NOVEMBER 2017 PROFESSIONAL EXAMINATIONS
CORPORATE REPORTING (PAPER 3.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

STANDARD OF THE QUESTION PAPER

The standard of the paper was the same as previously administered ones. The questions were standard for this level of examination. Generally, the questions were clear in their requirements. The marking scheme made provision for alternate presentation where necessary. The questions were spread well enough to cover all areas of the syllabus. The amount of work (the relevant workings and the final answer) required by questions was commensurate with the allotted time and marks.

GENERAL PERFORMANCE

Generally, performance was below average. This could be attributed to lack of adequate preparation by the candidates. Performance at various centres appeared to be the same. There was no similarity of answers to suggest any possible copying.

STRENGTHS OF CANDIDATES

Candidates showed improved understanding of appraisal of financial performance and financial position; they scored high marks in those areas.

WEAKNESSES OF CANDIDATES.

Weaknesses of candidates can be summarized as follows:

- Many candidates demonstrated lack of basic and relevant knowledge in accounting standards.
- 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 with 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 were not adequately prepared for the examination and as a result scored very low marks.
- Several candidates did not attempt all parts of the questions. This reduced their chances of scoring pass marks.
- Some candidates answered the same question on several non-consecutive pages without cross-referencing the pages.
- A number of candidates used "short-cuts"/"abbreviations" in answering questions (examples: k to represent 1,000 and b4 to represent before).

QUESTION ONE

On 1 June 2015, Makola acquired 85% of the ordinary shares of Kejetia when Kejetia's other reserves were GH¢4 million and retained earnings were GH¢10 million. The fair value of the net assets of Kejetia was GH¢60 million at 1 June 2015. Kejetia acquired 60% of the ordinary shares of Kotokuraba on 1 June 2015 when the other reserves of Kotokuraba were GH¢8 million and retained earnings were GH¢6 million. The fair value of the net assets of Kotokuraba at that date was GH¢39 million. The excess of the fair value over the net assets of Kejetia and Kotokuraba is due to an increase in the value of non-depreciable land of the companies.

Below are the statements of financial position of the three companies as at 31 May 2017.

	Makola	**Kejetia**	**Kotokuraba**
	GH¢000	**GH¢000**	**GH¢000**
Assets			
Non-current assets			
Property, Plant and Equipment	275,000	20,000	26,000
Investment in Kejetia	60,000	-	-
Investment in Kotokuraba	-	30,000	-
Investment Property	10,000	-	-
Current assets			
Inventory	40,000	23,200	16,000
Trade receivables	10,000	5,800	4,000
	50,000	29,000	20,000
Total assets	**395,000**	**79,000**	**46,000**
Equity and liabilities			
Ordinary shares	150,000	40,000	20,000
Other reserves	30,000	5,000	8,000
Retained earnings	135,000	25,000	10,000
Total equity	315,000	70,000	38,000
Non-current liabilities			
Loans & Debentures	45,000	2,000	3,000
Current liabilities			
Bank Overdraft	35,000	7,000	5,000
Total liabilities	80,000	9,000	8,000
Total equity and liabilities	**395,000**	**79,000**	**46,000**

The following information is relevant to the preparation of the group financial statements.

i) There have been no issues of ordinary shares in the group since 1 June 2015.

ii) Kejetia owns several trade names which are highly regarded in the market place. Kejetia has invested a significant amount in marketing these trade names and has expensed the costs. None of the trade names has been acquired externally and, therefore, the costs have not been capitalised in the statement of financial position of Kejetia. On the acquisition of Kejetia by Makola, a firm of valuation experts valued the trade names at GH¢5 million and this valuation had been taken into account by Makola when offering GH¢60 million for the investment in Kejetia. The valuation of the trade names is not included in the fair value of the net assets of Kejetia above. Group policy is to amortise intangible assets over ten years.

iii) On 1 June 2016, Makola sold inventory costing GH¢23 million to Kejetia for GH¢28 million. At 31 May 2017, the inventory was still held by Kejetia. The inventory was sold to a third party on 15 July 2017 for GH¢35 million.

iv) Makola has issued 24,000 convertible bonds with a three year term repayable at par. The bonds were issued at par with a face value of GH¢1,250 per bond. Interest is payable annually in arrears at a nominal interest rate of 6%. Each bond can be converted at any time up to maturity into 300 shares of Makola. The bonds were issued on 1 June 2016 when the market interest rate for similar debt without the conversion option was 8% per annum. Makola does not wish to account for the bonds at fair value through profit or loss. The interest has been paid and accounted for in the financial statements. The bonds have been included in non-current liabilities at their face value and no bonds were converted in the current financial year.

v) On 31 May 2017, Makola acquired plant with a fair value of GH¢6 million. In exchange for the plant, the supplier received land, which was currently not in use, from Makola. The land had a carrying value of GH¢4 million and an open market value of GH¢7 million. In the financial statements at 31 May 2017, Makola had made a transfer of GH¢4 million from land to plant in respect of this transaction.

vi) Goodwill has been tested for impairment at 31 May 2016 and 31 May 2017 and no impairment loss occurred. It is the group's policy to value the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.
(Ignore any taxation effects)

Required:
Prepare the consolidated statement of financial position of the Makola Group as at 31 May 2017 in accordance with ***International Financial Reporting Standards (IFRS).***

(20 marks)

QUESTION TWO

a) Dodowa Ltd is a large textile manufacturing company. Wherever possible, it structures its operations to take advantage of any financial assistance available from national and regional authorities.

During the year, a heavy duty equipment was purchased for Dodowa Ltd's main manufacturing operation for GH¢12 million on 1 April 2015. The equipment was expected to be used for 10 years, with a zero residual value. Dodowa Ltd pre-applied for a government grant on 1 January 2015, meeting all necessary criteria for awarding of the grant. On 1 February 2015, the grant was awarded for 40% of the equipment's cost and the cash was received on 1 July 2015. Conditions relating to maintaining employment are attached to the grant and if they are not satisfied, then the grant becomes repayable, or partly repayable.

Dodowa Ltd expected to meet these conditions when the grant was applied for. However, due to worsening economic conditions, redundancies for some staff on 31 December 2016 resulted in a repayment of 10% of the original grant becoming due. The repayment was made on 1 February 2017. Dodowa Ltd accounted for the grant as a reduction in the carrying amount of the asset.

Required:
Explain, with suitable calculations, the financial reporting treatment of the above in the financial statements of Dodowa Ltd for the year ended 31 December 2016 in accordance with ***IAS 20: Accounting for Government Grants and Disclosure of Government Assistance.***
(6 marks)

b) Related party relationships are a common feature of commercial life. The objective of ***IAS 24: Related Party Disclosures*** is to ensure that financial statements contain the necessary disclosures to make users aware of the possibility that financial statements may have been affected by the existence of related parties.

Required:
Explain **TWO** importance of disclosing related party relationships and transactions in financial statements. **(4 marks)**

c) Oyarefa Ltd, acquired 80% ordinary shares in Abokobi Ltd on 1 January 2015. The intangible assets of Abokobi Ltd include GH¢9 million of training and marketing expenditure incurred during the year ended 31 December 2016. The Directors of Abokobi Ltd believe that these should be capitalised as they relate to the startup period of a new business venture in Oyibi, and they intend to amortise the balance over the five years commencing 1 January 2017.

On 1 July 2016, Oyarefa Ltd purchased a customer list from the liquidator of a competitor. The price paid was GH¢4 million and was based on the list having a useful life of two years. At 31 December 2016, the Finance Director of Oyarefa Ltd commissioned a report on the value of the customer list from a firm of independent valuers. The firm has valued the customer list at GH¢5 million and estimates a total useful life of five years. The customer list is currently included in intangible assets at a carrying value of GH¢4 million but the Finance Director wants the list to be revalued to the higher amount.

Required:
Recommend the treatment of the above in the consolidated financial statements for Oyarefa Ltd Group for the year ended 31 December 2016 in accordance with ***IAS 38: Intangible Assets***.
(6 marks)

d) Adonko Ltd is a listed Ghanaian company which reports under ***International Financial Reporting Standards (IFRS)*** with 31 December as financial year end. The company performed some work for Adenta Municipal Assembly, a local government authority during 2016 and issued an invoice for the work for GH¢12 million in July 2016. The invoice was accepted as valid by the local government authority, but remains unpaid at the year end. In January 2017, following extensive press coverage, financial information was published showing that Adenta Municipal Assembly is heavily indebted and is unable to meet its obligations and pay its suppliers, including Adonko Ltd. This was unexpected by Adonko Ltd and no allowance had previously been made against the debt in Adonko Ltd's financial statements.

The Government of Ghana stated on 1 February 2017 that it was not prepared to fund the excesses of regional and local governments and that, regional and local governments will need to make the necessary sacrifices to balance their budgets. Local governments are prohibited by national law from raising additional finance when it has exceeded the legal levels of indebtedness. Adenta Municipal Assembly stated that its priority was provision of social amenities and economic well-being of its inhabitants and that other suppliers must wait for payment, with no date specified. Based on written correspondence with the local government's legal advisers, Adonko Ltd believes it will eventually receive full payment although this may be several years' time, and that interest on late payment is unlikely.

Required:
As the Finance Director of Adonko Ltd, recommend the accounting treatment of the above, in the financial statements for the year ended 31 December 2016. **(5 marks)**

e) DanKay Ltd bought a ten-year bond on 1 August 2016 at a cost of GH¢45 million. The bond carries an interest coupon of GH¢5 million paid annually in arrears, and its effective yield to maturity was 12% at the date of purchase. Dankay Ltd is holding the bond as a speculative investment, expecting its value to increase, and hopes to sell the bond at a profit in the short to medium term. On 31 July 2017, its reporting date, the fair value of the bond had declined to GH¢43 million. The interest payment was received as scheduled.

Required:
Advise DanKay Ltd on the treatment of the above in the financial statements for the year ended 31 July 2017 in accordance with ***IFRS 9: Financial Instruments***. **(4 marks)**

(Total: 25 marks)

QUESTION THREE

a) A company is said to be listed when its securities are approved to be bought and sold on the Stock Exchange. Newly issued shares cannot trade in the Over-The-Counter (OTC) Market before getting listed on the Ghana Stock Exchange (GSE). You need to communicate this intention to the GSE and work with the Exchange's listing requirements before the public floatation.

Required:
Identify and explain **THREE** requirements a company is expected to meet before it gets listed on the Ghana Stock Exchange. **(3 marks)**

b) Santader Limited intends to take over Agos Limited. The financial statements of Agos Limited for the year ended 30 June 2016 are as follows:

Agos Limited

Income Statement for the year ended 30 June, 2016

	GH¢
Profit before tax	450,000
Tax	125,000
Profit after tax	**325,000**

Statement of Retained Earnings for the year ended 30 June 2016.

	GH¢
Balance at beginning	250,000
Profit after tax	325,000
Dividend paid	(180,000)
Balance at end	**395,000**

Statement of Financial Position as at 30 June 2016

	GH¢	**GH¢**
Non-current Assets:		
Freehold land and building at cost		204,500
Plant and machinery (Net)		156,700
Motor vehicles (Net)		560,000
Patent		150,000
		1,071,200
Current Assets:		
Inventories	500,000	
Trade receivable	680,000	
Bank balance	120,000	
	1,300,000	
Current Liabilities:		
Trade payable	240,000	
Accrued expenses	180,000	
	420,000	

	880,000
Net current assets	**1,951,200**
Financed By:	
Stated capital ordinary shares issued @ GH¢1	1,000,000
Retained earnings	395,000
	1,395,000
25% Debenture stock	556,200
	1,951,200

Additional Information:

i) Turnover, profits before tax and dividend of Agos Limited over the past 5 years were as follows:

Year Ending 30 June	**Sales**	**Pre-Tax Profits**	**Dividend**
	GH¢	**GH¢**	**GH¢**
2012	5,800,000	250,000	65,000
2013	6,900,000	320,000	80,000
2014	7,700,000	330,000	100,000
2015	8,500,000	410,000	120,000
2016	9,800,000	450,000	180,000

ii) The patent represents a license to produce and sell a special product. This product is expected to generate a pre-tax profit of GH¢12,000 per annum in perpetuity.

iii) The discount rate of Agos Limited is 10% per annum.

iv) Nhyira Limited, a major competitor of Agos Limited, is listed on the Stock Exchange and has a P/E ratio of 8 and a dividend yield of 10%.

v) Nhyira Limited expects a return of 11% of the net assets.

Required:

Estimate the value per share of Agos Limited as at 30 June, 2016 using the following methods:

i) Net Assets **(4 marks)**

ii) Dividend valuation **(4 marks)**

iii) Price/earning ratio **(4 marks)**

Note

1. *You may assume that it is about 10% more risky investing in unlisted entity than investing in listed entity.*
2. *Unless otherwise deemed inappropriate, the current year's financial statements (appropriately adjusted) may form the basis of the valuation.*

(Total: 15 marks)

QUESTION FOUR

Ahomka Ltd is a public listed manufacturing company. Its summarised financial statements for the year ended 30 April 2017 (and 2016 comparatives) are as follows:

Statements of Comprehensive Income for the year ended 30 April:

	2017	**2016**
	GH¢000	**GH¢000**
Revenue	310,000	360,000
Cost of sales	(270,000)	(260,000)
Gross profit	40,000	100,000
Distribution costs	(10,000)	(8,000)
Administrative expenses	(49,000)	(39,000)
Investment income	-	2,000
Finance costs	(6,000)	(5,000)
Profit (loss) before taxation	(25,000)	50,000
Income tax (expense) relief	4,000	(15,000)
Profit (loss) for the year	(21,000)	35,000
Other comprehensive income (loss) for the year	(45,000)	-
Total comprehensive income (loss) for the year	**(66,000)**	**35,000**

Statements of Financial Position as at 30 April:

	2017	**2016**
Assets	**GH¢000**	**GH¢000**
Non-current assets		
Property, plant and equipment	176,000	245,000
Investments at fair value through profit or loss	24,000	40,000
	200,000	285,000
Current assets		
Inventory and work in progress	22,000	19,000
Trade receivables	22,000	28,000
Tax refund due	6,000	-
Bank	12,000	1,000
	62,000	48,000
Total assets	**262,000**	**333,000**
Equity and liabilities		
Equity		
Equity shares of GH¢1 each	130,000	120,000
Share deals account	10,000	-
Revaluation reserve	-	45,000
Retained earnings	36,000	65,000
	176,000	230,000
Non-current liabilities		
Bank loan	40,000	50,000
Long term provisions	12,000	7,000
	52,000	57,000

Current liabilities		
Trade payables	34,000	46,000
Total equity and liabilities	**262,000**	**333,000**

The following additional information is available:

i) There were no additions to, or disposals of, non-current assets during the year.
ii) In order to help cash flows, the company made a rights issue of shares during the year ending 30 April 2017, all of which ranked for dividend. No shares were issued during the year ended 30 April 2016.
iii) The dividend per share has been reduced by 50% for year ended 30 April 2017.

Required:

a) Prepare a statement of changes in equity for years ended 30 April 2016 and 2017 for Ahomka Ltd as the above information permits. **(5 marks)**

b) Analyse and discuss the ***financial performance*** and ***financial position*** of Ahomka Ltd as portrayed in the financial statements and in the additional information provided. Your analysis should be supported by relevant ratios. **(10 marks)**

(Total: 15 marks)

QUESTION FIVE

a) In recent years, the discourse has shifted from Corporate Social Responsibility to Sustainability Reporting. Indeed, some critics would argue that there is very little difference between the two. However, sustainability in this context is a complex and contested concept as it is about ensuring that there are sufficient resources available for future generations. It is very difficult for this to be addressed at individual level of the firm. There are huge external pressures for companies to disclose information in relation to their impacts on carbon emissions, waste management, protection of biodiversity and health and safety. Expectations of key users (stakeholders) are changing.

Required:

i) Identify **FOUR** limitations of financial reporting in the context of reporting the ***social and environmental impacts*** of corporate activity to users of financial statements. **(6 marks)**

ii) What are companies currently doing to report their social and environmental performance? **(4 marks)**

b) The financial reporting process is concerned with providing information that is useful in the business and economic decision-making process. Therefore a conceptual framework will form the theoretical basis for determining which events should be accounted for, how they should be measured and how they should be communicated to the user. Although, theoretical in nature, a conceptual framework for financial reporting has practical aims.

Required:
Discuss whether an agreed international framework for financial reporting is needed in order to resolve practical accounting issues. **(6 marks)**

c) Mr. Odorkor Asare is a partner of Fobes Chartered Accountants, an auditing firm. Mr. Asare was informed by the other partners to take a "compulsory leave" because he was in breach of the firm's independence rules as his wife was the Finance Director of Millenium Insurance (an audit client). He was to resume after completion of the audit. Mr. Asare was disturbed by this notice even though he was not the reporting partner.

Required:
Discuss the stance taken by the other partners of the firm and its effect on the ***objectivity*** of Fobes Chartered Accountants. **(3 marks)**

d) A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest a professional accountant should observe and comply with the ethical requirements of the IFAC's Code of Ethics. All accounting professionals are responsible for acting in the public interest, and for promoting professional ethics.

Required:
Comment on the implications ***of compliance or non-compliance*** of the ethical code of conducts by professional accountants. **(6 marks)**

(Total: 25 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

Makola Group
Consolidated Statement of Financial Position as at 31 May 2017

	GH¢000
Assets	
Non-current assets	
Property, plant and equipment(275,000+20,000+26,000+6,000(W2)+5,000(W2)+3,000(W5)	335,000
Goodwill (W6)	10,360
Other Intangibles: trade mark (W2)	4,000
Investment Property	10,000
	359,360
Current assets	
Inventory (40,000+23,200+16,000-5,000 (W3)	74,200
Trade receivables (10,000+5,800+4,000)	19,800
	94,000
Total assets	**453,360**
Equity and liabilities	
Ordinary shares	150,000
Other reserves (W8)	30,850
Retained earnings (W8)	146,460
Equity component of convertible debt (W4)	1,550
Total equity	328,850
Non-controlling interests (W7)	28,570
	357,430
Non-current liabilities	
Loans & Debentures(W10)	48,930
Current liabilities	
Bank Overdraft (35,000+7,000+5,000)	47,000
Total liabilities	95,930
Total equity and liabilities	**453,360**

Workings

1 Group structure

	Makola			
1 June 2015	↓	**85%**	Retained earnings	GH¢10m
			Other reserves	GH¢4m
	Kejetia			
1 June 2015	↓	**60%**	Retained earnings	GH¢6m
			Other reserves	GH¢8m
	Kotokuraba			

	%
Effective interest 85% x 60%	51
∴Non-controlling interest	49
	100

Note. The acquisitions were on the same date. Our calculation of goodwill is done as if Kejetia was acquired first, but either method would be acceptable.

2 Fair value adjustments

	Acquisition GH¢m	**Movement (2yrs) GH¢m**	**At reporting date GH¢m**
Kejetia			
Land: 60 – (40+10+4)	6	-	6
Brand name (note)	5	(1)	4
	11	1	10
Kotokuraba			
Land: 39 – (20+8+6)	5	-	5

Note. The trade name is an internally generated intangible asset. While these are not normally recognised under IAS 38 Intangible assets, IFRS 3 Business combinations allows recognition if the fair value can be measured reliably. Thus, Makola should recognize this as an intangible asset on acquisition (at 1 June 2015). This will reduce the value of goodwill.

The trade name is amortised over ten years, of which two have elapsed: GH¢5m × 2/10 = GH¢1m.

So the value is GH¢ (5 – 1)m = GH¢4m in the consolidated statement of financial position.

3 Provision for Unrealised Profit

Parent sells to subsidiary

Profit on sale = GH¢28million – GH¢23million= GH¢5 million

DR Retained earnings GH¢5million

CR Inventory GH¢5million

The sale of goods of GH¢35million on 15 July 2017 will have no effect on the financial statements at the year-end May 2017.

4 Convertible bond

Under IAS 39, the bond must be split into a liability and an equity component:

	GH¢'000	GH¢'000
Proceeds: 24,000 × GH¢1,250		30,000
Present value of principal in three years' time		
GH¢30m $(1.08)^{-3}$	23,814.97	
Present value of interest annuity		
GH¢30m × 6% = GH¢1,800,000		
Year 1= GH¢1.8$(1.08)^{-1}$	1,666.66	
Year 2= GH¢1.8$(1.08)^{-2}$	1543.21	
Year 3= GH¢1.8$(1.08)^{-3}$	1428.90	
Liability component		(28,454)
∴Equity component		**1,546**
Rounded to **GH¢1550**		

Balance of liability at 31 May 2017

	GH¢'000
Balance b/d at 1 June 2016	28,454
Effective interest at 8%	2,276
Coupon interest paid at 6%	(1,800)
Balance c/d at 31 May 2017	28,930

5 Exchange of assets

The cost of the plant should be measured at the fair value of the asset given up, rather than the carrying value. An adjustment must be made to the value of the plant, and to retained earnings.

	GH¢'000
Fair value of land	7,000
Carrying value of land	(4,000)
∴Adjustment required	3,000

DEBIT	Plant	GH¢3m	
CREDIT	Retained earnings		GH¢3m

6 Goodwill

	Makola in Kejetia		**Kejetia in Kotokuraba**	
	GH¢m	GH¢m	GH¢m	GH¢m
Consideration transferred		60	85% x 30	25.5
FV of net assets acquired				

Per question	60		39	
Trade name (W2)	5		-	
	65		39	
Group share 85%/51%		(55.25)		(19.89)
		4.75		5.61
			10.36	

7 Non-controlling interest

	Kejetia	**Kotokuraba**
	GH¢m	GH¢m
Net assets per question	70.0	38
Cost of investment in Kotokuraba	(30.0)	-
Fair value adjustment (W2)	10.0	5
	50	43
	X 15%	X 49%
	7.5	21.07

GH¢28.57m

8. Retained earnings

	Makola	**Kejetia**	**Kotokuraba**
	GH¢m	**GH¢m**	**GH¢m**
Per question	135.00	25	10
Fair value movement (W2)	-	(1)	-
Provision for Unrealised Profit (W3)	(5)		
Convertible bonds (W4) (2.276 – 1.8)	(0.48)		
Assets exchange:			
Adjustment to plant (W5)	3.00		
Less pre-acquisition		(10)	(6)
		14	4
Share of Kejetia			
85% × 14	11.90		
Share of Kotokuraba			
51% x 4	2.04		
	146.46		

9. Other reserves

	Makola	**Kejetia**	**Kotokuraba**
	GH¢m	GH¢m	GH¢m
Per question	30.0	5	8
Less pre-acquisition		(4)	(8)
		1	-
Share of Kejetia			
85% × 1	0.85		

Share of Kotokuraba	
51% × 0	0.0
	30.85

10 Loans & Debentures

Note. This working is for additional information. To save time, you should do yours on the face of the consolidated financial position statement.

	GH¢m
Non-current liabilities per question:	
Makola	45
Kejetia	2
Kotokuraba	3
Proceeds of convertible bond	(30.0)
Value of liability component	28.9
	48.93

(20 marks evenly spread using ticks)

Question 1 (Alternative Solution) [80 ticks x ¼ = 20 marks]
Makola group
Consolidated statement of financial position as at 31 May 2017

	GH₵'000	**GH₵'000**
Assets		
Non-current assets		
Property, plant and equipment (275,000 + 20,000 + 26,000 + 6,000 + 5,000 + 3,000 W8)		335,000
Goodwill (4,750 + 5,610) (W3)		10,360
Trade mark (5,000 – 1,000) (W2)		4,000
Investment property		10,000
		359,360
Current assets		
Inventory (40,000 + 23,200 + 16,000 – 5,000 W6)	74,200	
Trade receivables (10,000 + 5,8000 + 4,000)	19,800	94,000
Total assets		**453,360**
Equity and liabilities		
Equity		
Ordinary shares		150,000
Other reserves (W8)		32,400
Retained earnings (W5)		146,460
		328,860
Non-controlling interest (7,500 + 21,070) (W4)		28,570
Total equity		357,430

Liabilities	
Non-current liabilities	
Loans and debentures (45,000 + 2,000 + 3,000 –1,550W7 + 480 W7)	48,930
Current liabilities	
Bank overdraft (35,000 + 7,000 + 5,000)	47,000
Total equity and liabilities	**453,360**

Workings

W1 Group structure

	Kejetia	**Kotokuraba**
Group	85%	51%
Non-controlling interest / Outside Interest	15%	49%
	100%	100%

W2 Net-assets of Kejetia

	At acquisition GH₵'000	**At reporting** GH₵'000	**Post acquisition** GH₵000
Ordinary share	40,000	40,000	–
Other reserves	4,000	5,000	1,000
Retained earnings	10,000	25,000	15,000
Fair value adjustment – land	6,000	6,000	–
Trade name	5,000	4,000	(1,000)
	65,000	80,000	15,000
Investment in Kotokuraba		(30,000)	–
	65,000	50,000	–

Post-acquisition profit = GH₵14,000 + GH₵1,000 (Post-acquisition movement in other reserves)

W2 Net-assets of Kotokuraba

	At acquisition GH₵000	**At reporting GH₵000**	**Post Acquisition GH₵000**
Ordinary share	20,000	20,000	–
Other reserves	8,000	8,000	–
Retained earnings	6,000	10,000	4,000
Fair value adjustment	5,000	5,000	–
	39,000	43,000	4,000

Post-acquisition profit = GH₵4,000

W3 Goodwill – Kejetia

	GH₵000
Fair value of consideration	60,000
Share of net assets at acquisition [85% x GH₵65,000 (W2)]	55,250
	4,750

W3 Goodwill – Kotokuraba

	GH₵000
Fair value of consideration (85% x GH₵30,000)	25,500
Share of net assets at acquisition [51% x GH₵39,000 (W2)]	19,890
	5,610

W4 Non-controlling interest – Kejetia

	GH₵000
Share of net assets at reporting [15% x GH₵50,000 (W2)]	7,500

W4 Non-controlling interest – Kejetia (Alternative method)

	GH₵000
Share of net assets at reporting [15% x GH₵80,000 (W2)]	12,000
Investment in Kotokuraba (15% x GH₵30,000)	(4,500)
	7,500

W4 Non-controlling interest – Kotokuraba

	GH₵000
Share of net assets at reporting [49% x GH₵43,000 (W2)]	21,070

W4 Non-controlling interest – Kotokuraba (Alternative method)

	GH₵000
Fair value of non-controlling interest at acquisition (49% x GH₵39,000) (W2)]	19,110
Post-acquisition profit (49% x GH₵4,000)	1,960
	21,070

W5 Group retained earnings

	GH₵000
Makola	135,000
Kejetia 85% [(80,000 – 1,000) – 65,000] or (85% x 14,000)	11,900
Kotokuraba 51% (43,000 – 39,000) or (51% x 4,000)	2,040
Plant exchange (W8)	3,000
Bond (W7)	(480)
Unrealized profit (W6)	(5,000)
	146,460

W6 Provision for unrealized profit = (GH₵28million – GH₵23 million) = GH₵5million

W7 Convertible bond

(i) Splitting the proceeds into equity and debt

Date		Cash flow	DF (8%)	PV
		GH₵000		GH₵000
31/05/2017	Interest	1,800	$1/1.08^1$	1,666.67
31/05/2018	Interest	1,800	$1/1.08^2$	1,543.21
31/05/2019	Principal & Interest	31,800	$1/1.08^3$	25,243.87
	PV of liability			28,453.75
	Proceeds			30,000
	Equity			1,546.25*

*Rounded to GH₵1,550

(ii) The annual finance costs and year end carrying amounts

Date	Bal. b/d	Interest (8%)	Payments	Bal. c/d
	GH₵000	GH₵000	GH₵000	GH₵000
31/05/2017	28,453.75	2,276.3**	(1,800)	28,930.05***

Rounded to GH₵2,280*Rounded to GH₵28,900

Accrued interest: GH₵2,280 – GH₵1,800 = GH₵480 or GH₵28,930.05 – GH₵28,453.75 = GH₵476.3 (rounded to GH₵480)

Equity will be credited with GH₵1,550m and this will not be remeasured. The liability will be accounted for at amortised cost as the company does not wish to measure it at fair value through P/L.

Accounting entries

Dr.	Non-current liabilities	GH₵1,550
Cr.	Equity	GH₵1,550
Dr.	Retained earnings	GH₵480
Cr.	Non-current liabilities	GH₵480

W8 Plant exchange

The exchange has commercial substance since the land generated no immediate economic benefits as it was not being used but the plant will. The cost of the plant will be measured at fair value of the asset given up. Therefore, the plant will be valued at GH₵7m. The gain will be recognised in profit or loss at GH₵3m. (GH₵7 – GH₵4)

Dr. Plant	GH₵3m
Cr. Retained earnings	GH₵3m

W9 Other reserves

	GH₵000
Makola	30,000
Kejetia (85% x GH₵1,000) (W2)	850
Bond (W7)	1,550
	32,400

EXAMINER'S COMMENTS

Question 1 tested the preparation of Consolidated Statement of Financial Position in accordance with International Financial Reporting Standards (IFRS). It was a mixed group consolidation question. Candidates who had full grips of consolidation scored highly. Others had difficulty in computing relevant figures for the statement. The treatment of the convertible bond posed a great difficulty for majority of candidates. Many candidates could not split the bond into a liability and equity as required by IAS 39. Some candidates were not able to compute the indirect holding of Makola in Kotokuraba. Generally, this question was well answered.

QUESTION TWO

a) The grant was recognised in the financial statements on 1 February 2015 as deferred income on that date. It is credited to the asset's value on 1 April 2015, the date of the asset's initial recognition.

The carrying amount of the asset is calculated as follows:

	GH¢
Asset value on initial recognition (1 April 2015)	12,000,000
Grant (GH¢12m x 40%) – credited to asset on 1 April 2015	(4,800,000)
	7,200,000
Depreciation 2015 (GH¢7.2m/10 years x 9/12)	(540,000)
31 December 2015	6,660,000
Depreciation 2016 (GH¢7.2m/10 years)	(720,000)
	5,940,000
Grant repayment (GH¢4.8m x 10%)	480,000
Additional depreciation (480,000 x 1¾/10 years)	(84,000)
31 December 2016	**6,336,000**

(4 marks)

The double entry is:

	GH¢	
DR Asset (480,000 – 84,000)	396,000	
DR Profit or loss	84,000	
CR Grant repayable liability		480,000

(2 marks)

b) **Importance of related party disclosures**

- Investors invest in a business on the assumption that it aims to maximize its own profits for the benefit of its own shareholders. This means that all transactions have been negotiated at arm's length between willing and informed parties. The existence of related parties may encourage directors to make decisions for the benefit of another entity at the expense of their own shareholders. This can be done actively by selling goods and services cheaply to related parties, or by buying in goods and services at an above market price. It can also happen when directors chose not to compete with a related party, or offer guarantees or collateral for other party's loans.

- Disclosure is particularly important when a business is being sold. It may receive a lot of custom, supplies, services or general help and advice from family or group companies. When the company is sold these benefits may be withdrawn.

- Related party transactions are not illegal, nor are they necessarily a bad thing. However shareholders and potential investors need to be informed of material related party transactions in order to make informed investment and stewardship decisions.

(Any 2 points for 4 marks)

c) IAS 38 Intangible assets states that start-up, training and promotional costs should all be written off as an expense as incurred as no intangible asset is created that can be recognised (the benefits cannot be sufficiently distinguished from internally generated goodwill, which is not recognised. Abokobi Ltd's retained earnings will be reduced by GH¢9 million (with result that NCI share of profits are reduced) and the Intangible assets of Abokobi will also be reduced by GH¢9 million.

(2 marks)

The customer list would appear to satisfy the requirements of IAS 38, as it is identifiable, non-monetary asset without physical substance. The list is identifiable as it was purchased from a third party. The probability of future economic benefits is always assumed for such a separate acquisition. Oyarefa Ltd has therefore adopted the correct accounting treatment by capitalising the list at its cost of GH¢4 million. However, the list should be amortised over its original useful life of two years. Therefore an amortisation charge of 4/2 x 6/12 = GH¢1.
Revaluation was done at the end of the year so no effect on the current year end.

A journal entry should be put through the books of Oyarefa Ltd

	GH¢	GH¢
DR distribution and administration costs (SPLOCI)	1m	
CR intangible assets (SFP)		1m

(3 marks)

d)

- The information about the debt is an event after the reporting period concerning recoverability of a debt in the financial statements as at 31 December 2016.
- It appears that the conditions discovered after the year end relate to conditions that existed at the year end, and, as such, provide additional evidence regarding

the recoverability of the debt at 31 December 2016, which is ***an adjusting event*** after the reporting period.

- It is not clear whether the debt is recoverable or not, however the best information available is that the debt will be paid in full, but much later. The delayed payment is therefore an ***impairment indicator***.
- As the cash flows will be received later, the ***debt should be discounted*** for the expected time period until payment.
- The difference between the carrying amount of the debt and its discounted value is ***an impairment loss*** that should be recognised in ***profit or loss***.

(5 points for 5 marks)

e)

- As the bond is not to be held to maturity it fails the "Business Model" test set out by IFRS 9 Financial Instruments.
- This means the amortised cost method cannot be used, and the fair value method must be used instead.
- This results in a fair value loss of GH¢2 million, and a carrying value of GH¢43 million.
- The interest received of GH¢5 million is recognised as a gain in profit or loss. This results in a net gain of GH¢3 million to profit or loss.

(4 points for 4 marks)

(Total: 25 marks)

EXAMINER'S COMMENTS

Question 2 was on selected accounting standards. The question asked for explanation of the accounting treatment of various transactions. It was poorly answered.
Question 2 was in five (5) parts.

Part a) asked candidates to explain, with suitable calculations, the financial reporting of a scenario covering acquisition of equipment which was partially financed with government grant, subsequent default in meeting the requirements of the conditions which resulted in repayment of part of the grant. Candidates were required to answer in accordance with IAS 20: Accounting for Government Grants and Disclosure of Government Assistance.
Quite a number of candidates were fairly able to do the computation but failed to give any explanation. Candidates who did the computation as well as provide comments scored high marks.

Part b) asked candidates to explain importance of disclosing related party relationships and transactions in financial statements. Several candidates spent time explaining what related party transactions and related parties are. Those who discussed the importance of disclosing related party relationships and transactions in financial statements scored very good marks.

Part c) examined treatment of intangible assets, specifically training and marketing expenditure relating to a startup period of a new business and purchase of a customer list from a liquidator of a company. IAS 38: Intangible Assets was to be used in answering the question. Many candidates discussed accounting treatment of Intangible Assets without reference to the question and thus scored low marks. Candidates who did both scored high marks.

Part d) examined an event after the reporting period concerning recoverability of a debt in the financial statements as at December 31, 2016 of a company. Many candidates did not answer this question. Those who attempted it provided poor answers. Candidates discussed IAS 37: Provisions, Contingent Liabilities and Contingent Assets instead of IAS 10: Events after Reporting Date. Candidates did not discuss the impairment loss of the debt.

Part e) examined IFRS 9: Financial Instruments. Quite a number of candidates did not attempt this question. Some of the candidates did not realise that the bond was not to be held to maturity (although clearly stated in the question) and as such the amortised cost method could not be used. They spent time computing movement of the instrument which was already given in the question. Candidates who used the fair value method and rightly discussed the carrying value, the loss and the interest received scored good marks.

QUESTION THREE

a) A company applying for listing on the main Board of any class of its shares is, as a general rule, expected to meet the following requirements:

- **Minimum Stated Capital**: It must have a stated capital after the public floatation of at least GH¢1million in the case of an application relating to the First Official List and GHc0.25 million for the Ghana Alternative Market (GAX).

- **Minimum Public Float**: Shares issued to the public must not be less than twenty-five per cent (25%) of the number of issued shares of the company.

- **Payment of Shares:** Shares must be fully paid for: Except in very exceptional circumstances, the Exchange will refuse listing in respect of partly paid shares.

- **Spread of Shares**: The spread of shareholders existing at the close of an offer should be in the GSE's opinion adequate with at least 100 shareholders after the public offer for the Main Board and 20 for the Ghana Alternative Market (GAX).

(Any 3 points for 3 marks)

b)

i) Net Assets basis of valuation

	GH¢	GH¢
Non-current Assets:		
Freehold land and building at cost		204,500
Plant and machinery (Net)		156,700
Motor vehicles (Net)		560,000
Patent (12,000/0.1)		120,000
		1,041,200
Current Assets:		
Inventories	500,000	
Trade receivable	680,000	
Bank balance	120,000	
	1,300,000	
Current Liabilities:		
Trade payable	(240,000)	
Accrued expenses	(180,000)	
	(420,000)	
		880,000
		1,921,200
25% Debenture stock		(556,200)
Value of business		1,365,000

Alternative solution:

(4 marks)

ii) **Dividend yield basis of valuation**

Value of business = Dividend/Dividend Yield
Using the current year's dividend (GH¢180,000)
Value of business = GH¢180,000/0.10
= GH¢1,800,000 x 0.90
= GH¢1,620,000

Using the average dividends over the 5 years (65+80+100+120+180)/5 = GH¢109,000

Value of business = GH¢109,000/0.10
= GH¢1,090,000 x 0.90
= GH¢981,000

Therefore, the value lies between GH¢1,620,000 and GH¢981,000 inclusive

(4 marks)

iii) Price/earnings ratio basis of valuation

Market Price per share = P/E ratio x EPS

Market Price per share = 8 x GH¢325,000
= GH¢2,600,000 x 0.90
= GH¢2,340,000

(4 marks)

(Total: 15 marks)

EXAMINER'S COMMENTS

Question 3 was in two (2) parts.
Part a) asked candidates to identify and explain three requirements a company is expected to meet before it gets listed on the Ghana Stock Exchange. This part of the question was poorly answered. Candidates could not adequately recollect the listing requirements.
Part b) asked candidates to estimate the value per share of an unlisted limited liability company using net assets, dividend yield valuation and price/earnings ratio methods.
The use of the net assets method was well answered by majority of candidates. However, some candidates did not adjust the patent.

The other methods were poorly dealt with. Many candidates failed to adjust for the risk element in investing in unlisted entity. Although the examiner provided 10% as the risk element, some candidates used different rates. Several candidates used various formulae without relating their computations to the question.

QUESTION FOUR

a) Ahomka Ltd:
Statement of changes in equity for years ended 30 April 2016 and 2017

	Equity Capital GH¢000	**Share Deals GH¢000**	**Revaluation Reserve GH¢000**	**Retained Earnings GH¢000**	**Total GH¢000**
Balance @ 1 May 2015	120,000	-	45,000	44,800*	209,800
Profit for year				35,000	35,000
Dividends paid (Workings)				(14,800)	(14,800)
Balance 30 April 2016	120,000	-	45,000	65,000	230,000
Profit for year				(21,000)	(21,000)
Revaluation loss			(45,000)		(45,000)
Share issue	10,000	10,000			20,000
Dividends paid (Bal fig)				(8,000)	(8,000)
Bal @ 30 April 2017	**130,000**	**10,000**	**-**	**36,000**	**176,000**

(5 marks spread evenly using ticks)

Working:

GH¢8 million was paid in dividends in y/e 30 April 2017 – calculated by balancing the retained earnings reserve.

Bal @ 30 April 2016	(per question)	65,000
Loss for the year	(per question)	(21,000)
Less Dividend *		(8,000)
Balance @ 30 April 2017 (per question)		**36,000**

This was 6.15p per share (130m shares in issue). This was 50% less that previous year (per note (iii)).

Therefore dividend for year ended 30 April 2015 was 12.31p per share.

As there were 120m shares in issue that year, the total dividend paid must have been GH¢14.769m, or GH¢14.8m.

b)

Appendix

Ratio	**Formula**	**30 April 2017**	**30 April 2016**
Gross margin	Gross Profit/Revenue	40/310*100 =12.9%	100/360*100 =27.8%
Net margin	PBIT/Revenue	-19/310*100 =-6%	55/360*100 =15.3%
ROCE	PBIT/(Total assets-current liabilities)	-19/228*100 =-8.3%	55/287*100 =19.2%
Return on Equity	Profit after Tax/Closing Equity	-21/176*100 =-11.9%	35/230*100 =15.22%
Current ratio	Current assets/current liabilities	62/34 =1.8:1	48/46 =1.04:1
Interest cover	PBIT/Interest	-	55/5 =11 times
Gearing ratio	Interest bearing debt/equity	40/176*100 =22.7%	50/230*100 =21.7%
Acid test ratio	(Currents assets-Inventory)/Current liabilities	40/34 =1.2:1	29/46 =0.63:1

(4 marks spread evenly using ticks)

Financial Performance

- Financial performance is a quantitative measure of how well a firm can use assets from its primary mode of business and generate revenues using the financial statements. This can be measured using Gross Profit Margin, Net Profit Margin, Return on Capital Employed and Return on Equity.
- The performance of the entity has definitely deteriorated from 2016 to 2017.The gross margin, net margin and both ROCE and ROE have declined markedly.
- It is particularly concerning to see underlying gross margins dropping as well as sales volume. This trend has the potential to destroy the business if not arrested immediately.
- Efforts should be made to increase sales, reduce overheads and sell off of unprofitable Or unnecessary assets in order to improve on the financial performance of the entity.

(Any 3 points for 3 marks)

Financial Position

- The status of the assets, liabilities, and owners' equity (and their interrelationships) of an organization, as reflected in its financial statements is the financial position. The financial position helps users to understand the gearing, liquidity and value of the company. This can be measured using Debt to Equity ratio for gearing, and Current Ratio and Acid test ratio for liquidity and Interest cover.

- The business does not appear to have a serious liquidity issue. Although the liquidity ratios could be better, they have improved over the course of the period reviewed.
- The business was able to raise new equity even in tough times. This shows the business has shareholders who believe in it and are willing to support it.
- The interest cover has declined precipitously. The ability of Ahomka Ltd to service its debt obligations is a key factor in determining its solvency and is an important statistic for shareholders and prospective investors. Efforts should be made to reverse this worst situation as Creditors are concerned with the company's ability to make their interest payments as well. If they are struggling to make the interest payments on their current debt obligations, it doesn't make any sense for a prospective credit to extend them additional credit.
- The low gearing gives some comfort as the business can survive tough times easier than if gearing were higher.
- The bank loan is a big uncertainty. The fact that none appears in current liabilities suggests that it is not due immediately. However if this were repayable soon it could cause liquidity issues. **(Any 3 points for 3 marks)**

(Total: 15 marks)

EXAMINER'S COMMENTS

Question 4 was in two parts, a) and b):

Part (a) tested preparation of Statement of Changes in Equity for years ended 30 April 2016 and 2017.

This part of the question was not answered by many candidates. The few candidates who answered it scored very high marks. It should be noted that this topic is examined in Financial Reporting at level two (2).

Part (b) tested the financial analysis of a company with respect to financial performance and financial position using relevant ratios. Though many candidates were able to calculate the ratios, they were unable to explain and respond to why particular situations might have occurred and how they could be addressed to bring about improved performance. Few candidates could not calculate the ratios correctly. The weakness could be due to inadequate preparation by the candidates. The overall performance is satisfactory.

QUESTION FIVE

a)

i) Candidates should demonstrate an awareness of current issues in relation to social environmental and sustainability reporting.

Potential problems in relation to current financial reporting under IFRS include:

- Financial accounting focuses on information needs of suppliers of capital and those making resource allocation decisions. (IASB – under the conceptual framework documents have decided who the key users are?).
- Problem of measurability – reasonable accuracy is not possible for many social and environmental impacts and so they are not recognised.
- Accountability is narrowly defined and corporate organisations are seen as being accountable to shareholders.
- Focus on single economic bottom line (i.e. financials)
- Ignores social and environmental externalities (e.g. BP deep water horizon spillage)
- Materiality used to make decisions as to whether to include items in financial statements
- Discounting of future liabilities for inclusion in financial statements or impairment testing does not make sense in the context of providing for environmental and social impacts.
- Entity assumption – of transaction does not impact the entity it is ignored for accounting purposes
- Recognition of assets depends on "control" hence environmental resources such as sir and water cannot be considered assets.

(Any 4 points for 6 marks)

ii) Recent developments include:

- Reporting on what is known as the Triple Bottom Line (i.e. economic, social and environmental). Problem with this is measuring social impacts – would any organisation seriously report that they are "unsustainable" in terms of their impacts on society and environment.
- Many of the top companies are now producing separate Sustainability Reports in addition to their annual financial statements. Should such reporting be mandatory?
- Global Reporting Initiative (GRI) guidelines – set out the key indicators organisations should report on. The Global Reporting Initiative is an international, multi-stakeholder effort to create a common framework for voluntary reporting of the economic, environmental, and social impact of organization-level activity. Its mission is to improve the comparability and credibility of sustainability reporting worldwide.

(Any 2 points for 4 marks)

b) The Conceptual Framework as a mechanism to resolve practical accounting issues

- The danger of not having a conceptual framework is demonstrated in the way some countries' standards tend to be produced in a haphazard way. Where an agreed framework is in place, the IASB can act as the architect – building accounting rules on the foundation of sound, agreed basic principles.

- The lack of a Conceptual Framework means that fundamental principles are tackled more than once in different standards, thus producing inconsistencies (e.g. prudence and matching). This leads to ambiguity and it affects the true and fair concept of financial reporting.
- There is also the problem that standards become ever sophisticated rules rather than principles governing financial reporting. A well thought out Conceptual Framework can also help standard setters in resisting political interference (lobbying etc).
- Although Conceptual Framework can't solve all the problems, it provides a set of coherent principles which can be used when devising alternatives and can also provide guidance in the absence of accounting standard.

(Any 3 points for 3 marks)

However, the Conceptual Framework is unlikely to provide all the answers:

- Financial statements are intended for a variety of users and it is not possible for a single framework to satisfy all users. For example, social and environmental accounting issues.
- Given the diversity of user requirements, there may be a need for a variety of accounting standards, each produced for a different purpose
- There is an argument that the conceptual framework makes to task for preparing financial statements more difficult.
- In creating the framework – who is deciding what accounting represents (i.e. is it the accountants who are creating reality?).
- Focus is on suppliers of capital and decision-making. What about the stewardship function of accounting?
- Private sector focus - what about the not-for-profit sector?

(Any 3 points for 3 marks)

c) A family relationship between an auditor and the client can substantially affect the objectivity of the audit, so auditors are advised not to build close personal relationships with audit clients and should not audit a company where family are employed in a capacity which is sensitive to the accounts, for example finance department, although this is not prohibited by law.

In this stance, the partner was not the reporting partner for the audit client in which the wife was the Finance Director. According to generally accepted ethical practice then, the firm appeared to be independent of the audit client, if the related partner did not have anything to do with the audit.

(3 marks)

d) **Implications of Compliance or Non-compliance with the Ethical Code of Conduct**

Code of Ethics

- Every professional accountant has a moral obligation to comply with the ethical code of conduct of the accountancy profession. Professional ethics is an inherent part of the profession.
- Professional accountants are required to adhere to a set of fundamental principles in the course of their professional duty. These principles are **confidentiality, objectivity, professional behaviour, integrity and professional competence and due care.** The main aim of professional ethics is to serve as a moral guideline for professional accountants. **(2 marks)**

Compliance

- Compliance with this set of ethical guidelines implies that the accountant is able to decide on the most appropriate course of action, which will be in line with the professional body's stance on ethics.
- The presence of a code of ethics is a form of declaration by the professional body to the public that it is committed to ensuring the highest level of professionalism amongst its members.

(2 marks)

Non-Compliance

- Non-compliance with these principles give room to a lack of confidence in the financial reporting process.
- Non-compliance can also imply that the actions of professional accountants can be judged to be deceptive, unethical and unfair. It violates the trust relationship of the stewardship function.

(2 marks)

(Total: 25 marks)

EXAMINER'S COMMENTS

Question 5 was in four parts.

Many candidates scored very good marks under question 5. However, in many instances the introduction was long-winding and virtually repeating the question or what had been said before. Candidates need to balance the depth/length of their answers with the allocated marks.

Part a) was in two parts, i) and ii).

Part a) i) asked candidates to identify four limitations of financial reporting in the context of reporting the social and environmental impacts of corporate activity to users of

financial statements. Many candidates focused on the cost of preparing the reports and lack of expertise. Obviously the limitations go beyond these areas.
Part a) ii) related to what companies are doing to report their social and environmental performance. Several candidates became oblivious about the reporting side of the requirements and wrote copiously about corporate and environmental projects being undertaken by entities. They did not relate the project descriptions to how they were captured in the financial reports.

Part b) asked candidates to discuss whether an agreed international framework for financial reporting is needed in order to resolve practical accounting issues. Generally, good answers were produced. Nevertheless, not many candidates are aware that Conceptual Framework is not likely to provide all the answers.

Part c) tested the objectivity of an audit firm in relation to a partner being asked by the other partners to take a "compulsory leave" because his wife was the Finance Director of an audit client. Satisfactory answers were produced. However, many candidates agreed with the action taken by the other partners without regard to the fact that that partner was not the reporting partner. The firm had the option of declining the assignment rather than imposing compulsory leave on the partner.

Part d) tested implications of compliance and non-compliance of the ethical code of conduct by professional accountants. Generally, the answers were good.

CONCLUSION

Candidates should be educated to prepare adequately before presenting themselves for the examination. The Institute should consider organising more intervention programmes across the country for prospective candidates. Question setters should provide marking guide in addition to the suggested solution.