstrate good projected cash flow, as well as a level of profitability which would indicate that repayments would be made. Unfortunately, the current projected statement of cash flow would not satisfy NCB's criteria for lending. The directors have told the bank that the company is in an excellent financial position that the financial results and statement of cash flow projections will meet the criteria and that the chief accountant will forward a report to this effect shortly. The chief accountant has just recently joined Nyamekye Plc and has openly indicated that she cannot afford to lose her job because of her financial commitments and family concerns.

Required:
Discuss the ***professional and potential ethical conflicts*** which may arise in the above scenario and the ethical principles which would guide how a professional accountant should act in this situation. **(5 marks)**

c) In 2007, Ghana adopted the International Financial Reporting Standards (IFRS). This move has been applauded by many who suggest that Ghana's adoption of IFRS will offer many advantages to Ghanaian companies.

Required:
Discuss the advantages that Ghana's adoption of IFRS as National Accounting Standards offers to Ghanaian companies **(5 marks)**

d) To be useful, information presented in financial statements must be relevant to the decision-making needs of users and also faithfully represent the phenomena that it purports to represent. However, it is generally accepted that standard-setters and preparers are constrained in the extent to which these characteristics are achievable.

Required:
Explain **TWO** constraints on ***relevance and faithful representation*** of financial statements. **(5 marks)**

e) ***Integrated reporting*** advances the proposition that sustainability reporting and financial reporting are inherently linked and thus would benefit from merging.

Required:
Discuss how integrated reporting has developed from social and environmental reporting. **(5 marks)**

(Total: 25 marks)

MARKING SCHEME

QUESTION ONE

Question 1 [80 ticks x ¼ mark = 20 marks for any 80 correct entries, excluding totals]

(a) Broad Ltd Group
Consolidated statement of comprehensive income
For the year ended 30 June 2016

GH¢'000	
Revenue (92,500 + (48,000 x 4/12) – 4,000 intra-group sales)	104,500
Cost of sales (W2)	(78,850)
Gross profit	25,650
Distribution costs (2,500 + (1,200 x 4/12))	(2,900)
Administrative expenses (5,500 + (2,400 x 4/12))	(6,300)
Impairment of goodwill (W6)	(527)
Net operating profit	15,923
Share of profit of associate (W7)	1,200
Net Profit before interest and tax	17,123
Finance costs	(100)
Net Profit before tax	17,023
Income tax expense (3,900 + (1,600 x 4/12))	(4,433)
Net Profit for the year	**12,590**
Other comprehensive income:	
Gain on available-for-sale investments	300
Gain on revaluation of property	500
Total comprehensive income	**13,390**
Net Profit for year attributable to:	
Equity holders of the parent	12,312
Non-controlling interest (W3)	278
	12,590
Total comprehensive income attributable to:	
Equity holders of the parent (12,312 + 300 + 500)	13,112
Non-controlling interest (W3)	278
13,390	

Note: Narrow's profits for the year ended 31 December 2015 of GH¢6.8 million are GH¢4.533 million (6,800 x 8/12) pre-acquisition and GH¢2.267 million (6,800 x 4/12) post-acquisition.

(b) ***Broad Group***

Consolidated statement of financial position as at 30 June 2016

GH¢'000	
Assets	
Non-current assets	
Property, plant and equipment (W4)	36,050
Goodwill (W6)	4,740
Investment in Associate (W9)	4,800
Available-for-sale investments (12,600 – [3,600+800] + 300 gain)	8,500
54,090	
Current assets (12,500 + 2,400 – 400)	14,500
Total assets	**68,590**
Equity and liabilities	
Equity attributable to owners of the parent	
Equity shares of GH¢1 each (15,000+12,000)	27,000
Land revaluation reserve	2,000
Other equity reserve (500 + 300)	800
Retained earnings (W7)	15,212
45,012	
Non-controlling interest (W8)	3,778
Total equity	**48,790**
Non-current liabilities	
6% loan notes	3,000
Current liabilities (10,000 + 6,800)	16,800
Total equity and liabilities	**68,590**

Workings in GH¢'000

1. ***Control Structure***

	NARROW	SHADOW LTD
Broad	80%	(2.4/6) 40%
NCI	20%	
Others		60%
	100%	100%

2. ***Cost of sales***

Broad	70,500
Narrow (36,000 x 4/12)	12,000
Intra-group purchases	(4,000)
URP in inventory (2,000 x 25/125)	400
Excess depreciation charge	(50)
	78,850

3. ***Net Profit for year attributable to non-controlling interest***

Post-acquisition profit of Narrow (6,800 x 4/12)	2,267
URP in inventory (2,000 x 25/125)	(400)
Excess depreciation charge	50
Goodwill impairment	(527)
Adjusted post-acquisition profit	1,390
Non-controlling interest (20% x 1,390)	278

4. ***Non-current assets***

Broad	18,300
Narrow	18,900
Fair value reduction at acquisition	(1,200)
Excess depreciation	50
	36,050

5. ***Determination of purchase consideration***

a. Share exchange:

No. of shares acquired in Narrow = 0.8 *5,000 = 4,000 shares
No. of Broad Share Exchange = 3/5 * 4,000 = 2,400 shares
Value of Share exchange = 2,400 * GH¢5 = GH¢12,000

b. Loan Exchange:

GH¢100 loan note to be exchanged for every 500 shares acquired in Narrow
No. of shares acquired in Narrow = 0.8 *5,000 = 4,000 shares
No. of loan notes to be exchanged for shares = 4,000/500 = 8
Amount of loan note exchanged = 8 x GH¢100 = GH¢800

6. ***Goodwill in Narrow***

Investment at cost:				
Share Exchange ((3/5 *4,000)*5)			12,000	
Loan exchange ((4,000/500* GH¢ 100)			800	Fair value
of NCI [0.2*5,000*GH¢3.5]		3,500		
				16,300
Less Net Assets Acquired:				
Stated capital	5,000			
Pre-acq. retained earnings (9,500 - 6,800 + 4,533)		7,233		
Fair value adjustment for property			(1,200)	
Net assets at date of acquisition				(11,033)
Goodwill (16,300 – 11,033)				5,267
Impairment (10% * 5,267)				(527)

Balance c/d (Goodwill impaired)			4,740

7. *Consolidated retained earnings*

Broad's retained earnings	12,900	
Narrow's post-acquisition adjusted profit		
[(2,267 – 400 URP – 527 impairment loss + 50 additional depreciation) x 80%]	1,112	
Associate's post acquisition profit		
[(6,800 x 0.5) – 400 URP) x 0.4]		1,200
		15,212

Or

Balance b/f [Parent]	2,900
Profit for the year	12,312
	15,212

Or

Broad's retained earnings	12,900
Post-acquisition profit (1,534 + 1,360) (W4)	2,894
Goodwill Impairment (0.8 * 527)	(422)
Unrealised Profit (0.4*400)	(160)
	15,212

8. ***Non-controlling interest in statement of financial position***

At date of acquisition	(5,000 x 0.2 x 3.5)	3,500
Post-acquisition profit from income statement		278
		3,778

Or

Fair Value of NCI [20% x (5,000 x GH¢3.50)]	3,500
Post-acquisition profit (W4)	383
Goodwill Impairment (0.2 * 527)	(105)
	3,778

9. *Investment in associate*

Cost [2,400 *1.5]	3,600
Post acquisition retained profit	1,360
PURP (0.4 x 400)	(160)
	4,800

Or

Broad Ltd's share of Shadow Ltd's net asset at reporting date	
(40% x 11,000)	4,400
Less unrealised profit [0.4 x (2,000 x 25/125)	(160)
Goodwill arising on acquisition [3,600 – (0.4 x 7,600)]	560*
	4,800

**Goodwill in Shadow Ltd at acquisition*

Cost of investment in Shadow Ltd (2.4 million shares x GH¢1.50)	3,600
Broad's share of net assets of Shadow Ltd at acquisition (40% x 7,600)	(3,040)
Goodwill in Shadow Ltd arising at acquisition	560

Alternative Workings

10. ***Determination of Retained Earnings at acquisition***

	Narrow	Shadow Ltd
Retained Earnings @ 30/06/2016	9,500	5,000
Profit for the year	(6,800)	(6,800)
Retained Earnings @ 30/06/2015	2,700	(1,800)
Profit from 01/07/2015 – 01/03/2016 (6,800*8/12)	4,533	--
From 01/01/2016 – 30/06/2016	--	3,400
Retained Earnings as at Acquisition	7,233	1,600

11. ***Determination of net assets at acquisition and reporting dates***

	Narrow Ltd		***Shadow Ltd***	
	Acq	Rep	Acq	Rep
	GH¢	GH¢	GH¢	GH¢
Stated Capital	5,000	5,000	6,000	6,000
Retained Earnings @ Acq (W3)	7,233	9,500	1,600	5,000
FV Adjustment	(1,200)	(1,200)	--	--
Dep Adjustment	--	50	--	--
URP (2,000 x 25/125)	--	(400)	--	--
Net Assets	11,033	12,950	7,600	11,000

Post-acq profit = 12950 – 11, 033 = 1,917   11, 000 – 7,600 = 3,400

Share of Post-acq. profit: Broad = 0.8 * 1,917 = 1,534   Associate: 0.4 * 3,400 = 1,360

NCI = 0.2 * 1,917 = 383

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 1 was in two parts, a) and b):

Part a) tested the preparation of group Statement of Comprehensive Income.

Part b) tested the preparation of group Statement of Financial Position.

Many candidates could not appropriately answer this question; answers to both parts were poor. Candidates found it difficult to compute the goodwill arising on acquisition and the subsidiary's post acquisition figures to be used in the consolidated statement of comprehensive income. Common errors included:

Not apportioning the subsidiary's figures in the income statement between pre and post-acquisition;

Using 3 months post acquisition period, instead of 4 months for the subsidiary;

Strangely treating Narrow Ltd as sub-subsidiary (indirect subsidiary);

Treating Shadow Ltd as subsidiary instead of associate. It should be noted that under certain circumstances a holding of 50% or less can qualify for control. Nonetheless, no information was given in the question to warrant treatment of Shadow Ltd as a subsidiary.

Using wrong ratios for the share exchange and loan exchange;

Ignoring the share exchange in computing the shares in Broad Ltd;

Incorrect computation of the purchase consideration.

QUESTION TWO

a) The lease in this case is a sale and lease back of which the building is for the major part of the building's economic life and the present value of the minimum lease payments amounts to all of the fair value of the leased asset. Therefore, the lease should be recorded as a finance lease.

The building is derecognised at its carrying amount and then reinstated at its fair value with any disposal gain, in this instance GH₵1.5 million (GH₵5m – GH₵3.5m) being deferred over the new lease term. The building is depreciated over the shorter of the lease term and useful economic life, so 20 years. Finance lease accounting results in a liability being created, finance charge accruing at the implicit rate within the lease, in this case 7%, and the payment reducing the lease liability in arriving at the year-end balance. The associated double entry for the derecognition is as follows:

	DR GH₵000	**CR GH₵000**
Cash	5,000	
Building		3,500
Deferred income		1,500

The asset will be immediately reinstated and accounted for as follows:

	DR GH₵000	**CR GH₵000**
Finance lease asset	5,000	
Obligation under finance lease		5,000
Depreciation of finance lease asset	250	
Finance lease asset		250
Deferred income	75	
Statement of profit or loss		75
Statement of profit or loss (Finance lease interest payable)	350	
Accrued finance lease interest payable		350

Depreciation = GH₵5, 000, 000/20years = GH₵250,000 per annum
Deferred income recognized per annum = GH₵1, 500, 000/20years = GH₵75,000

Amortised cost table for the obligation under finance lease

Year	Liability at start GH₵000	EIR@7% GH₵000	Payments GH₵000	Liability at end GH₵000
1	5,000	350.00	(441)	4,909.00
2	4,909	343.63	(441)	4,811.63

Financial statement extracts for the first year of the finance lease contract

Statement of financial position extracts as at end of first year	**GH₵000**
Non-current assets:	
Finance lease obligation	5,000
Depreciation	(250)
	4,750
Non-current liabilities	
Obligation under finance lease	4,811.63
Deferred income	1,425.00
Current liabilities	
Obligation under finance lease (4,909 – 4,811.63)	97.37
Accrued interest	350.00

Statement of profit or loss for the year ended ……..	**GH₵000**
Depreciation	(250)
Finance lease interest charge	(350)
Deferred income release	75

Statement of cash flows for the year ended …..	**GH₵000**
Cash flows from financing activities	
Finance lease rental payments	**(441)**

(5 marks)

b)

Pension cost recognised for the year would be:

	GH₵000
Current service cost	8,000
Net interest cost (10% of GH₵100m – GH₵96m)	400
Past service cost	6,000
Net service cost recognised in profit or loss	14,400
Remeasurements in OCI	4,000
Net cost for year recognised in total comprehensive income	18,400

IAS 19 does not actually specify where service cost and net interest cost should be presented. As a result, it is acceptable to include the net interest cost in finance costs.

IAS 19 states that past service cost should be recognised immediately and the past service cost will be included in the defined benefit obligation at 1 May 2015. Thus there is no need to calculate an interest cost on the past service cost.

Financial statement extracts

Statement of profit or loss	GH₵000
Net service cost recognised in profit or loss	(14,400)
OCI	
Remeasurements in OCI	(4,000)

(5 marks)

c)
IFRS 9 requires gains and losses on financial liabilities designated as at fair value through profit or loss such as Abiba's Ltd to be split into the amount of change in the fair value which is attributable to changes in the credit risk of the liability, which is shown in other comprehensive income, and the remaining amount of the change in the fair value of the financial liability which is shown in the statement of profit or loss.
IFRS 9 allows the recognition of the full amount of change in the fair value in the statement of profit or loss only if the recognition of changes in the liability's credit risk in other comprehensive income would create an accounting mismatch in profit or loss.

This is determined at initial recognition and is not reassessed. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss, and the entity may only transfer the cumulative gain or loss within equity. As a result, Abiba Ltd should charge GH₵5 million to OCI and GH₵95 million to statement of profit or loss.

(5 marks)

d) Afoko would recognise the impairment loss in the following way:
When impairment loss is identified, it should be recognised as an expense immediately in the income statement. Where impairment loss relates to a group of assets, usually, the impairment loss should be allocated in priority to those assets which have the most subjective valuations. Impairment identified in this way should usually be allocated to goodwill, thereafter to intangible assets to which there is no active market, thirdly to assets which net selling price is less than their carrying amount and finally to any tangible assets in the unit.

As at 1st February 2014

	1/01/2015	Impairment loss	01/02/2015
	GH₵'000	GH₵'000	GH₵'000
Goodwill	40	(15)	25
Intangible assets (Taxi license)	30		30
Vehicles	120	(30)	90
Sundry net assets	40	0	40
	230	(45)	185

The impairment loss of GH₵30,000 is recognised first for the stolen vehicles and the balance (GH₵15,000) is attributed to goodwill.

As at 1st March 2014

1/02/2015 Impairment loss 01/03/2015
GH₵000 GH₵000 GH₵000

Goodwill	25	(25)	-
Intangible assets	30	(5)	25
Vehicles	90	(0)	90
Sundry net assets	40	0	40
	185	(30)	155

(6 marks)

e) According to **IAS 24 *Related Party Disclosures,*** a customer with whom an entity transacts a significant volume of business is not a related party merely by virtue of the resulting economic dependence.

Zico is not a related party and the negotiated discount does not need to be disclosed.

A party is related to an entity if it has an interest in the entity that gives it significant influence over the entity. The party is related to an entity if they are a member of the key management personnel of the entity. As founder member and major shareholder holding 40% of the equity, Aqeel is able to exert significant influence and is a related party of Mane. Aqeel is also a related party as he is Mane's president. He is a member of the key management personnel of Mane. The sale of the property for GH₵500,000 will need to be disclosed, along with its valuation as a related party transaction.

Providers of finance are not related parties simply because of their normal dealings with the entity. However, if a party is a close member of the family of any individual categorized as a related party, they are also a related party. As Sherif is Aqeel's son and Aqeel is a related party, Sherif is also a related party. The loan from Cheap Capital will need to be disclosed along with the details of Sherif and his involvement in the arrangements.

(4 marks)

(Total: 25 marks)

EXAMINER'S COMMENTS

Question 2 was in five (5) parts.

Part a) examined a sale and lease back transaction under IAS 17: Leases. It was very poorly answered. Most candidates did not:

get the calculations for interest payments right;

get the debit and credit postings right;

get the correct amounts to be reported in the Statement of Comprehensive Income and the Statement of Financial Position;

split the obligation under finance lease between non-current liabilities and current liabilities;

know how to treat the disposal gain arising from derecognising the building and reinstating it;

know that there was a cash flow element involving the finance lease rental payment.

Part b) examined pension cost accounting under IAS 19: Employee Benefits. It was a very poor performance. Most candidates did not bother to attempt it. The few candidates who attempted it simply struggled. Candidates lacked adequate knowledge in this topic.

Part c) examined fair value accounting as it relates to financial instruments [a bond]. Most candidates did not grasp the concept and so performed poorly.

Part d) examined impairment of assets under IAS 36: Impairment of Assets. It was poorly answered. Many candidates did not know which assets suffered impairment. Some of the few candidates who were able to correctly compute the impairment loss struggled with how to allocate it.

Part e) examined related party transactions under IAS 24: Related Party Disclosures. It was poorly answered. Most candidates did not grasp the concept of related party relationships and gave answers that suggested mere guesses. Not many candidates were aware that a customer with whom an entity transacts a significant volume of business is not a related party merely by virtue of the resulting economic dependence. Many candidates wrongly classified Zico as a related party.

QUESTION THREE

CAPITAL REDUCTION ACCOUNT

	GH₵		GH₵
Ordinary shares	40,000	Ordinary shares	200,000
Pref. dividend	10,000	Preference shares	100,000
Income surplus	160,000	Premises	20,000
Plant and equipment	65,000		
Vehicles	5,000		
Inventories	4,000		
Provision – D/D	3,500		
Reorgan Cost	7,500		
Capital surplus	25,000		
	320,000		320,000

ORDINARY SHARE CAPITAL ACCOUNT

	GH₵		
Capital reduction	200,000	Bal b/d	400,000
Bal c/d	340,000	Preference shareholders	40,000
		Preference dividend	10,000
		Creditors	100,000
		Bank	90,000
	640,000		640,000

BANK ACCOUNT

	GH₵		GH₵
Bal b/d	10,000	Reorganization cost	7,500
Stated capital	90,000	Bal c/d	92,500
	100,000		100,000

(9 marks)

MM Ltd
STATEMENT OF FINANCIAL POSITION AS AT 1S OCTOBER, 2016

	GH¢	GH¢	
Non – current assets			
Property			100,000
Plant and equipment		125,000	
Vehicles		25,000	
250,000			
Current Assets			
Inventories	36,000		
Receivables	30,000		
Provision	(3,500)		
Bank	92,500		155,000
			405,000
Equity			
Stated capital			340,000
Capital surplus			25,000
			365,000
Current liabilities:			
Payables			40,000
			405,000

(6 marks)
(Total: 15 marks)

EXAMINER'S COMMENTS

Question 3 was in two parts, a) and b):

Part a) tested the principles of closing entries in a capital reorganisation scheme. It was generally well answered.

Part b) examined the preparation of a Statement of Financial Position after a reorganisation scheme. It was generally well answered.

However, a number of candidates wasted precious time by preparing:

several T-accounts which were not required; and

journal entries which were neither required.

QUESTION FOUR

a)

Uses of accounting ratios (Any 2 points x 1 marks = 2 marks):

i. Ratios are used to express the logical relationships which exist between certain items in the financial statements.
ii. Ratios are also used to assess the liquidity position and financial condition of an enterprise over a period as well as with other similar enterprises.
iii. Ratios provide a better means of comparison than absolute values of financial or operational measurement.
iv. Ratios are useful in assessing the efficiency in managing the entity's assets.
v. Ratios provide an indication of whether it is safe to invest in an entity.
vi. It is also useful in summarising the information contained in financial statements and in directing the user's attention to certain key areas which may vary from firm to firm.
vii. Trend analysis, horizontal analysis and vertical analysis are all undertaken using ratios.

Limitations of the use of accounting ratios in appraising financial performance. (3 points x 1 mark = 3 marks)

1. Inconsistent definitions of ratios
2. Financial statements may have been deliberately manipulated (creative accounting)
3. Different companies may adopt different accounting policies (e.g. use of historical costs compared to current values)
4. Different managerial policies (e.g. different companies offer customers different payment terms)
5. Statement of financial position figures may not be representative of average values throughout the year (this can be caused by seasonal trading or a large acquisition of non-current assets near the year-end)
6. The impact of price changes over time/distortion caused by inflation.

b) **Decimal Limited**

Report Format (2 marks)

From:
To:
Date:
Subject:

Introduction

i. Profitability (2 marks)

Both gross profit margin and net profit margin have fallen below the industry average. This may be the result of uncontrolled overhead cost on the presence of large obsolete equipment. Unless steps are taken quickly to improve the income account investors may shift their interest into more profitable companies in the industry.

ii. Liquidity (2 marks)

Both quick and current ratios fall far below those of the industry as confirmed by the fact that it takes longer to collect its debt than the industry. The problem may have been worsened by the fact that inventory stay longer at Decimal Ltd than in the industry which is not the best use to which resources should be put.

iii. Efficiency (2 marks)

Even though Decimal Ltd takes longer to collect its debts (5 days), this is compensated by an even longer time to settle the debts (20 days). This means that creditors provide free finance for its operations. However, the holding on to inventory for a long time (10 days) cannot be justified. This should be turned over in like manner as that assets turnover far exceeds that of the market.

iv. Shareholders' Investment (2 marks)

Both dividend cover and dividend yield fall below that of the industry. Such a situation is not likely to excite investors especially income – oriented investors who are seeking to recoup their investment in the shortest time possible. This poor performance may be due to the fact that high gearing ratio of Decimal Ltd has effectively put its future in the hands of debenture holders who are reaping the bulk profits in the form of interest charges.

Conclusion
Signature

(Total: 15 marks)

EXAMINER'S COMMENTS
Question 4 was in two parts, a) and b):
Part a) examined the uses and limitations of accounting ratios in the appraisal of financial performance. It was generally well answered.
Part b) tested the skills of interpreting financial performance using ratio analysis. The question requested the performance to be analysed in respect of profitability, liquidity, efficiency and shareholders' investment. After stating the variances between the Company's ratios and those of the Industry, many candidates simply stated under each sub-topic that the situation *calls for further investigation.* They were unable to:
understand the ratio differentials between the Company and the industry;
adduce possible reasons for performing above or below the industry; and
suggest possible strategies to redress or overcome the poor performance..
Furthermore, several candidates wrote lengthy answers that overlapped and over elaborated on issues. It was obvious that they did not relate the length of their answers to the allotted marks.
Although the question asked for a report, not many candidates presented their answers in a report format; as a result they lost marks.

QUESTION FIVE

(a) A lease is classified as a finance lease if it transfers ***substantially all the risks and rewards incident*** to ownership. All other leases are classified as operating leases and classification is made at the inception of the lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the legal form. Thus in many circumstances, the classification of a lease can be quite subjective. In the case of a lease of land, this is particularly subjective as the title to the land may not pass to the lessee at the end of the agreement but the lease may still be classed as a finance lease where the present value of the residual value of the land is negligible and the risks and rewards pass to the lessee.

Thus, it appears that at first sight this is a difference in a professional opinion, which can be solved by the financial controller seeking advice.

If the features of the lease appear to meet ***IAS 17 Leases criteria for classification as a finance lease*** and the treatment used is part of a strategy to understate the liabilities of the entity in order to raise a loan, then an ethical dilemma arises.

Professional accountants are capable of making judgments, applying their skills and reaching informed decisions in situations where the general public cannot. The judgments made by professional accountants should be independent and not affected by business pressures. The code of ethics and conducts for professional accountants is very important because it sets out boundaries outside which accountants should not stray. The financial director should not place the financial controller under undue pressure in order to influence his decisions. If the financial controller is convinced that the lease is a finance lease, then disclosure of this fact should be made to the internal governance authority. The financial controller will have the knowledge that his actions were ethical.

(5 marks)

(b) Nyamekye Plc needs a significant injection of capital in order to finance a capital intensive project and the NCB requires the company to demonstrate good projected statement of cash flow and profitability.

However, the projected statement of cash flow does not satisfy the bank's criteria and the directors have told the bank that the financial results will meet the criteria. Thus there is pressure on the chief accountant to forward a financial report which meets NCB's criteria.

The chief accountant cannot afford to lose her job because of her financial commitments and family concerns and this in itself creates an ethical dilemma for the accountant, as not only is there self-interest of the accountant involved but also the interests of the company and its workforce.
The accountant has to rely upon her moral and ethical judgement in these circumstances she finds herself in.

Ethical standards are used by members of a profession to decide the right course of action in given circumstances.

Ethics rely on logical and rational reasoning to reach a decision, morals are a behavioural code of conduct to which an individual ascribes and ethical rules create an obligation to undertake a particular course of action.

Conflict can arise between personal and ethical values but when an individual becomes a member of a profession, there is recognition that there is acceptance of the standards of that profession which include its code of ethics and values. The ethical rules of the accounting profession represent an attempt to codify principles. A profession is distinguished by having a specialised body of knowledge, a social commitment, the ability to regulate itself and high social status.

The profession should seek to promote or preserve public interest. Professional accountants make a bargain with society in which they promise to serve the public interest which may, at times, be at their own expense. Accountants, as professionals, cannot rely exclusively on rules to define how they will act ethically. Members of the profession have a responsibility to present the truth in a fair and honest fashion and in a spirit of public service. In such circumstances, accountants should think carefully before seeking creative accounting solutions to particular problems. Thus, in this case, the chief accountant should insist that the report to the National Commercial Bank is a true reflection of the current financial position, irrespective of the consequences for herself.

(5 marks)

c) **Advantages that Ghana's adoption of IFRS as National Accounting Standards offers to Ghanaian companies**

(i) A Ghanaian company can present its financial statements on the same basis as its foreign competitors, making comparison easier.
(ii) Cross-border listing is facilitated, making it easier to raise capital abroad
(iii) Companies with foreign subsidiaries have a common, company-wide accounting language.
(iv) Foreign companies which are targets for takeovers or mergers are more easily appraised.
(v) Staff working with multinational firms can easily be redeployed to other jurisdictions.
(vi) Access to and mobility of quality accounting staff.
(vii) Efficient and cost-effective audit engagements for multinational firms.
(viii) Firm-level IFRS adoption can lead to earnings quality.

(5 marks)

(d) Constraints on relevance and faithful representation of financial statements

Timeliness

If there is undue delay in the reporting of information it may lose its relevance. However, to provide information on timely basis it may often be necessary to report before all aspects of a transaction or other event is known, thus impairing reliability. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the economic decision-making needs of users.

Balance between benefit and cost

The benefits derived from information should exceed the cost of providing it. Thus, relevant information may be excluded where the cost of providing it far outweiGH₵ the benefits to be derived from the information. The evaluation of benefits and costs is, however, substantially a judgmental and complex process.

Balance between qualitative characteristics
In practice, a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

(5 marks)

e) **Development of integrated reporting**
The reporting of corporate responsibility activities has developed substantially over the past 10–20 years. It first emerged as social and environmental reporting whereby companies disclose the impact of their operations, both positive and negative, on the community and environment in which they operate. Typical social disclosures might include details of community support programmes, charitable fundraising activities and educational and social programmes for employees. Typical environmental disclosures might include activities to reduce levels of emissions, recycling programmes and pollution controls.

More recently, these types of basic social and environmental disclosures have developed into sustainability reporting. This form of reporting particularly focuses on the issue of sustainable development and whether the operations of an organisation are sustainable into the future. The ability of an organization's performance to be sustainable into the future is said to be based on its economic, environmental, social and governance performance. For example in order to be sustainable, accompany must limit its use of non-renewable energy sources (an environmental issue); it must also treat its staff well and reward them adequately to ensure their continued support (economic and social issues). Therefore sustainability reporting discloses environmental and social issues but also expands disclosure to integrate the economic impact of a company, for example through wages, taxes and purchasing policy, and governance i.e. how the company is run.

Integrated reporting develops the concept of sustainability reporting further by linking sustainability issues to financial strategy and results, sometimes referred to as 'triple bottom line' or PPP reporting ('Profit, Planet and People'). This form of reporting is based on the idea that companies that achieve success in the future will be those that have an integrated strategy that achieves financial results whilst also creating lasting value for the company itself, its stakeholders and the wider society.

(5 marks)

(Total: 25 marks)

EXAMINER'S COMMENTS

Question 5 was in five parts.

Part a) tested the ethical and professional issues which faced a financial accountant. It was very poorly answered. Candidates wrote generally and extensively about ethical conduct without relating to the given scenario; that is, whether to treat the lease of a property as a finance lease as suggested by the financial accountant or to treat it as an operating lease as insisted by the finance director.

Part b) tested the professional and potential conflicts which faced a chief accountant. It was poorly answered. Most candidates were unable to distinguish between this and Part a) of the question and in one instance, a candidate submitted just one answer for both Parts a) and b). Again, most candidates wrote generally and extensively about ethical conduct without relating to the scenario given; that is, how to resolve the ethical dilemma.

Part c) tested the advantages that Ghana's adoption of IFRS as National Accounting Standards offers to Ghanaian companies. It was generally well answered. However, some candidates wasted time by listing disadvantages in adopting IFRS.

Part d) tested the constraints on relevance and faithful representation of financial statements. It was poorly answered. Most candidates did not even understand the two concepts to be able to discuss possible constraints pertaining to them.

Part e) tested how integrated reporting has developed from social and environmental reporting. It was very poorly answered. Several candidates wrote extensively about all they knew on integrated reporting without discussing how it has developed from social and environmental reporting. The salient points such as adding value, strategy, corporate governance, and moving all these into a single report were missing from their answers.