NOVEMBER 2019 PROFESSIONAL EXAMINATION
CORPORATE REPORTING (PAPER 3.1)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

Generally, candidates recorded average performance for the November, 2019 sitting, partly because the marking scheme was made flexible.

STANDARD OF THE PAPER

The standard of the questions was appropriate for the level being assessed. The difficulty level of the paper is standard and within expectation. Questions were evenly weighted, the paper followed the pattern of the previous sittings and is generally consistent in standard with the previous sitting's paper.

The questions required critical thinking and a good mastery of the relevant areas of the syllabus. The mark allocations generally followed the weightings in the syllabus grid. Marks were fairly allocated to questions and sub questions. The marks allocated to questions were commensurate with the amount of time and effort required to answer the questions.

PERFORMANCE OF CANDIDATES

Candidates' performance was generally average performance. Candidates were fairly prepared for the paper. Some candidates lacked the technique of answering examination questions. Candidates' performance appeared to be consistent and was evenly spread across most centres. The worst attempted question was the question on the application of IFRS. Candidates lacked the skills to apply the IFRS to the given scenarios.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

- Most candidates performed better at the theory questions but performed poorly at the questions that required application of concepts to given cases. Most candidates could not perform computations as required.
- Candidates' weakest point was application of IFRS.
- On the theory questions, most candidates spent a lot of their time discussing issues not immediately relevant to the question: giving backgrounds, providing lengthy introductions, defining irrelevant terminology etc.
- The fundamental weaknesses observed is lack of appropriate knowledge, bad strategy in use of time, wrong order in which questions were attempted, and inability to apply concepts to practical scenarios.
- Most candidates could not effectively communicate their ideas on the answer booklets.
- Candidates lacked effective time management skills.
- Some candidates numbered their questions wrongly.
- Some candidates had very poor handwriting which made it difficult to read the answers properly.
- Some candidates answered the same question on several non-conservative pages without cross referencing. This made tallying their marks very difficult.

QUESTION ONE

The following statements of financial position are as at 31 March 2019:

	Herd Ltd	Swarm Ltd	Army Ltd
	GH¢m	GH¢m	GH¢m
Assets			
Tangible non-current assets	1,280	440	280
Investment in Swarm Ltd	400	-	-
Investment in Army Ltd	60	-	-
Current assets	544	190	130
Total assets	**2,284**	**630**	**410**
Equity and liabilities			
Stated capital	950	260	230
Revaluation reserve	90	-	-
Retained earnings	390	210	94
Total equity	1,430	470	324
Non-current liabilities	640	30	16
Current liabilities	214	130	70
Total equity and liabilities	**2,284**	**630**	**410**

Herd Ltd acquired the following shareholdings in Swarm Ltd and Army Ltd.

	Date of acquisition	Holding acquired	Fair value of net assets	Purchase consideration
			GH¢m	GH¢m
Swarm Ltd	1 April 2016	10%	325	30
	1 April 2018	70%	460	370
Army Ltd	1 April 2018	25%	200	60

You are also provided with the following information which will be relevant to the consolidated financial statements of Herd Ltd.

i) At 1 April 2016, the carrying value of the net assets of Swarm Ltd was the same as their fair value, GH¢325 million.

ii) The estimated fair value of the initial investment in 10% of the shares of Swarm Ltd was GH¢40 million at 31 March 2018.

iii) Herd Ltd wishes to use the full fair value method of accounting for the acquisition of Swarm Ltd. At 1 April 2018 the estimated value of the non-controlling interests was GH¢95 million.

iv) The difference between the carrying amount of Swarm Ltd's net assets and their fair value at the date of acquisition was due to land valued at cost which on 1 April 2018 had a fair value of GH¢25 million in excess of its carrying value. There has been no subsequent significant change in that value.

v) At 1 April 2017 the fair value of Army Ltd's land was GH¢16 million in excess of its carrying value. There has been no subsequent significant change in that value.

vi) Goodwill arising on acquisition is tested for impairment at each year end. The recoverable amount of goodwill in Swarm Ltd at 31 March 2019 was GH¢30 million.

vii) There has been no impairment of the investment in Army Ltd.

viii) During the year, the Directors of Herd Ltd decided to form a defined benefit pension scheme for its employees. The company contributed cash to it of GH¢250 million but the only accounting entry for this has been to include it in receivables at 31 March 2019.

At 31 March 2019 the following details relate to the pension scheme:

	GH¢m
Present value of obligation	317
Fair value of plan assets	302

Required:
Prepare the consolidated statement of financial position of the Herd Ltd group as at 31 March 2019.

(20 marks)

QUESTION TWO

a) Nyinahini Ltd (Nyinahini) is a company reporting under IFRS. Nyinahini normally operates only within the country where its buildings are physically located. Recently it entered into a contract to supply its products to a new client based in South Africa. All the work was completed in the period October to November 2018. The (fixed) contract price of 100 million Rand has been agreed as denominated in South African Rand. The full amount was invoiced on 1 December 2018 when the exchange rate was GH¢1 = 10.1889 Rand. The new client paid 50 million Rand in advance on 1 November 2018 when the exchange rate was GH¢1 = 9.9783 Rand. The balance will be paid in two equal instalments on 31 March 2019 and 30 June 2019. The exchange rate at 31 December 2018 was GH¢1 = 10.5037 Rand.

Nyinahini decided to eliminate exchange rate differences on the final two payments and entered into two forward rate agreements on 1 December 2018 to sell the appropriate amount of Rand on 31 March 2019 and 30 June 2019, and set up the relevant documentation to treat them as fair value hedges of the recognised receivables. At 31 December 2018, the two contracts for settlement on 31 March 2019 and 30 June 2019 were valued at GH¢148,000 collectively, as an asset from Nyinahini's point of view.

Required:
Set out and discuss the accounting treatment of the above items, including relevant calculations, as the information provided permits, in the financial statements of Nyinahini for the year ended 31 December 2018. **(6 marks)**

b) ***IFRS 5: Non-current Assets Held for Sale and Discontinued Operations*** sets out the principles governing the measurement and presentation of non-current assets that are expected to be realised through sale rather than through continuing use. The standard also deals with reporting the results of operations that qualify as discontinued operations.

Required:
Identify **TWO (2)** conditions which must be present in order to present the results of an operation as "***discontinued"*** and the accounting treatment that applies when such a classification is deemed appropriate. **(4 marks)**

c) On 1 January 2018, Kaduna issued 10,000 bond instruments with a face value of GH¢100 at a market price of GH¢95. Bond brokers charged fees totalling GH¢18,000 in relation to the bond issue. The bonds carry a coupon rate of 5% and are redeemable in 3 years at face value.

Kaduna wishes to account for the bonds using ***IFRS 9: Financial Instruments*** amortised cost method. However, there was some confusion about how the bonds should be accounted for. Currently, the cash received from the bond issue of GH¢950,000 has been recognised as a non-current liability. The broker fees of GH¢18,000 were deducted from the non-current liability carrying amount, the coupon payment of GH¢50,000 has been expensed in arriving at profit before tax and the effective rate of interest is 7.62%.

Required:
Justify the necessary accounting treatment of the above transaction relating to Kaduna Ltd for the year ended 31 December 2018. **(5 marks)**

d) A parent company had 6 million, GH¢1 fully paid ordinary shares outstanding on 1 January 2018. On 1 April 2018 the company made a consolidation of existing shares in issue (i.e. a reverse share split) at nominal value, on a 2 for 3 basis. There was no special dividend, share repurchase or other outflow of resources.

Having completed the consolidation of shares, a new share issue for 600,000 shares was made through an offer for sale at the market price of GH¢1.55 per share. The allotment was made on 1 September 2018 and the proceeds were due on 1 October 2018. The company's (summarised) statement of profit or loss for the year ended 31 December 2018 as published showed:

	GH¢'000
Revenue	15,740
Cost of sales and expenses	(16,060)
Loss before interest and tax	(320)
Finance costs	68
Taxation	60
Loss for the year	**(448)**
Profit/(loss) attributable to:	
Owners of the parent	(478)
Non-controlling interests	30
	(448)

The company also had in issue GH¢500,000 of 5% cumulative redeemable preferences shares throughout the year ended 31 December 2018.

Required:
In accordance with ***IAS 33: Earnings per Share*** calculate the basic earnings per share figure for the year ended 31 December 2018. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

a) ***IFRS 15: Revenue from Contracts with Customers*** specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Mankranso Ltd, a hotel had the following transactions during the year:

i) On 31 March 2019, Mankranso Ltd signed a contract to supply 50,000 units of food packs at an agreed price of GH¢10 per unit. On the same day, 30,000 units were delivered at that date, with the remainder delivered on 1 June 2019. It was agreed that the customer would have extended credit terms of 12 months from the date of delivery. Mankranso Ltd's cost of capital is 10%. **(3 marks)**

ii) During the year ended 31 March 2019, Mankranso Ltd received payment in advance for the supply of 2,000 hotel room-nights to customers at GH¢100 per room per night. Only 400 of these had been occupied by 31 March 2019. The amounts paid by the customers are non-refundable unless the company fails to provide the agreed accommodation. **(3 marks)**

Assume Mankranso Ltd has decided to adopt IFRS 15 for year ended 31 March 2019.

Required:
In each scenario above, calculate the amount of revenue to be recognised in the financial statements of Mankranso Ltd for year ended 31 March 2019. Justify the correct accounting treatment for each transaction.

b) Duakwanta is a listed company which manufactures personal computers (PCs). It is preparing its financial statements for the year ended 31 May 2019 and would like to seek advise on the following accounting issue:

During the year, Duakwanta issued a debt finance to the financial markets to fund its expansion plans. This was a very significant debt issue for Duakwanta. After the issue, the market price of each block of debt on the market fell by approximately 10%. The financial press has stated that the reason for the fall is due to an increase in the company's credit risk, as the market players are worried by the size of the interest payments on Duakwanta's operating cash flows.

Required:
Advise the directors as to the financial reporting issues arising from the above scenario and explain the appropriate treatment in Duakwanta's financial statements. **(4 marks)**

c) Fiagja Ltd is a retail trading company in Ghana. Nana Yaw Kawula (member of ICAG) is the finance director and has been in this role for many years. Fiagja Ltd has a year-end of 30 June each year. Nana Yaw Kawula is finalizing the financial statements for the year ended June 30 2019.

On one hand, the warehouse manager of Fiagja Ltd has recently advised Nana Yaw Kawula of a significant level of slow moving inventory, and that the inventory in question is now more than seven months old and per the company policy would usually have been written down some months previously.

On the other hand, the shareholders of Fiagja Ltd are trying to sell the company, and the Chief Executive Officer (CEO) who happens to be the majority shareholder of Fiagja Ltd has told Nana Yaw Kawula that it is not necessary to write down the inventory values in the yearend financial statements.

Nana Yaw Kawula is sure that the CEO wants the financial statements to carry an inflated inventory valuation because he has found a prospective buyer for the company. The CEO has indicated to Nana Yaw Kawula that, if the proposed deal is indeed successful, all employees will keep their jobs (including Nana Yaw Kawula) and the finance director (Nana Yaw Kawula) will receive a pay rise.

Required:

i) Explain how the finance director could potentially act in order not to breach the fundamental principles of the IFAC's code of ethics. **(5 marks)**

ii) Recommend the possible actions that the finance director should take as a member of the Institute of Chartered Accountant (Ghana) in dealing with this ethical dilemma. **(5 marks)**

(Total: 20 marks)

QUESTION FOUR

Mahadi Ltd has operated profitably in Ghana for several years but now facing financial difficulties after recording losses in its operations recently.
The company's Statement of Financial Position as at 30 September, 2019 is given below:

	GH¢
Non-current Assets	
Freehold property	68,000
Equipment	468,000
	536,000
Current Assets	
Inventories	120,000
	656,000
Equity and Liabilities	
Stated Capital (400,000 ordinary shares issued at 25 pesewas per share)	100,000
Capital surplus	68,000
Retained earnings	(40,000)
	128,000
10% debenture stocks	48,000
Sundry payables	412,000
Bank overdraft (from Northern Rock Bank)	68,000
	656,000

Additional Information:

i) Mahadi Ltd operates a number of retail outlets for snack bar; most of these outlets are rented out. The company's largest supplier is Banda Ltd which holds all of the debenture stocks and is also a trade creditor for GH¢240,000 included in sundry payables above. Included in the sundry payables are preferential payables of GH¢44,000; an amount due to the Ghana Revenue Authority.

ii) The bank overdraft from Northern Rock Bank is secured by a fixed charge over the freehold property of Mahadi Ltd, and the debenture stock is secured by a floating charge over the company's assets.

iii) On October 1, 2019, Mahadi Ltd has scheduled a meeting of all the stakeholders of the company in order to consider the following alternative proposals:

Proposal Alternative 1
The management of Mahadi Ltd proposes for the immediate liquidation of the company, which would result in the following estimated amounts for realized assets:

	GH¢
Freehold property	56,000
Equipment	204,000
Inventories	40,000

Proposal Alternative 2
Banda Ltd has made an offer of support which would allow the reconstruction of Mahadi Ltd to continue to operate as a going concern. Under this reconstruction arrangement, the debentures held by Banda Ltd would be converted into 48,000 ordinary shares (issued at GH¢1.00 per share) and for every GH¢200.00 of GH¢240,000 trade debt owed to Banda

Ltd, there would be issued 110 ordinary shares (issued at GH¢1.00 each) in the reconstructed company. The balance of the trade debt owed to Banda Ltd would be written off against the equipment of Mahadi Ltd.

Mahadi Ltd existing shareholders would receive one ordinary share in the reconstructed company (credited as to GH¢1.00 per share) in exchange for every five presently held. The balance on the retained earnings is not absorbed by the existing shareholders (in the share exchange above), and is to be written off against the capital surplus. The fair value costs of the freehold property and the inventories approximate their carrying value.

An additional 140,000 ordinary shares in Mahadi Ltd (issued at GH¢1.00) would be issued to Banda Ltd for cash consideration of GH¢140,000 in order to improve the liquidity position of the reconstructed entity. It has been estimated by the Management of Banda Ltd that after reconstruction, Mahadi Ltd would earn regular net profit of GH¢54,000 per annum.

Other relevant information:

- Ignore reconstruction and liquidation expenses.
- Assume that Banda Ltd can currently earn 15% per annum on new investments involving similar risks to those which would be incurred by investing in Mahadi Ltd.
- Assume that the adopted proposal would be implemented immediately.

Required:

a) Show the total amount Banda Ltd would receive in case of liquidation of Mahadi Ltd per proposal 1. **(10 marks)**

b) Prepare the statement of financial position of Mahadi Ltd after the reconstruction (on assumption that proposal 2 is adopted and implemented). **(10 marks)**

(Total: 20 marks)

QUESTION FIVE

You are the Financial Controller of Oxtom Ltd. Pep Ltd is a competitor in the same industry and it has been operating for 20 years. Summaries of Pep Ltd's Statements of Profit or Loss and Financial Position for the previous three years are given below.

Pep Ltd
Summarised Statement of Profit or Loss for the year ended 31 December

	2016	**2017**	**2018**
	GH¢'m	**GH¢'m**	**GH¢'m**
Revenue	840	981	913
Cost of sales	(554)	(645)	(590)
Gross profit	286	336	323
Selling, distribution and administration expenses	(186)	(214)	(219)
Profit before interest and taxes	100	122	104
Finance cost	(6)	(15)	(19)
Profit before taxation	94	107	85
Taxation	(45)	(52)	(45)
Profit after taxation	**49**	**55**	**40**
Dividends	24	24	24

Pep Ltd
Summarised Statements of Financial Position as at 31 December

	2016	**2017**	**2018**
	GH¢'m	**GH¢'m**	**GH¢'m**
Assets			
Non-current assets			
Intangible assets	36	40	48
Tangible assets at net book value	176	206	216
	212	246	264
Current assets			
Inventories	237	303	294
Receivables	105	141	160
Bank	52	58	52
	394	502	506
Total Assets	**606**	**748**	**770**
Equity and Liabilities			
Equity			
Stated capital	100	100	100
Retained earnings	299	330	346
	399	430	446
Non-current liabilities			
Long-term loans	74	138	138
Current liabilities			
Trade payables	53	75	75
Other payables	80	105	111
	133	180	186
Total Equity and Liabilities	**606**	**748**	**770**

Required:

Write a report to the Chief Executive Officer of Oxtom Ltd,

a) Analysing the performance of Pep Ltd and showing any calculations in an appendix to this report. **(14 marks)**

b) Summarising **THREE (3)** areas which require further investigation, including reference to other pieces of information which would complement your analysis of the performance of Pep Ltd. **(6 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

Consolidated statement of financial position as at 31 March 2019

	GH¢m
Assets	
Tangible non-current assets (W4)	1,745
Intangible non-current assets (W3)	30
Investment in associate (W5)	95
Current assets (544 + 190 - 250)	484
	2,354
Equity and liabilities	
Share capital	950
Revaluation reserve	90
Retained earnings (W7)	186
	1,226
Non-controlling interest (W8)	99
	1,325
Non-current liabilities (640 + 30)	670
Current liabilities (214 + 130)	344
Pension liability (W6)	15
	2,354

Workings

(W1) Net assets summaries

Swarm Ltd

	At Reporting 31 March 2019	**At Acquisition 1 April 2018**	**Post-Acquisition**
	GH¢m	**GH¢m**	**GH¢m**
Share capital	260	260	-
Retained earnings	210	175	35
FV adjustment	25	25	-
FV (given)	495	460	35

Army Ltd

	At Reporting 31 March 2019	At Acquisition 1 April 2018	Post-Acquisition
	GH¢m	GH¢m	GH¢m
Share capital	230	230	-
Retained earnings	94	(46)	140
FV adjustment	16	16	-
FV	340	200	140

(W2) **Gain or loss on acquiring control of Swarm Ltd**

1 April 2018	**GH¢m**
Fair value of initial investment in Swarm Ltd at 1 April 2018	40
Initial cost of investment	30
Gain recognised on gaining control of Swarm Ltd	10

This gain has not yet been recognised in the individual financial statements of Herd Ltd; it must therefore be included in the calculation of group reserves (see Working 8).

(W3) **Goodwill in Swarm Ltd at acquisition**

	GH¢m
Consideration transferred to achieve control	370
Fair value of initial investment at acquisition	40
Non-controlling interest at acquisition (at fair value)	95
	505
Fair value of net assets acquired	460
Total goodwill at acquisition date	45
Impairment (balancing figure)	(15)
Goodwill at date of consolidation	30

The goodwill impairment of GH¢15 million is apportioned between the interests of the equity owners of Herd Ltd and NCI in the ratio 80:20.

Impairment of goodwill attributable to parent = GH¢15m × 80% = GH¢12m

Impairment of goodwill attributable to NCI = GH¢15m × 20% = GH¢3m.

(W4) **Tangible non-current assets**

	GH¢m
Herd Ltd	1,280
Swarm Ltd	440
Fair value adjustment	25
	1,745

(W5) **Investment in associate – Army Ltd**

	GH¢m
Cost	60
Group share of post-acquisition profit (94 – (46)) × 25%	35
	95

Alternative

	GH¢m
Group share of Fair value of Associate at reporting date (25% x 340)	85
Goodwill in associate (60 – 50)	10
	95

(W6) **Pension**

The amount paid to set the pension must be removed from receivables, and the net pension liability must be recognised in the statement of financial position.

The double entry to achieve this is as follows:

	Dr	**Cr**
	GH¢m	**GH¢m**
Retained earnings (balancing figure)	265	
Receivables		250
Pension scheme liability (317 – 302)		15

Tutorial note: The amount recognised in retained earnings is made up of the return on plan assets, interest, current service cost and actuarial gain or loss. If the answer required the preparation of a consolidated statement of profit or loss and other comprehensive income, these amounts would have to be identified separately. This would not be needed when preparing a statement of financial position (and in any case, the necessary information was not provided in the question).

(W7) **Consolidated retained earnings**

	GH¢m
Herd Ltd (given)	390
Swarm Ltd post-acquisition retained earnings	
(210 – 175 (W1)) × 80%	28
Gain on acquiring control (W2)	10
Goodwill impairment attributable to parent (W3)	(12)
Share of post-acquisition profits of associate (W5)	35
Pension adjustment (W6)	(265)
	186

(W8) **Non-controlling interest in Swarm Ltd**

	GH¢m
FV at date of acquisition	95
NCI share of post-acquisition retained earnings (210 – 175 (W1)) × 20%	7
Goodwill impairment (W3)	(3)
	99

Alternative approach

	GH¢m
Book value (20% × 470)	94
Fair value adjustment (20% × 25)	5
Goodwill (3 – impairment 3) (W3) [95 – (20% x 460) – 3]	0
	99

(20 marks evenly spread using ticks)

EXAMINER'S COMMENTS

- Question 1 was on Consolidated Statement of Financial Position of a complex group and attracted 20 marks.
- Candidates had to deal with adjustments relating to non-current assets, defined benefit pension scheme and gain on piecemeal acquisition.
- The difficulty level of the question was standard.
- The question was averagely well attempted by most candidates.
- Most candidates had difficulty computing the gain on the piece meal acquisition.
- Some candidates showed lack of knowledge on complex group structures.

- Most candidates simply listed the line items and some corresponding figures without adding up.
- The main areas of weakness were: the computations on investments in associates, the non-controlling interest in the subsidiary, and the consolidated retained earnings.
- The above challenges notwithstanding, performance on this question was above average.

QUESTION TWO

a)

- *IAS 21: The Effects of Changes in Foreign Exchange Rates* governs the treatment of transactions in foreign currency. The invoice should be recorded as a sale and a receivable on 1 December 2018 at the spot exchange rate at the date, i.e. at GH¢9,814,602 (100m/10.1889).

- The amount paid in advance is initially recorded as deferred income at GH¢5,010,874 (50m/9.9783). On 1 December 2018 an exchange gain of GH¢103,573 (GH¢5,010,874 – GH¢4,907,301 (50m/10.1889)) is recognised in profit or loss when 50 million rand of the translated 100 million rand receivable is derecognised.

- The remaining 50 million rand receivable is retranslated at 31 December 2018 as GH¢4,760,227 (50m/10.5037) generating an exchange loss of GH¢147,074 (GH¢4,907,301 (50m/10.1889) – GH¢4,760,227).

- The two forward rate agreements are recognised at their fair value of GH¢148,000 (an asset as the rand has depreciated in value) in the statement of financial position.
- Given that they are fair value hedges the change in value of GH¢148,000 is a credit to profit or loss, eliminating the exchange loss recognised on the receivables.

Sale value on 1 December 2018: 2 marks
Deferred income (amount received in advance): 1 mark
Exchange gain on deferred income to profit or loss: 1 mark
Retranslation of receivable: 1 mark
Fair value hedge credited to P& L: 1 mark

b)

- A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and
- represents a separate major line of business or geographical area of operations,
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

(Any 2 points @ 1 mark each = 2 marks)

Accounting Treatment

- Discontinued operations are presented separately at the end of profit or loss by including the profit after tax generated by discontinued operations. This figure should include the post-tax gain or loss on disposal of the assets of the operation or the gain or loss on remeasurement following transfer to "held for sale".

- A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.

- An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.

(Any 2 points for 2 marks)

c) Under IFRS 9's - amortised cost model, the financial liabilities should initially be recognised at the fair value of the cash received. Any directly attributable costs to the bond issue should be offset against the carrying amount of the liability.

Therefore, at initial recognition the bonds should be measured at:

	GH¢
Fair value of consideration received	950,000
Less: transaction costs	(18,000)
Carrying amount	**932,000**

The initial recognition and measurement of the financial liabilities has been carried out correctly in Kaduna's financial statements.

The journal entires are

Dr Cash	950,0000	
Cr Financial Liability		932,000
Cr Broker Fees Payable (Transaction costs)		18,000

However, IFRS 9's amortised cost method requires the bonds to be amortised over the bond term using the effective interest rate.

The instrument cash flows are:

	GH¢
CF0	932,000
CF1	(50,000)
CF2	(50,000)
CF3	(1,050,000)

The effective interest rate which discounts back the future cash flows to the instrument's present value is 7.62% (rounded to 2 decimal places).

The debt amortisation schedule for the debt, using the effective interest rate, is shown below:

Year	Opening capital balance	Coupon Payment	Finance cost charged @ 7.62%	Difference: to capital sum	Closing capital balance
0					932,000
1	932,000	(50,000)	71,018	21,018	953,018
2	953,018	(50,000)	72,620	22,620	975,638
3	975,638	(1,050,000)	74,344	24,344	(18) rounding

Kaduna has failed to amortise the bond using the effective interest rate, instead expensing the coupon payment in the profit or loss. Therefore, the following correcting journal entry is required:

Dr Interest expense (P&L)	GH¢21,018	
Cr Non-current liability (SOFP)		GH¢21,018

Initial recognition of bond: 1 mark
Justification for the correct treatment: 0.5 mark
Bond schedule: 3 marks
Reversal of wrong entry of finance cost: 0.5 mark

d)

Date	**Narrative**	**Number of Shares**	**Time fraction**	**Bonus Fraction**	**Weighted Average**
1 January	b/d	6,000,000	x 3/12	x 2/3	1,000,000
1 April	Stock consolidation	(2,000,000)			
	(6,000,000/3 x 2)	4,000,000	6/12		2,000,000
1 October	Issue at market price		X 3/12		1,150,000
Issue		600,000			
		4,600,00			4,150,000

The shares allotted are included from the date the cash is receivable (1 October), IAS 33 para 21(a).
Basic earnings per share = (GH¢478,000)/4,150,000 = 11.5 pesewas loss per share.

As the preference shares are redeemable, they are accounted for as a financial liability under IAS 32 Financial Instruments: Presentation and therefore the dividend payment is treated as a finance cost, so no further adjustment to earnings is required as the dividend is included in finance costs.

Determination of weighted average number of shares: 2 marks
Profit attributable to ordinary shareholders: 1 mark
Basic earnings per share: 2 marks

(Total: 20 marks)

EXAMINER'S COMMENTS

- Question 2 required candidates to apply the principles and concepts of IFRS to resolve given cases. Application of IFRS has always been a challenge for candidates.
- This question was the worse attempted question by candidates in the paper. About 8% of candidates scored a pass mark in this question.
- The question covered IAS 21: Effects of changes in exchange rates, IFRS 5: Non-Current Assets Held for Sale, IFRS 9: Financial Instruments, IAS 33: Earnings Per Share.
- Candidates clearly demonstrated they were not prepared for the IFRS questions.
- Candidates could not distinguish between the requirements for a discontinued operation and assets held for sale or a disposal group
- Many candidates explained discontinued operations as abandoned operations contrary to the stated position in IFRS 5.
- Many candidates had difficulty identifying the earnings figure to be used in computing the Earnings Per Share. Most candidates could not remember the fact that only the earnings of the parent company ought to have been used.
- Most candidates could not remember the fact that the preference dividends had already been included in the finance cost, so they deducted preference dividends again to arrive at earnings to be used for computing the Earnings Per Share.
- Regarding IAS 21, most candidates could not appropriately distinguish between translation of monetary balances from translation of non-monetary balances.
- Most times, candidates just simply engage in computations without describing what it is that they are computing.

QUESTION THREE

a)

(i) The contract to supply is not sufficient to recognise revenue. It is necessary that control of the goods have actually transferred to the customer. This is the case for 30,000 units.

The deferred payment does not prevent revenue from being recognised, but the consideration needs to be measured at the fair value, on the transaction date, of the amount receivable. The fair value needs to reflect a discount allowing for the time value of money, as a result of the extended credit period. The discount rate will be 10%, Mankranso's cost of capital. Hence revenue will be recognised as follows: 30,000 units * GH¢10 * 1/1.10 = GH¢272,727.

The discount will be recognised as finance income as time passes, on a time-apportioned basis. As the sale took place on 31 March 2019, no time has yet passed to trigger the recognition of finance income.

Journal:	GH¢	GH¢
Dr trade receivables	272,727	
Cr Revenue		272,727

(recognition of revenue and trade receivables at fair value of consideration receivable)

Initial revenue recognition: 2 marks
Treatment of initial recognition : 1 mark

(ii) Again, the same principles apply. Revenue is recognised when control of the goods or services are transferred to the customer.

Here, cash was received in advance. Nevertheless, revenue is only recognised when the service is delivered to the customer. Any excess cash retained is recognised as deferred income, a liability. If the cash is non-refundable, this does not change the timing of recognition of revenue. However, if the customer's right to the service expires, and the customer has no right to a refund, the revenue should then be recognised.

Total cash received in year ended 31 March 2019: 2000 * GH¢100 = GH¢200,000
Total room nights provided 400
Revenue recognised = 400 * GH¢100 = GH¢40,000
Deferred revenue = 200,000 – 40,000 = 160,000

Journal:	GH¢ 000	GH¢ 000
Dr Cash	200	
Cr Revenue		40
Cr Deferred revenue		160

(recognition of revenue, deferred revenue and cash received)

Initial revenue recognition: 1 mark
Deferred revenue: 1 mark
Journal entries: 1 mark

b)

- The debt issue must be accounted for under IFRS 9 Financial Instruments. Initial recognition is at fair value. However this would ordinarily be the amount of cash received.
- As the debt is Duakwanta's own debt and is not held for trading purposes, it should ordinarily be held at amortised cost.
- The change in fair value of the debt on the market due to change in credit risk is not therefore adjusted in Duakwanta's financial statements. However, it will be disclosed under IFRS 7 Financial Instruments: Disclosures.

Initial recognition of financial instrument is at fair value under IFRS 9: 1 mark
Duakwanta's own debt held at amortised cost: 1 mark
Disclosure of fall in fair value: 2 marks

Tutorial note: If the debt were held at fair value through profit or loss (which is unlikely in this case), the change in fair value relating to changes in the entity's own credit risk would be recognised in other comprehensive income rather than profit or loss.

c)
(i). Fundamental principles

- **Integrity:** In the light of the information Nana Yaw Kawula have, he must ensure that he act honestly, and that he is open and straightforward towards those with whom he comes into contact with. The CEO proposes misrepresenting information about the company in the financial statements, which would be contrary to the fundamental principle of integrity as defined for all ICAG members.
  Nana Yaw Kawula cannot simply do what has been asked of by the CEO because the principle of integrity requires a professional accountant not to be associated with information that they believe to be false or misleading. Relying on the potential buyer's due diligence to identify the overvaluation is not appropriate. You are responsible for the honest presentation of the accounts, and you should not transfer that responsibility to either the buyer or the auditors.

- **Objectivity:** Can Nana Yaw Kawula act without bias, despite the significant threats in the form of self-interest and intimidation from others like in this case. In this case, there is self-interest threat to the finance director's objectivity, which arises from the financial benefit that Nana Yaw Kawula is likely to receive if the company is sold under the proposed deal. Nana Yaw is also feeling intimidated by the CEO. The CEO appears to be suggesting that the future employment of other employees depends upon the proposed deal being successful and, therefore, upon the results shown by the financial statements. The CEO is also putting the finance director under pressure to account for inventory at a higher value than that with which he feels comfortable.

- **Professional competence and due care:** The finance director must act diligently. Does Nana Yaw Kawula have sufficient information to be able to determine the appropriate value of the inventory to be included in the financial statements in order not to misstate it? In this case, the first step is to ensure that the finance director have sufficient information. This would include the establishment of the basis of valuation of the company's inventory, investigating the system for counting and evaluating inventory, and discussing with the warehouse manager the reason why the inventory is slow moving. The finance director may also need to discuss the realisable value with someone else, such as the sales director.

- **Professional behaviour:** All members of ICAG including Nana Yaw Kawula are required to account for the inventory in accordance with relevant accounting standards. In this case IAS 2 inventory. Inventory is valued at the lower of cost and net realizable value under IAS 2, which the finance director should be comfortable with. The finance director must ensure that any of the actions he considers taking should not discredit the profession in the opinion of an informed third party.

- **Confidentiality:** The finance director has to be mindful that actions he takes both internal and external including consulting others does not amount to given information of the company without obtaining proper permission

Suggested marking scheme: (1 mark for each brief discussion up to a maximum of 5 marks)

ii) Possible course of action that the finance director should take

- The first step is to ensure that the finance director has sufficient information. This would include establishing the basis of valuation of the company's inventory, investigating the system for counting and evaluating inventory, and discussing with the warehouse manager the reason why the inventory is slow moving. You may also need to discuss the realisable value with someone else, such as the sales director.
- The finance director should discuss the matter with the CEO. If, in his opinion, the CEO continues to insist on an inflated inventory valuation being incorporated into the financial statements
- The finance director should consider how best to raise the issue with the other board members. Initially, he could suggest that both Nana Yaw Kawula and the CEO raise the matter with the other board members. If he feels it appropriate to discuss the matter with anyone else within the company, however, the finance director must bear in mind the need for appropriate confidentiality and be clear about his reasons for raising the matter.
- Discussions with the CEO may be made easier by reference to the company's own code of ethics, if it has one. If it does not, the finance director should make the CEO aware of the ethical requirements of ICAG as a professional body of which Nana Yaw Kawula is member.
- The finance director could possibly suggest that the company engages an independent expert to value the inventory.

- At each stage, the finance director should consider the need to follow meetings with email or other written correspondence to record his points of view. This would be particularly appropriate if you are of the opinion that the CEO or the board has not been sympathetic to the finance director's concerns.
- The finance director might have to consider raising the issue externally, for example alerting the auditors to the existence of the slow-moving inventory, or seeking advice from ICAG as professional body, which the finance director belongs.
- If the situation remains unresolved, Nana Yaw Kawula may have to remove himself from the conflict. The clearest way is to disassociate himself from misleading financial statements would be to resign. However, this would only be an option to be exercised, as a last resort, in the most extreme circumstances. Resignation alone would not help to resolve this kind of situation. It would be advisable to take legal advice before considering resignation.
- The finance director should document, in detail, the steps that he has taken in resolving the issue, in case his ethical judgement is challenged in future periods.

(1 mark for each action taken up to a maximum of 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

- Question 3 examined candidates on IFRS 15: Revenue from contracts with customers and the principles of ethics.
- The question was standard.
- Candidates lacked the knowledge and skill to apply IFRS 15 to answer the question and therefore performed poorly.
- Candidates performed above average on the principles of ethics
- Overall, performance in question 3 was above average as a result of the part dealing with the principles of ethics.

QUESTION FOUR

a) Amount receivable by Banda Ltd in case of Liquidation

	GH¢	GH¢
Sales Proceeds		
Freehold property		56,000
Equipment		204,000
Inventories		40,000
		300,000
Distribution:		
Northern Rock Bank (Overdraft) [68,000 – 12,000]	56,000	
Tax Authorities	44,000	
Debentures stocks	48,000	148,000
Available for unsecured creditors		152,000
Analyzed as to:		
Northern Rock Bank (O/D) [68,000 -56,000]	12,000	
Sundry payables (412,000 – 44,000)	368,000	
		380,000
Dividend payout		
152,000/380,000 = 40% or 40 pesewas in a GH¢1		
Total amount receivable by Banda Ltd		
Debenture		48,000
Unsecured credit (40% of GH¢240,000)		96,000
		144,000

b) Statement of Financial Position after Reconstruction of Mahadi Ltd

	GH¢
Non-Current Assets	
Freehold property	68,000
Equipment [468,000 – 108,000]	360,000
	428,000
Inventory	120,000
Cash	140,000
Total Assets	**688,000**
Stated Capital	400,000
Capital surplus (68,000 – 20,000)	48,000
	448,000
Sundry payables (412,000 – 240,000)	172,000
Bank overdraft	68,000

	688,000

Workings

Shareholding in the reconstruction entity

	Number	GH¢
Banda Ltd		
Conversion of Debenture stocks	48,000	48,000
Conversion of trade credit	132,000	132,000
New subscription	140,000	140,000
	160,000	320,000
Existing Shareholders 1/5 x 400,000	80,000	80,000
	400,000	400,000

(50 ticks maximum at 0.4 marks per tick up to a maximum of 20 marks)

EXAMINER'S COMMENTS

- Question 4 examined candidates on capital reduction.
- The question was simple but standard.
- Candidates performed very well in this question scoring above 50% pass rate.
- The determination of the amount to be set off against the amount owed to Banda Ltd was a challenge for most candidates. Most used an exchange rate of GH¢1 instead of GH¢200. This error was however taken care of by making the marking scheme flexible to reduce the impact of this on candidates' performance.

QUESTION FIVE

a) To: Chief Executive Officer
From: Financial Controller
Subject: Performance Analysis of Water Limited from 2016 to 2018
Date: 4th November 2019

Introduction
This performance report relates to the financial statements of Water Limited for the period 2016 to 2018. The report covers the profitability, operating efficiency, liquidity and solvency positions of Water Limited over the period under review. An appendix is attached to this report which shows the ratios calculated as part of the performance review.

Profitability
The gross profit margin has remained relatively static over the three year period, although it has risen by approximately 1% in 2018. ROCE, while improving very slightly in 2017 to 21.5% has dropped dramatically in 2018 to 17.8%. The net profit margin has also fallen in 2018, in spite of the improvement in the gross profit margin. This marks a rise in expenses which suggests that they are not being well controlled. The utilization of assets compared to the turnover generated has also declined reflecting the drop in trading activity between 2017 and 2018.

Operating Efficiency
It is apparent that there was a dramatic increase in trading activity between 2017 and 2018, but then a significant fall in 2018. Revenue rose by 17% in 2017 but fell by 7% in 2018. The reasons for this fluctuation are unclear. It may be the effect of some kind of one-off event, or it may be the effect of a change in product mix. Whatever the reason, it appears that improved credit terms granted to customers (receivables payment period up from 46 to 64 days) has not stopped the drop in sales.

Liquidity
Both the current ratio and quick ratio demonstrate an adequate working capital situation, although the quick ratio has shown a slight decline. There has been an increased investment over the period in inventories and receivables which has been only partly financed by longer payment periods to trade payables and a rise in other payables (mainly between 2016 and 2017).

Solvency/Gearing
The level of gearing of the company increased when a further GH¢64m was raised in long-term loans in 2017 to add to the GH¢74m already in the statement of financial position. Although this does not seem to be a particularly high level of gearing, the debt/equity ratio did rise from 18.5% to 32.0% in 2017. The interest charge has risen to GH¢19m from GH¢6m in 2016. The 2017 charge was GH¢15m, suggesting that either the interest rate on the loan is flexible, or that the full interest

charge was not incurred in 2017. The new long-term loan appears to have funded the expansion in both fixed and current assets in 2017.

Appendix

Ratio	*Working*	*2016*	*2017*	*2018*
Gross profit margin	(1)	34.0%	34.30%	35.40%
ROCE	(2)	21.1%	21.50%	17.80%
Profit margin	(3)	11.9%	12.40%	11.40%
Assets turnover	(4)	1.78	1.73	1.56
Gearing ratio	(5)	15.6%	24.30%	23.60%
Debt/equity ratio	(6)	18.5%	32.00%	30.90%
Interest cover	(7)	16.7	8.1	5.5
Current ratio	(8)	3.0	2.8	2.7
Quick ratio	(9)	1.2	1.1	1.2
Receivables collection period (days)	(10)	46	52	64
Inventory turnover period (days)	(11)	156	171	182
Payables payment period	(12)	35	42	46

	Workings (all in GH¢'m)			
		2016	**2017**	**2018**
1	Gross profit margin	$\frac{286}{840}$	$\frac{336}{981}$	$\frac{323}{913}$
2	ROCE*	$\frac{100}{473}$	$\frac{122}{568}$	$\frac{104}{584}$
3	Profit margin	$\frac{100}{840}$	$\frac{122}{981}$	$\frac{104}{913}$
4	Assets turnover	$\frac{840}{473}$	$\frac{981}{568}$	$\frac{913}{584}$
5	Gearing ratio	$\frac{74}{74+399}$	$\frac{138}{138+430}$	$\frac{138}{138+446}$
6	Debt/equity ratio	$\frac{74}{399}$	$\frac{138}{430}$	$\frac{138}{446}$
7	Interest cover	$\frac{100}{6}$	$\frac{122}{15}$	$\frac{104}{19}$
8	Current ratio	$\frac{394}{133}$	$\frac{502}{180}$	$\frac{506}{186}$
9	Quick ratio	$\frac{157}{133}$	$\frac{199}{180}$	$\frac{212}{180}$

10	Receivables collection period	$\frac{105}{840} \times 365$	$\frac{141}{981} \times 365$	$\frac{160}{913} \times 365$
11	Inventory turnover period	$\frac{237}{554} \times 365$	$\frac{303}{645} \times 365$	$\frac{294}{590} \times 365$
12	Payables payment period	$\frac{53}{554} \times 365$	$\frac{75}{645} \times 365$	$\frac{75}{590} \times 365$

ROCE has been calculated here as:

$$\frac{Profit\ before\ interest\ and\ taxation(PBIT)}{Capital\ employed}$$

Where capital employed = shareholders' funds plus payables falling due after one year and any long-term provision for liabilities and charges. It is possible to calculate ROCE using net profit after taxation and interest, but this admits variations and distortions into the ratios which are not affected by operational activity.

2 marks for the structure of the report = 2 marks
2 marks for analysis of performance x 4 areas covered = 8 marks
4 marks for Appendix (12 ratios computed: 4 ratios x 3 years) = 4 marks
14 marks

b) Areas for further investigation include the following;

i) ***Long-term loan:*** There is no indication as to why this loan was raised and how it was used to finance the business. Further details are needed of interest rate(s), security given and repayment dates.

ii) ***Trading activity:*** The level of sales has fluctuated in quite a strange way and this requires further investigation and explanation. Factors to consider would include pricing policies, product mix, market share and any unique occurrence which would affect sales.

iii) ***Further analysis:*** It would be useful to break down some of the information in the financial statements, perhaps into a management accounting format. Examples would include the following.

- Sales by segment, market or geographical area
- Cost of sales split, into raw materials, labour and overheads
- Inventory broken down into raw materials, work in progress and finished goods
- Expenses analysed between administrative expenses, sales and distribution costs.

iv) ***Accounting policies:*** Accounting policies may have a significant effect on certain items. In particular, it would be useful to know what the accounting

policies are in relation to intangible assets (and what these assets consist of), and whether there has been any change in accounting policies.

v) ***Dividend policy:*** Water Limited has maintained the level of dividend paid to shareholders during the three year period. Presumably, Water Limited would have been able to reduce the amount of long-term debt taken on if it had retained part or all of the dividend during this period. It would be interesting to examine the share price movement during the period and calculate the dividend cover.

(3 areas well explained and related to the question @ 2 marks: 6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

- Question 5 examined candidates on ratios.
- The question was standard, clear and understandable.
- Candidates performed very well in this question.
- Most candidates computed the ratios well, but a few could not properly interpret the rations satisfactorily.
- A few candidates could not appropriately identify the areas for analysis, and therefore were engaged in general commentary.
- Some candidates computed too many ratios than they could appropriately handle in the analysis, thereby wasting precious time.

CONCLUSION

- Inappropriate and inadequate tuition provision and poor preparation of candidates seems to be a big problem for most candidates as they simply did not demonstrate adequate knowledge of the issues in the syllabus. Steps should be taken to improve tuition towards the Institute's Examinations. In this regard, the Institute should improve on its special intervention programme for all students two weeks to the exams.
- Students should take their time to adequately prepare for the paper before they sit the exams. It is clear that most candidates are not prepared at the time they sit the exams.
- The Institute should provide intervention to candidates on how to answer exams questions as most candidates lack this critical skill needed to pass examinations.