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

EXAMINER'S GENERAL COMMENTS

Generally, candidates did not appear ready and prepared for the paper. The consequence is the below average performance that was recorded.

STANDARD OF THE PAPER

The standard of the question was appropriate for the level being assessed. The difficulty level of the paper was standard except for question two which was quite loaded with too many issues than normal. 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. Question 2 which tested candidates on IFRS demanded more time and effort than candidates could afford to allocate to the question.

PERFORMANCE OF CANDIDATES

Candidates' performance was generally below average. Candidates did not seem well prepared for the paper. Candidates' depth of knowledge was shallow, majority of the candidates lacked the technique of answering examinations questions.

There were a few centres where performance was very abysmal, otherwise performance appeared to be consistent evenly spread across most centres. The responses from majority of candidates indicated that they were simply not adequately prepared for the paper. Candidates did not adequately cover the syllabus.

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 standards and preparation of consolidated financial statements.
- Over 95% of candidates were not close to completing all questions. Most candidates handled about three questions adequately. This implies poor timing strategy or lack of knowledge about what to do.
- 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.
- A lot of candidates answered the same question on several non-conservative pages without cross referencing the pages.
- Some candidates handwriting made it difficult for their work to be read by the examiner.
- Some candidates numbered their questions wrongly.

QUESTION ONE

On 1 October 2016, HO acquired 60% of the equity interest of Sunyani, a public limited company in Ghana. The purchase consideration is made up of cash of GH¢40 million and the fair value of the identifiable net assets acquired was GH¢55 million at that date. The fair value of the non-controlling interest (NCI) in Sunyani was GH¢22.5 million on 1 October 2016.

HO wishes to use the 'full goodwill' method for all acquisitions. The share capital and retained earnings of Sunyani were GH¢12.5 million and GH¢32.5 million respectively and other components of equity were GH¢3 million at the date of acquisition. The excess of the fair value of the identifiable net assets at acquisition is due to non- depreciable land. Goodwill has been tested for impairment annually and as at 30 September 2017 had reduced in value by 20%. However, at 30 September 2018, the impairment of goodwill had reversed and goodwill was valued at GH¢1 million above its original value. This upward change in value has already been included in the draft financial statements of HO below prior to the preparation of the group accounts.

HO group:

Draft statements of profit or loss and other comprehensive income for the year ended 30 September 2018

	HO	**Sunyani**	**Kumasi**
	GH¢000	**GH¢000**	**GH¢000**
Revenue	200,000	57,500	35,000
Cost of sales	(156,000)	(32,500)	(18,000)
Gross profit	44,000	25,000	17,000
Other income	10,500	3,500	1,000
Administrative costs	(7,500)	(4,500)	(6,000)
Other expenses	(17,500)	(9,500)	(4,000)
Operating profit	29,500	14,500	8,000
Finance costs	(2,500)	(1,500)	(2,000)
Finance income	3,000	2,500	4,000
Profit before tax	30,000	15,500	10,000
Income tax expense	(9,500)	(4,500)	(2,500)
Profit for the year	20,500	11,000	7,500
Other comprehensive income- revaluation surplus	5,000	-	-
Total comprehensive income for year	**25,500**	**11,000**	**7,500**

The following information is relevant:

i) HO disposed of an 8% equity interest in Sunyani on 30 September, 2018 for a cash consideration of GH¢9 million and had accounted for the gain or loss in other income. The carrying value of the net assets of Sunyani Ltd at 30 September, 2018 was GH¢60 million before any adjustments on consolidation. HO accounts for investments in subsidiaries using IFRS 9 financial instruments and has made an election to show gains and losses in other comprehensive income. The carrying value of the investment in Sunyani was GH¢45 million at 30 September 2017 and GH¢47.5 million at 30 September, 2018 before the disposal of the equity interest.

ii) HO acquired 60% of the equity interest of Kumasi Ltd, a limited liability company also in Ghana on 30 September, 2016. The purchase consideration was cash of GH¢35 million. Kumasi's identifiable net assets were fair valued at GH¢43 million and the non-controlling interest had a fair value of GH¢14 million at that date. On 1 April 2018, HO disposed off a 40% equity interest in Kumasi for a consideration of GH¢25 million. Kumasi's identifiable net assets were GH¢45 million and the value of the non-controlling interest was GH¢17 million at the date of disposal. The remaining equity interest was fair valued at GH¢20 million. After the disposal, HO exerts significant influence. Any increase in net assets since acquisition has been reported in profit or loss and the carrying value of the investment in Kumasi had not changed since acquisition. Goodwill had been tested for impairment and found that no impairment was required. No entries had been made in the financial statements of HO for this transaction other than for cash received.

iii) HO sold inventory to Sunyani for GH¢6 million at fair value. HO made a loss on the transaction of GH¢1 million and Sunyani still holds GH¢4 million in inventory at the year end.

iv) On 1 October 2016, HO purchased an item of property, plant and equipment for GH¢6 million and this is being depreciated using the straight line basis over 10 years with a nil residual value. At 30 September 2017, the asset was revalued to GH¢6.5 million but at 30 September 2018, the value of the asset had fallen to GH¢3.5 million. HO uses the revaluation model to value its non-current assets. The effect of the revaluation at 30 September 2018 had not been taken into account in total comprehensive income but depreciation for the year had been charged.

v) On 1 October 2016, HO made an award of 4,000 share options to each of its seven directors. The condition attached to the award was that the directors must remain employed by HO for three years. The fair value of each option at the grant date was GH¢100 and the fair value of each option at 30 September 2018 was GH¢110. At 30 September 2017, it was estimated that three directors would leave before the end of three years. Due to an economic downturn, the estimate of directors who were going to leave was revised to one director at 30 September 2018. The expense for the year as regards the share options had not been included in profit or loss for the current year and no director had left by 30 September 2018.

Required:
Prepare a consolidated statement of profit or loss and other comprehensive income for the year ended 30 September 2018 for the HO group. **(20 marks)**

QUESTION TWO

a) Chereponi Ltd (Chereponi) is a listed manufacturing company. Chereponi granted a loan of GH¢25 million to a homeless charity for the building of a community centre. The loan was granted on 1 January 2018 and is repayable on maturity in four years' time. Interest, which is subsidised, is to be charged one year in arrears at 4%, but Chereponi assesses that a normal rate for such a loan would have been 8%. Chereponi recorded a financial asset at GH¢25 million and reduced this by the interest received each year.

Required:
In accordance with ***IFRS 9: Financial Instruments***, recommend with justification the required accounting treatment for the issue of the loan to the homeless charity in the financial statements of Chereponi for the year ended 31 December 2018. **(6 marks)**

b) The trial balance of Alabar Ltd extracted from the company's general ledger as at 31 December 2017 showed a development costs balance of GH¢12.8 million. The development costs consist of amounts capitalised in 2015 and 2016 relating to a new product development. No additional development expenditure was incurred in the year ended 31 December 2017. The product began commercial production on 1 July 2017, and the company estimated at that date that, the product's useful life was four years due to its technological nature.

Sales of the product did not achieve the amount expected during the second half of 2017, and so, at 31 December 2017, management performed an impairment test on the development expenditure. The estimated net cash flows are (at 31 December 2017 prices):

Year to 31 December 2018	GH¢3.2 million
Year to 31 December 2019	GH¢3.4 million
Year to 31 December 2020	GH¢1.6 million
6 months to 30 June 2021	GH¢0.8 million

All cash flows occur on the final day of each period mentioned. An appropriate annual discount rate (adjusted to exclude the effects of inflation) is 5%. The fair value of the development expenditure asset was expected to be less than the sum of the discounted cash flows.

The company recognises amortisation and impairment losses on development expenditure in cost of sales.

Required:
Set out the accounting treatment as the above information permits in the financial statements of Alabar Ltd for the year 31 December 2017. **(6 marks)**

c) ***IAS 20: Accounting for Government Grants and Disclosure of Government Assistance*** sets out the requirements for recognising as income any grants received from government agencies, together with any repayments of such grants.

Required:
Detail the requirements of IAS 20 with respect to government grants to aid capital expenditure. **(3 marks)**

d) Asawasi Ltd made a decision to sell a business unit on 15 June 2017, and the criteria to classify the unit as held for sale were met on 1 July 2017. Asawasi Ltd's accounting year end is 31 December. At 1 July 2017, the carrying amount of the assets and liabilities of the business unit (before any 2017 depreciation or revaluation adjustments) was as follows:

	GH¢ million
Land and buildings	120
Equipment	50
Trade receivables	30
Inventories	20
Trade payables	(26)

Additional Information:

i) The land and buildings are held under the revaluation model of ***IAS 16: Property, Plant and Equipment*** and were last revalued on 31 December 2016 to GH¢120 million. Their market valuation on 1 July 2017 was GH¢124 million and selling costs were estimated at GH¢2.5 million at that date. Residual value was, and continues to be, expected to be higher than cost.

ii) The equipment is held under the cost model of IAS 16. The equipment was purchased on 1 July 2015 for GH¢80 million and is being depreciated straight line over a four-year period to a zero residual value. Its sale value at 1 July 2017 was GH¢55 million. Selling costs are insignificant.

iii) The trade receivables are recorded at invoiced value, reduced by any allowances for credit losses recognised at 31 December 2016. No adjustment to these allowances was necessary at 1 July 2017. The receivables, if factored, would realise approximately GH¢26 million, net of transaction costs at 1 July 2017.

iv) The inventories are merchandise purchased for resale and are held at cost. Their market value at 1 July 2017 was GH¢28 million. Associated selling costs would amount to GH¢1.4 million.

v) It was anticipated at 1 July 2017 that the business unit will be sold for GH¢200 million, net of selling costs, to a rival company in a single transaction.

Required:

In respect of Asawasi Ltd's year ended 31 December 2017, show, and briefly explain, the amount recognised as ***Non-Current Assets Held for Sale*** under ***IFRS 5*** at 1 July 2017 and the ***impairment charge (if any)*** for the business unit. **(5 marks)**

e) Bongo Designs is the parent company of a small group. Its shares are stock market quoted, with many shareholders. Only one shareholder, Akwasi Boakye has a holding over 5%. Akwasi Boakye holds 20% of the shares and was the founder of the company. He still retains a seat on the board which is made up of four executive directors (including himself) and two non-executive directors.

Akwasi Boakye's domestic live-in partner of ten years, Abena Lamptey, recently set up a company, Gushegu Ltd, in the textile industry with a friend, Akosua Pokuaa. Abena Lamptey and Akosua Pokuaa each own 50% of the shares of Gushegu Ltd, and decisions are made jointly under a contract that both parties signed.

Bongo Designs has two subsidiaries, Zabzugu Fabrics which is 100% owned and Binduri Textiles which is 60% owned. The other 40% of Binduri Textiles is owned by a single shareholder, Innovative Sissala, which has two seats on Binduri Textiles's five-member board. Yaw Abdulai is the Finance Director of Zabzugu Fabrics. He is also the person responsible for finance at the group level, but is not a member of the group's board.

Required:
In accordance with ***IAS 24: Related Party Disclosures***, identify the related parties of Bongo Designs in the above scenario, explaining why each is a related party. **(5 marks)**

(Total: 25 marks)

QUESTION THREE

The Board of Pogas Furniture Ltd (PFC) after few years of incorporation has decided to get the company listed on the Ghana Stock Exchange. The Board has contacted you to assist in determining the true value of the business as at 31 December 2018 and to provide a range of possible issue price based on Net Assets and Earnings Yield. Oliso Ltd, a listed company and a competitor of PFC, current results show price-earnings ratio of 5 and earnings yield of 20%. The summarised unaudited financial statements of PFC are as follows:

Statement of profit or Loss for the year ended 31 December 2018

	GH¢'000
Sales Revenue (note i)	150,000
Cost of Sales	(72,000)
Gross Profit	78,000
Operational Expenses	(34,800)
Finance Costs (Interest on debenture stocks)	(1,200)
Net Profit	42,000
Taxation (@ 25%)	(10,500)
Profit for the period	**31,500**

Statement of financial position as at 31 December 2018

Assets	**GH¢'000**
Non-current assets (note ii)	
Property at Valuation (Land GH¢3 million; buildings GH¢ 27 million) (ii)	30,000
Plant and Equipment (ii)	24,000
Intangible Asset – Patent Right (ii)	3,000
Financial Asset (fair valued through profit or loss at 1/1/2018) (iii)	7,500
	64,500
Current Assets (note iv)	30,000
Total Assets	**94,500**
Equity and Liabilities	
Stated Capital (4 million shares issued at GH¢3.00 per share)	12,000
Retained Earnings	57,960
	69,960
Non-current liabilities	
20% Debenture Stocks (2018-2020)	6,000
Deferred Tax provision -1 January 2018 (note v)	4,500

Current liabilities	
Trade Payables	3,540
Current Tax liability	10,500
Total Equity and Liabilities	**94,500**

Your examination of the financial statements and the underlying records revealed the following additional information:

i) The sales revenue includes GH¢24 million of revenue for credit sales made on a 'sale or return' basis. At 31 December 2018, customers who had not paid for the goods, had the right to return GH¢7.8 million of them. PFC applied a markup on cost of 30% on all these sales. In the past, PFC's customers have sometimes returned goods under this type of agreement.

ii) The depreciable non-current assets have not been depreciated for the year ended 31 December 2018.

- PFC has a policy of revaluing its land and buildings at the end of each accounting year. The values in the above statement of financial position are as at 1 January 2018 when the buildings had a remaining life of 18 years. A qualified surveyor has valued the land and buildings at 31 December 2018 at GH¢33 million.
- Plant and equipment are depreciated at 12.5% per annum on the reducing balance basis. As at 31 December 2018, the value in use and the fair value less cost to sell were assessed at GH¢21.3 million and GH¢20.25 million respectively.
- The patent right was acquired in January 2018 at a cost of GH¢3 million. It is expected to be used for 5 years after which the right of usage would have to be renewed in January 2023.

iii) The financial assets at fair value through profit or loss are held in a fund whose value changes directly in proportion to a specified market index. At 1 January 2018 the relevant index was 240.0 and at 31 December 2018 the index was 259.2

iv) In late December 2018, the directors of PFC discovered a material fraud perpetrated by the company's credit controller. Investigations revealed that a total of GH¢9 million of the trade receivables (included in current assets) as shown in the statement of financial position at 31 December 2018 had in fact been paid and the money had been stolen by the credit controller. An analysis revealed that GH¢3 million had been stolen in the year to 31 December 2017 with the rest being stolen in the current year. PFC is not insured for this loss and it cannot be recovered from the credit controller since his whereabout is unknown.

v) As at 31 December 2018, the company's taxable temporary differences had increased to GH¢24 million. The deferred tax relating to the increase in the temporary differences should be taken to profit or loss. The applicable corporate tax rate is 25%.The above figures do not include the estimated provision for current income tax on the profit for the year ended 31 December 2018. After allowing for any adjustments required in items (i) to (iv), the directors have estimated the provision of current tax liability for 2018 at 25% of adjusted profit. (This is in addition to the deferred tax effects of item (v)).

(Note: Assume that it is about 20% riskier in investing in a non-listed entity (as compared with a listed entity.)

Required

a) Redraft the financial statements above (taking into consideration the additional information (i) – (v) above. **(11 marks)**

b) Based on the revised financial statements, provide a range of possible issue prices per share using **Net Assets Method** and **Earnings Yield/Price Earnings Ratio Method**. **(4 marks)**

(Total: 15 marks)

QUESTION FOUR

Below are the recently issued financial statements of Madina Ltd, a listed company, for the year ended 30 September 2018, together with comparatives for 2017.

Statements of profit or loss for the year ended 30 September.

	2018	2017
	GH¢000	**GH¢000**
Revenue	125,000	90,000
Cost of Sales	(100,000)	(75,000)
Gross profit	25,000	15,000
Operating expenses	(13,000)	(11,000)
Finance costs	(4,000)	-
Profits before tax	8,000	4,000
Tax (at 25%)	(2,000)	(1,000)
Profit for the year	**6,000**	**3,000**

Statements of financial position as at 30 September

Assets	**2018**	**2017**
Non-Current Assets:	**GH¢000**	**GH¢000**
Property, Plant and Equipment	105,000	45,000
Goodwill	5,000	-
	110,000	45,000
Current assets		
Inventory	12,500	7,500
Receivables	6,500	4,000
Bank	-	7,000
	19,000	18,500
	129,000	**63,500**
Equity		
Share Capital	50,000	50,000
Retained Earnings	7,000	6,000
	57,000	56,000
Non-current liabilities		
8% Loan Notes	50,000	-
Current liabilities		
Bank Overdraft	8,500	-
Trade Payables	11,500	6,500
Current Tax Payable	2,000	1,000
	22,000	7,500
	129,000	**63,500**

Additional Information:

i) On 1 October 2017 Madina Ltd acquired 100% of the net assets of Aboabu Ltd for GH¢50 million. In order to finance this transaction, Madina Ltd issued GH¢50 million 8% loan notes on the acquisition date.
Aboabu Ltd's results for the year ended 30 September 2018 is shown below:

Statements of profit or loss for the year ended 30 September.

	GH¢000
Revenue	35,000
Cost of sales	(20,000)
Gross profit	15,000
Operating expenses	(4,000)
Profit before tax	11,000
Tax (at 25%)	(2,750)
	8,250

ii) Aboabu Ltd has not paid any dividend during the year, but Madina Ltd paid a dividend of GH¢0.05 per share.

iii) The following ratios have been calculated for Madina Ltd for the year ended 30 September 2017:

Return on capital employed	7.1%
Gross profit margin	16.7%
Net profit (before tax) margin	4.4%

Required:

a) Calculate the equivalent ratios for Madina Ltd for 2018:

i) Including the results of Aboabu Ltd acquired during the year. **(3 marks)**

ii) Excluding all effects of the purchase of Aboabu Ltd. **(3 marks)**

b) Analyse the performance of Madina Ltd for the year ended 30 September 2018. **(5 marks)**

c) Analyse the cash position of Madina Ltd as at 30 September 2018. **(4 marks)**

(Total: 15 marks)

QUESTION FIVE

a) The directors of Kibi Ltd, a bauxite mining company in East Akim Municipal Assembly after reviewing their published financial statements are of the view that their financial statements have a limited environmental information and do not address a broad enough range of users' needs.

Despite the difficulties in recognising and measuring the financial effects of environmental matters in financial statements, Kibi Ltd discloses the following environmental information in its financial statements:

- Release of minerals and other natural occurring impurities including heavy metals;
- Loss of natural fishing and recreational places;
- Soil erosion and sedimentation, noise and dust.

Required:

i) Explain **THREE (3)** factors which motivate companies to disclose social and environmental information in their financial statements. **(3 marks)**

ii) Identify **FOUR (4)** specific difficulties in recognising and measuring the financial effects of environmental matters. **(6 marks)**

b) Bolgatanga Ltd (Bolgatanga), currently operating in the biotechnology research and healthcare sector, is a Ghanaian listed company which prepares financial statements in accordance with International Financial Reporting Standards (IFRS) up to 31 December each year. On 1 January 2015, Bolgatanga acquired 80% interest in Wa Ltd (Wa). You are a newly qualified accountant at Bolgatanga and report directly to Mr. Dominic Atubiga, the Financial Controller (FC). Early 2017, Bolgatanga acquired Sissala Ltd (Sissala), a private company and has recently had an application for additional funds rejected from its current bankers on the basis that there are insufficient assets to offer security.

You have been reviewing the minutes of Bolgatanga's last board meeting, dated 28 December 2017.The minutes indicate that the sales director resigned on 1 December 2017. In her resignation letter to the board, the sales director states that she can no longer work with Dominic Atubiga who is dominating the board and allowing a close friendship with, and advice from, Salifu Adams (Managing Director of Sissala) to compromise his judgement.

The Human Resources department is currently in the process of recruiting a new sales director. Dominic Atubiga tells the board that, in the interim, the marketing department will just have to cope until a replacement sales director is appointed. Speaking to other staff in Bolgatanga, you have become aware that the wife of the Managing Director of Bolgatanga is a partner in Brother and Co., a firm of solicitors which the company uses to provide legal advice in relation to the market development activities of Wa. However, Brother and Co. has confirmed that the FC's wife works in a different division and that she has no involvement in the services provided. It is your understanding that legal fees of GH¢500,000 (included in administration expenses) were paid by Bolgatanga to Brother and Co. during the year ended 31 December 2017.

Required:
Discuss the ***ethical issues*** arising from the information provided, and the appropriate steps to address them. **(10 marks)**

c) The Framework for the Preparation and Presentation of Financial Statements was originally issued in 1989. In 2004, the IASB and the FASB decided to review and revise the conceptual framework. However, this decision changed priorities and the slow progress in the project led to the project being abandoned in 2010. This was after only Phase A of the original joint project was finalised and introduced into the existing framework as Chapters 1 and 3 in September 2010.

The current form of the conceptual framework as at May 2018 provides a revised and complete version of the framework.

Required:
Explain **FOUR (4)** primary reasons why the IASB believed it was ***necessary to revise*** its conceptual framework. **(6 marks)**

(Total: 25 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

HO Ltd
Group: statement of profit or loss and other comprehensive income for the year ended 30 September 2018

	GH¢000
Revenue (GH¢200,000 + GH¢57,500 + (6/12 X GH¢35,000) – GH¢6,000 (W5))	269,000
Cost of sales(GH¢156,000 + GH¢32,500 + (6/12 x GH¢18,000) – GH¢6,000 (W5))	(191,500)
Gross profit	77,500
Other income (GH¢10,500 + GH¢3,500 + (6/12 x GH¢1,000) – GH¢2,667 (W3))	11,833
Administrative costs (GH¢7,500 +GH¢4,500 + (6/12 x GH¢6,000)	(15,000)
Other expenses (GH¢17,500 + GH¢9,500 + (6/12 X GH¢4,000) +GH¢2,500 (W2) + +GH¢1,178 (W6) + GH¢1,067 (W7))	(33,745)
Operating profit	40,588
Share of profit of associate (20% x (6/12 x GH¢7,500))	750
Profit on disposal of subsidiary (W4)	11,000
Finance costs (GH¢2,500 + GH¢1,500 + (6/12 x GH¢2,000))	(5,000)
Finance income (GH¢3,000 + GH¢2,500 + (6/12 x GH¢4,000))	7,500
Profit before tax	54,838
Income tax expense (GH¢9,500 + GH¢4,500 + (6/12 x GH¢2,500)	(15,250)
Profit for the year	39,588
Other comprehensive income:	
Changes in revaluation surplus (GH¢5,000 –GH¢2,500 (W3) – GH¢1,100 (W6))	1,400
Total comprehensive income for the year	**40,988**
Profit attributable to:	
Owners of the parent (balancing figure)	33,688
Non-controlling interest = Sunyani (GH¢11, 000 x 40%) + Kumasi (6/12 x 7,500 x 40%)	5,900
	39,588
Total comprehensive income attributable to:	
Owners of the parent (balancing figure)	35,088
Non-controlling interest	5,900
	40,988

All workings should be rounded off to the nearest GH¢000

(W1) Group structure

Workings

HO Ltd

60% for full year 8% disposal on last day		60% for 6/12 of year 20% for 6/12 of year
Sunyani Ltd		Kumasi Ltd

Note:

Subsidiary status is maintained for Sunyani Ltd since as at 30 September 2018, HO Ltd controlled 52% (60% – 8%).

For Kumasi Ltd, there will be six months subsidiary status (up to 1 April 2018), and six months associate status (up to 30 September 2018).

(W2) Sunyani's goodwill

	Sunyani	**Kumasi**
	GH¢000	**GH¢000**
Fair value of consideration	40,000	35,000
Fair value of non-controlling interest	22,500	14,000
	62,500	49,000
Fair value of identifiable net assets acquired	(55,000)	(43,000)
Goodwill at acquisition	7,500	6,000
Impairment (20%)	(1,500)	NIL
Goodwill	**6,000**	**6,000**

Always remember that impairments recorded against goodwill can never be reversed. The goodwill in Sunyani Ltd has been increased to GH¢8.5 million (GH¢7.5 million + GH¢1 million). But impairments recorded against goodwill can never be reversed. As a result, an amount of GH¢2.5 million (that is, GH¢8.5 million – GH¢6 million) needs to be charged to profit or loss to undo the reversal and in order to reduce the goodwill to the right amount of GH¢6 million. This is thus added to other expenses in the consolidated statement of profit or loss for the year. Notice that in the case of Kumasi Ltd, the goodwill is not impaired.

(W3)Disposal of shares in Sunyani Ltd

HO, the parent company has not lost control in the disposal transaction over Sunyani Ltd. Therefore, no profit or loss on disposal should be calculated and recorded in the consolidated financial statements.

A profit on disposal will have been recorded in the individual accounts of HO, calculated as:

	GH¢000
Proceeds from sale of 8% shares in Sunyani	9,000

Carrying amount of investment disposed (8/60 x GH¢47.5 million)	(6,333)
Profit	**2,667**

This profit on disposal must be removed from other income in the consolidated statement of profit or loss. There will be no consolidated profit or loss on disposal because control over the subsidiary ***has not been lost***. The current year gain on the investment in Sunyani Ltd of GH¢2.5 million (GH¢ 47.5 million - GH¢ 45 million) must also be removed from other comprehensive income.

(W4) Disposal of shares in Kumasi Ltd

Gain on disposal of 40% shares in Kumasi Ltd would be as follows:

	GH¢000	GH¢000
Fair value of consideration received		25,000
Fair value of residual interest retained after disposal		20,000
		45,000
Less the carrying amount of subsidiary:		
Net assets at disposal	45,000	
Unimpaired goodwill at disposal (W2)	6,000	
Non-controlling interest at disposal	(17,000)	(34,000)
Gain on disposal to profit or loss		11,000

Where the control over an investment has been lost as a result of disposal of shares during the accounting period, then a profit or loss on disposal must be calculated and included in the consolidated statement of profit or loss. In addition, the results of Kumasi Ltd should only be consolidated in the statement of profit or loss and other comprehensive income for the six months to 1 April 2018. Thereafter Kumasi Ltd should be accounted for using the equity method under IAS 28.

(W5) Intra-group sale

IFRS 10 states that intra-group trading must be eliminated from consolidated revenue and costs of sales. Any unrealized profits should also be eliminated by increasing cost of sales. However, if a loss is made on intra-group trading, it may suggest that the value of the goods have fallen and therefore that the loss is actually realized. ***The loss on the sale of the inventory is not eliminated from group profit or loss. Because the sale is at fair value, the inventory value must have been impaired and therefore the loss sale must remain realized.*** However, the revenue and cost of sales GH¢6 million will be eliminated as normal.

(W6) Property, plant and equipment

	GH¢000
Cost of Property, plant and equipment	6,000
Depreciation for year ended 30/9/2017 (GH¢6,000/10years)	(600)
Carrying amount at 30 September 2017	5,400
Gain in revaluation surplus	1,100
Fair value at 30 September 2017	6,500

Depreciation for year ended 30 September 2018 (GH¢6,500/9years)	(722)
Carrying amount at 30 September 2018	5,778
Fall in value charged to OCI (balance on revaluation surplus)	(1,100)
Fall in value charged to profit or loss (remainder of loss)	(1,178)
Fair value at 30 September 2018	**3,500**

Revaluation loss of property, plant and equipment is first of all charged to other comprehensive income to the extent that a revaluation reserve or surplus exists for the specific asset. After that, any excess revaluation loss is recorded in profit or lost as an expense. In this case, GH¢1, 178 is included in other expenses.

(W7) Share options

The expense of on equity-settled share-based payment scheme with employees is valued using the fair value of the option at the grant date. This expense is spread over the vesting period based on the number of options expected to vest. The other side of the double entry is recorded in equity.

Year	Expense for year GH¢000	Cumulative expense GH¢000	Calculations
30/9/2017	533	533	4 directors x GH¢100 x 4,000 share options x 1/3
30/9/2018	1,067	1,600	6 directors x GH¢100 x 4,000 share options x 2/3

(Maximum of 80 ticks @0.25 marks per tick)
(20 marks)

EXAMINER'S COMMENTS

Question 1 was on Consolidated Income Statement and attracted 20 marks.

The difficulty level of the question was standard but it proved difficult for most candidates. Most candidates who attempted the question could not account for the disposal of the subsidiary. The results show that candidates have a very low appreciation of consolidation of income statements involving disposal or partial disposal of subsidiaries. Candidates could not correctly compute and treat the gain on disposal of subsidiary. Candidates also did not know what to do with the already recorded gain on disposal by the parent company.

Majority of candidates did not attempt this question properly.

Candidates scored poorly in this question. Just about 20% of candidates score nearly 10 marks. The vast majority of candidates score abysmally below 10 marks out of 20%. The major weakness was improper presentation by candidates.

QUESTION TWO

a) **Charity Bond (IFRS 9)**

The fair value of the bond is determined by calculating the present value of all future cash receipts using the prevailing market interest rate for a similar financial instrument. This will result in a lower figure than the amount advance. The difference is recognised in profit or loss.

	Cash flows GH¢m	**Discount factor 8%**	**PV GH¢m**
2017	1	0.93	0.93
2018	1	0.86	0.86
2019	1	0.79	0.79
2020	26	0.74	19.24
			21.82

The fair value of the loan is calculated by scheduling the cash flows due to take place over the life of the loan and discounting them to present value at the unsubsidised rate of interest of 8%. The making of the loan should have been accounted for as:

	GH¢m	**GH¢m**
Dr Financial assets	21.8	
Dr Profit or loss	3.2	
Cr Cash		25

The asset is then held at amortised cost.

1 January 2017 GH¢m	**Interest rate (8%)**	**Cash received GH¢m**	**31 December 2017 GH¢m**
21.8	**1.7**	**(1)**	**22.5**

Correcting entries:

	GH¢m	GH¢m
Dr SPLOCI	3.2	
Cr Financial asset		3.2
Dr Financial asset	1.7	
Cr SPLOCI		1.7

Candidates should discuss effect on SFP and SPLOCI. (8%) GH¢m

(Maximum 18 ticks @ 1/3 = 6 marks)

b) Development expenditure

	GH¢'000
Carrying value brought down at 1 January 2017	12,800
Amortisation (12,800/4 * 6/12)	(1,600)
Carrying value as at 31 December 2017	11,200
	(1 mark)

Year	Net Cash Flow	Discount Rate @ 5%	Discounted Cash Flows
	GH¢'000		**GH¢'000**
2018	3,200	0.952	3,046
2019	3,400	0.907	3,084
2020	1,600	0.864	1,382
2021	800	0.843	674
			8,186

Value in use= GH¢8,186,000 **(1 mark)**
Impairment loss (GH¢11,200,000 - GH¢8,186,000) = GH¢3,014,000. **(1 mark)**

Expense Amortisation = GH¢1,600,000 in the statement of profit or loss **(1 mark)**
Expense Impairment = GH¢3,014,000 in the statement of profit or loss. **(1 mark)**
Capitalise Development costs in the statement of financial position = GH¢8,186,000 **(1 mark)**

c) Government Grants (IAS 20)

- Grants in respect of capital expenditure are to be recognised within income as the related assets are expensed to income. This normally happens through depreciation or sale. On receipt of a capital grant, there are two options open to an entity under IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

- First, the grant may be credited to the asset account in respect of which the grant is received. This has the effect of lowering the carrying value of the asset, with a consequential reduction of any depreciation charge. This has the effect of benefiting the profit for the accounting periods in which the asset is used. This method is primarily a legacy of the income-statement driven approach to accounting. The Conceptual Framework currently in issue is financial position driven. Showing an asset at a cost net of grants would conflict with the framework.

- The second allowable method is the deferred income approach. Under this method a capital grant is credited to a separate account on receipt. This account is held as a liability, and amortised over the period expected to benefit from the asset's use. The asset is kept at its cost less depreciation. The net effect on the profit or loss is the same as under method 1, but the balances in the statement of financial position are more likely to reflect the true asset values. As such, this method is more aligned with the philosophy of current accounting standards.

(3 points for 3 marks)

d) Non-Current Assets Held for Sale (IFRS 5)

Carrying amount at 1 July 2017, after applying IAS 16:

	GH¢ million
Land and buildings	124
Equipment (50 – (80/4 years x 6/12))	40
Trade receivables	30
Inventories	20
Trade payables	(26)
	188

(1 mark)

Any test for impairment will be based on the disposal group as a whole. As a disposal group, fair value less costs to sell (GH¢200 million) is higher than carrying amount (GH¢188 million) there is no impairment charge.

(1 mark)

The amount recognised as non-current assets held for sale is therefore:

	GH¢ million
Land and buildings	124
Equipment	40
	164

Trade receivables and inventories are outside the scope of IFRS 5.

(3 marks)

e) Related Parties of Bongo Design

- Akwasi Boakye is a related party as he both has significant influence over entity and is a member of key management.
- Abena Lamptey is treated as a close family member of Akwasi Boakye, and is therefore a related party.
- The company Abena Lamptey has invested in is jointly controlled. It is considered a related party as there is joint control by a close family of key management of Bongo Designs.
- Both Zabzugu Fabrics and Binduri Textiles are related parties as they are members of the same group as Bongo Designs.
- Yaw Abdulai is a related party because he is a member of key management personnel at a group level.
- (Innovative Sissala is not a related party of the group as it does not have significant influence at a group level).

(Any 5 points for 5 marks)

(Total: 25 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.

The question covered IFRS on Financial Instruments, Government grants, non-current assets held for sale, intangible assets, and related party disclosures. This load of issues in the question seems to be above standard. Too many issues were tested, and each issue required a lot more time and effort than candidates under examination conditions are often able to offer.

Many candidates failed to apply the principles. The few who attempted simply stated some principles instead of applying the principles.
Even though the question provided figures to be applied, most candidates failed to apply the figures given in the question.

Candidates are encouraged to study the suggested answer to this question and improve their skills of application of principles and concepts to resolving given cases and scenarios.

QUESTION THREE

(PFC) Revised Financial Statement

Statement of profit or Loss for the year ended 31 December 2018

		GH¢'000
Sales Revenue (150,000-7,800)		142,200
Cost of sales (72,000-6,000 (W1)		(66,000)
Gross Profit		76,200
Operational Expenses		(34,800)
Depreciation/Amortisation (3,000+600+1,500) (W2)		(5,100)
Bad debts (9,000-3,000)		(6,000)
Fair valuation gain of FA (W3)		600
Finance costs (Interest on debenture stocks)		(1,200)
Net Profit		29,700
Current Taxation (@ 25%)	(7,425)	
Deferred Tax	(1,500)	(8,925)
Net Profit for the period		20,775
OCI		4,500
Total Comprehensive Income		**25,275**

Statement of financial position as at 31 December 2018

Assets		**GH¢'000**
Non-current assets (note ii)		
Property at valuation		33,000
Plant and equipment (24,000 -3,000)		21,000
Intangible Asset – Patent Right (3,000 – 600)		2,400
Financial asset (fair valued through profit or loss)	W3	8,100
		64,500
Current Assets (30,000 – 7,800 + 6,000 – 9,000)		19,200
Total Assets		**83,700**

Equity and Liabilities

Stated Capital (4 million shares issued at GH¢3.00 per share)	12,000
Retained Earnings **W4**	44,235
Revaluation Surplus (30,000 – 25,500)	4,500
	60,735
Non-current liabilities	
20% Debenture Stocks (2018-2020)	6,000
Deferred Tax provision - 31 December 2018 (25% of 24,000)	6,000
Current liabilities	
Trade Payables	3,540
Current Tax liability	7,425
Total Equity and Liabilities	**83,700**

WORKINGS

W1 Cost of Sales
Sale or return

Dr Revenue	7,800	
Cr Current Assets		7,800

Mark up = 30%
130% = 7,800
100/130 * 7,800 = 6,000

Dr Current Assets	6,000	
Cr Cost of Sales		6,000

W2 Depreciation/Amortisation
Property
Land 3,000
Building 27,000
27,000/18 years = 1,500 depreciation

Plant and equipment
12.5% on reducing balance
=0.125*24,000 =3,000

Amortisation of Intangible asset
=3,000/5 years = 600

W3 Fair value through profit or loss
Index, If 240.0 = 7,500
259.2 = ?
259.2/240 * 7,500 = 8,100
Fair value gain = 8,100-7,500 =600

W4 Retained Earnings

As per balance sheet =	57,960
Profit for the year as per profit or loss =	(31,500)
Prior year retained earnings	26,460
Less prior year fraud	3,000
	23,460
Add profit for the year 2018	20,775
	44,235

(11 marks evenly spread using ticks)

b) Share Valuation

(i) Net Assets Basis

Value of a share	=	Net Assets/No. of shares
	=	GH¢60,735,000/4 million shares
	=	GH¢15.183

(2 marks)

(ii) Earnings Yield

Value of a share	=	EPS/Earnings Yield
EPS	=	GH¢20,775,000/4 million shares
	=	GH¢5.194
Earnings Yield	=	PFC (20%) discounted to say 24%
Value of a share	=	GH¢5.194/0.24
	=	GH¢21.63

(2 marks)

(Total: 15 marks)

EXAMINER'S COMMENTS

Question 3 examined candidates on business valuation.

The question was standard.

The question had two sub questions and many candidates did not respond to all the different sub questions, resulting in low scores.

Candidates lacked the knowledge and skill to apply relevant IFRS to value assets and liabilities appropriately.

Many of the candidates could not apply IFRS to restate financial statements before proceeding to do the valuation based on the revalued figures.

Some candidates knew the formula for the net assets method and the earnings based methods but got their values and adjusted earnings woefully wrong and therefore scored very abysmal marks.

QUESTION FOUR

a)

Madina Ltd

Equivalent ratios

i) Including Aboabu Ltd:

ratios	formula	Workings	answer
Gross profit margin	Gross profit/sales x 100	(25,000/125, 000 x 100)	20%
Net profit (before tax) margin	Operating profit/sales x 100	(8,000/125, 000 x 100)	6.4%
Return on capital employed	Operating profit /shareholders fund + loan	(12,000/ (57,000 + 50, 000) x 100)	11.2%

(3 marks)

ii) Excluding the effects of Aboabu Ltd:

ratios	formula	Workings	answer
Gross profit margin	Gross profit/sales x 100	(10, 000 / 90, 000 x 100)	11.1%
Net profit (before tax) margin	Operating profit/sales x 100	(1, 000/90,000 x 100)	1.1%
Return on capital employed	Operating profit/shareholders fund x 100	(1, 000/ (50, 000 + 1,750) + 100)	1.9%

(3 marks)

Candidates are to be mindful that the financial statements of Madina Ltd for the year ended 30 September 2018 includes the results of Aboabu Ltd acquired during the year.

It is useful to re-draft a statement of profit or loss without the effects of Aboabu Ltd.

Statement of profit or loss

	GH¢000
Revenue (125, 000 – 35, 000)	90,000
Cost of sales (100, 000 – 20, 000)	(80,000)
Gross profit	10,000
Operating expenses (13, 000 – 4,000)	(9,000)
Profit before tax	1,000
Tax (at 25%)	(250)
Profit for the period	750

Note: Capital employed will be made up of share capital and retained earnings, as no loan notes will exist without the purchase of Aboabu Ltd. Retained earnings without Aboabu Ltd will actually be GH¢1.75 million. This can be calculated in two ways:

Closing retained earnings of GH¢7 million less GH¢8.25 million from Aboabu Ltd's profit, plus GH¢3 million increase in profit after tax relating to the interest on the loan notes (GH¢4 million interest saved less GH¢3 million tax relief at 25%).

An alternative calculation of retained earnings would be GH¢6 million in 2017 plus GH¢0.75 million from Madina Ltd's profit excluding Aboabu Ltd less GH¢5 million dividend (GH¢0.05 per share), which would also give GH¢1.75 million.

A final alternative calculation of retained earnings would be closing retained earnings of GH¢7 million less the original profit of GH¢6 million plus the GH¢0.75 million profit excluding Aboabu Ltd, to give GH¢1.75 million.

b) Performance of Madina Ltd

- During the year, the revenue of the Madina Ltd group increased by GH¢35 million. However, it can be seen that all of the GH¢35 million increase came from the acquisition of Aboabu Ltd, meaning that the underlying business in Madina Ltd was poor during the year.

- Whilst this shows that Aboabu Ltd was a good acquisition in terms of generating revenue, it also highlights a poor performance by Madina Ltd. It appears that Madina Ltd have increased property, plant and equipment in addition to the purchase of Aboabu Ltd as this has increased in the year by GH¢60 million. As Aboabu Ltd was purchased for GH¢50 million, it is unlikely that all of the increase in these asset comes from Aboabu Ltd.

- The gross profit margin has increased in the year from 16.7% to 20%. Again, all of this is due to Aboabu Ltd's acquisition. It can be seen that Aboabu Ltd makes a gross margin of 42.9% (GH¢15 million/GH¢35 million) which has generated 11.2%. This is further indication of both the strength of Aboabu Ltd and the poor underlying performance of Madina Ltd.

- Initially, it appears that Madina Ltd would be loss making without Aboabu Ltd, as Aboabu Ltd's profit before tax is GH¢11 million and the group profit before tax is only GH¢8 million. This suggests that Madina Ltd would not have incurred the GH¢ 4 million finance costs without the Aboabu Ltd purchase, meaning that Madina has made a small profit before tax of GH¢ 1 million.

- When looking at both the net profit margin and the return on capital employed, the performance of the Madina group is an improvement on the prior year. Further investigation shows that without Aboabu Ltd this would again be below the previous year, highlighting a decline.

- The constant improvement in the measures relating to performance shows that Aboabu Ltd has been a successful acquisition and that Madina Ltd's profits without it have significantly declined. It can also be seen that there appears to be some cost savings within operating expenses. These have only increased by GH¢2 million in the year, but Aboabu Ltd's operating expenses are GH¢4 million. This suggests that the group may have benefited from being able to share administrative or head office functions and reduce expenses.

(Any 5 points for 5 marks)

c) Cash Position of Madina Ltd

- There is a significant decline in the cash position of the Madina Ltd group at 30 September 2018, going from a cash position of GH¢7 million to being overdrawn by GH¢8.5 million. While Aboubu Ltd has been acquired for GH¢50 million, this has been funded through the issue of GH¢ 50 million loan notes, so this cannot be the reason for the decline in cash during the year. There may have been some additional costs linked to the acquisition, but this is unlikely to make up a significant part of the cash movement.

  There are two major reasons for this decrease:
  - ✓ Madina Ltd has paid a dividend of GH¢5 million during the year. While this may have kept shareholders happy, the prudence of this could be questioned, especially in the light of the declining underlying performance in Madina Ltd.
  - ✓ There looks to have also been an increase in non-current assets beyond the acquisition of Aboabu Ltd, as these have increased by GH¢60 million after depreciation. More information will be required on where these additions have taken place. If the assets have been made within Aboabu Ltd, this would seem to be a wise move due to the high level of Aboabu Ltd profits. If assets have been acquired for the Madina Ltd business, it would raise concerns as it appears that these assets have not been turned into profits during the year.

- The interest payment of GH¢4 million will have affected the cash flow, although it must be noted that Aboabu Ltd generates enough profits to cover this payment.

- There are no huge concerns over the management of working capital. Without knowing what Madina Ltd and Aboabu Ltd do, it is difficult to make judgments on inventory or receivables management, but both balances have increased in line with the increased performance from Aboabu Ltd. It is possible that Aboabu Ltd may have had an overdraft when acquired, as information on Aboabu's individual position has not been given.

- The purchase of Aboabu Ltd has clearly been a success for Madina Ltd group in terms of profit generation, as this has generated a larger portion of profits for the year. This has disguised the fact that the underlying Madina Ltd business seems to have struggled with declining profits. Careful attention must be paid to the position, as the cash is a major concern. The idea of the dividend could be called into question. It may be that Madina Ltd has finished the expansion in terms of acquiring non-current assets which could relieve some pressure on the future cash flow.

(4 points for 4 marks)
(Total: 15 marks)

EXAMINER'S COMMENTS

Question 4 examined candidates on financial analysis.

The question was standard.

Candidates performed very well in this question.

Majority of candidates were confused as regarding whether the subsidiary acquired was already included in the consolidated financial statements or was yet to be included. This confusion created a lot of trouble for candidates.

Most candidates could not analyse cash flow position properly. Candidates simply focused on the analysis of current and quick ratios instead of a proper explanation of cash flow position.

A few students could not correctly compute the simple ratios required to be computed.

QUESTION FIVE

a)

i) There are a number of factors which encourage companies to disclose social and environmental information in their financial statements.

- **Public interest in corporate social responsibility is steadily increasing**. Although financial statements are primarily intended for investors and their advisers, there is growing recognition that companies actually have a number of different stakeholders. These include customers, employees and the general public, all of whom are potentially interested in the way in which a company's operations affect the natural environment and the wider community. These stakeholders can have a considerable effect on a company's performance. As a result many companies now deliberately attempt to build a reputation for social and environmental responsibility. Therefore the disclosure of environmental and social information is essential.

- **There is also growing recognition that corporate social responsibility is actually an important part of an entity's overall performance**. Responsible practice in areas such as reduction of damage to the environment and recruitment increases shareholder value. Companies that act responsibly and make social and environmental disclosures are perceived as better investments than those that do not.

- **Another factor is growing interest by governments and professional bodies.** Although there are no IFRSs that specifically require environmental and social reporting, it may be required by company legislation. There are now a number of awards for environmental and social reports and high quality disclosure in financial statements. These provide further encouragement to disclose information.

(3 points well explained for 3 marks)

ii) Difficulties in recognising and measuring the financial effects of environmental matters

- There is often a considerable delay between the activity that causes an environmental issue such as the contamination of a site due to industrial activity and its identification by the entity or the regulators.
- Accounting estimates do not necessarily have an established historical pattern and can exhibit wide ranges of reasonableness because of the number and nature of assumptions underlying the determination of these estimates.
- Environmental laws and regulations are evolving and interpretation can be difficult or ambiguous. Consultation with an adviser may be necessary to assess their impact on the measurement of assets and liabilities.
- Liabilities can arise other than as a result of legal or contractual obligations, for example, a voluntary commitment.

(4 points @ 1.5 marks each = 6 marks)

b) **Ethical issues arising**

- The resignation (as per Board Minutes 1 December 2017) of the sales director does give some cause for concern. In particular, the extent to which Dominic Atubiga is able to dominate the board, poses questions around the governance of Bolgatanga. The company is operating without the key skills of a sales director. The board is therefore not acting effectively and there would appear to be a lack of transparency around Atubiga's behaviour.
- The fact that the managing director's wife is a partner in Brother and Co raises an ethical issue. This could result in a serious conflict of interest. In this case, the managing director and his wife can be considered to be related parties from the viewpoint of Bolgatanga and Wa Ltd. Therefore, Brother and Co. could be viewed a related party of both companies. The wifes's lack of involvement in the services does not exempt her from being considered a potential related party. The nature of the transaction is such that it is appropriate to disclose details of in the financial statements of both Bolgatanga and Wa. Moreover, the services provided and the monetary amounts involved should be disclosed.
- Issues around the financial appraisal of Sissala – given the company's existing bankers refuse to provide further funding. This is important given Dominic Atubiga's close relationship with the managing director of Sissala – a potential future acquisition target for Bolgatanga.

(3 points @ 2 marks each = 6 marks)

Ways of addressing the ethical issues

1. The Code of Ethics for professional accountants must strictly be complied with, as a way to resolving any conflicts that appears to be developing. It is essential that Chartered Accountants do not succumb to pressure from management.
2. The nature and composition of the Board of Directors should be appraised in order to identify potential threats to good corporate governance practices.
3. Transactions with related parties should be adequately and sufficiently disclosed.
4. Appropriate orientation on adherence to professional Code of Ethics should be provided to key management personnel.

(2 points @ 2 marks each = 4 marks)

c) **The purpose of the project to revise the Framework was essentially:**

- To update the Framework for changes in markets, business practices and economic environment since the original Framework was published in 1989
- To develop a common conceptual framework between US GAAP and IFRSs so that decisions are based on the same framework in the interests of harmonisation of future standards issued by both bodies.
- To provide a better foundation for developing principles-based and converged standards, including filling in some gaps (e.g. a lack of detail in the definition of the reporting entity).
- In addition, the IASB is interested in ensuring the conceptual framework is suitable for application to not-for-profit and other entities.

(4 points @ 1.5 marks each =6 marks)

(Total: 25 marks)

EXAMINER'S COMMENTS

Question 5 examined candidates on the conceptual framework, non-financial reporting issues and ethics.

The question was standard, clear and understandable.

Candidates performed very well in this question.

The candidates who were well prepared gave reasonable responses to this question.

A few candidates however failed to interpret the requirements of the question properly and therefore scored low marks as a consequence.

A number of candidates provided reasons for the conceptual framework, instead of reasons why the IASB through it necessary to revise the conceptual framework.

The issue with the ethics part of the question was poor expression of thought. Most candidates failed to apply the ethical issues to the case presented.

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.

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.