NOVEMBER 2018 PROFESSIONAL EXAMINATIONS
CORPORATE REPORTING (PAPER 3.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

STANDARD OF THE PAPER

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

GENERAL PERFORMANCE

Generally, performance was below average. This could be attributed to inadequate preparation by the candidates. Performance at various centres appeared to be the same.

STRENGTHS & WEAKNESSES OF CANDIDATES

Candidates showed improved understanding of appraisal of financial performance and techniques in consolidation. They scored high marks in those areas.

Weaknesses of candidates can be summarized as follows:

- Most candidates did not cover the syllabus adequately before sitting for the examination.
- Candidates lacked the ability to apply relevant accounting standards to resolve specific issues raised by the Examiner.
- Many candidates lacked the ability to communicate effectively; they could not present their thoughts clearly.
- Some candidates showed lack of effective time management in answering questions. They spent too much time on questions they believed they could handle; this left them with little time to tackle other questions satisfactorily. Candidates should be taught how to allocate time to questions according to the allotted marks and to strictly respect time allocation. They should move to another question when the time allocated is spent.
- Several candidates did not attempt all parts of the questions. This reduced their chances of scoring pass marks.
- Some candidates answered the same question on several non-consecutive pages without cross-referencing the pages.
- Some candidates displayed very poor handwriting which made their presentation almost illegible.
- Some candidates numbered their answers wrongly.

QUESTION ONE

Accra Ltd, a public limited liability company in Ghana, operates in the manufacturing sector. Accra Ltd has investments in two other Ghanaian companies.
The draft statement of financial position as at 31 March 2018 are as follows:

Assets:	**Accra**	**Bawku**	**Takoradi**
Non – current assets	**GH¢ million**	**GH¢ million**	**GH¢ million**
Property plant and equipment	720.0	550.0	650.0
Investments in subsidiaries:			
Bawku Ltd	625.0		
Takoradi Ltd	155.0	635.0	
Financial assets	160.0	10.5	70.5
	1,660.0	1,195.5	720.5
Current assets	447.5	340.5	75.0
Total assets	**2,107.5**	**1,536.0**	**795.5**
Equity and liabilities:			
Share capital	875.0	605.0	400.0
Retained earnings	620.0	465.0	175.0
Other components of equity	62.5	40.0	47.5
Total equity	1,557.5	1,110	622.5
Non-current liabilities	492.5	382.5	75.0
Current liabilities	57.5	43.5	98.0
Total liabilities	550.0	426.0	173.0
Total equity and liabilities	**2,107.5**	**1,536.0**	**795.5**

Additional information:

i) On 1 April 2016, Accra Ltd acquired 14% of the equity interest of Takoradi Ltd for a cash consideration of GH¢130 million and Bawku Ltd acquired 70% of the equity interest of Takoradi Ltd for a cash consideration of GH¢635 million. At 1 April 2016, the identifiable net assets of Takoradi Ltd had a fair value of GH¢495 million, retained earnings were GH¢95 million and other components of equity were GH¢26 million. At 1 April 2017, the identifiable net assets of Takoradi Ltd had a fair value of GH¢575 million, retained earnings were GH¢120 million and other components of equity were GH¢35 million. The excess in fair value is due to non-depreciable land. The fair value of the 14% holding of Accra Ltd in Takoradi Ltd, which was classified as fair value through profit or loss, was GH¢140 million at 31 March 2017 and GH¢155 million at 31 March 2018. However, the fair value of Bawku Ltd's interest in Takoradi Ltd had not changed since acquisition.

ii) On 1 April 2017, Accra Ltd acquired 60% of the equity interests of Bawku Ltd, a public limited liability company in Ghana. The cost of investment comprised cash of GH¢625 million. On 1 April 2017, the fair value of the identifiable net assets acquired was GH¢975 million and retained earnings of Bawku Ltd were GH¢325 million and other component of equity were GH¢27.5 million. The excess in fair value is due to non-depreciable land. It is the group's policy to measure the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's net assets.

iii) Goodwill of Bawku Ltd and Takoradi Ltd were tested for impairment at 31 March 2018 and found that there was no impairment relating to Takoradi Ltd. However, the goodwill of Bawku Ltd was fully impaired by the reporting date.

iv) On 1 April 2016, Accra Ltd acquired office accommodation at a cost of GH¢45 million with a 30-year estimated useful life. During the year, the property market in the area slumped and the fair value of accommodation fell to GH¢37.5 million at 31 March 2017 and this was reflected in the financial statements. However, the market unexpectedly recovered quickly due to the announcement of major government investment in the area's transport infrastructure. On 31 March 2018, the valuer advised Accra Ltd that the offices should now be valued at GH¢52.5 million. Accra Ltd has charged depreciation for the year but has not taken account of the upward valuation of the offices. Accra Ltd uses the revaluation model and records any valuation change when advised to do so.

v) Accra Ltd has announced two major restructuring plans during the year. The first plan is to reduce its capacity by the closure of some of its smaller factories, which have already been identified. This will lead to the redundancy of 500 employees, who have all individually been selected and communicated to. The costs of this plan are GH¢4.5 million in redundancy costs, GH¢2.5 million in retraining costs and GH¢2.5 million in lease termination costs. The second plan is to re-organize the finance and information technology department over a one-year period but it does not commence until two years' time. The plan will result in 20% of finance staff losing their jobs during the restructuring. The costs of this plan are GH¢5 million in redundancy costs, GH¢3 million in retraining costs and GH¢3.5 million in equipment lease termination costs. There are no entries made in the financial statements for the above plans.

vi) The following information relates to the group pension plan of Accra Ltd:

	1 April 2017	**31 March 2018**
	GH¢ million	**GH¢ million**
Fair value of plan assets	14	14.5
Actuarial value of defined benefit obligation	15	17.5

The contributions for the period received by the fund were GH¢1 million and the employee benefits paid in the year amounted to GH¢1.5 million. The discount rate to be used in any calculation is 5%. The current service cost for the period based on actuarial calculations is GH¢0.5 million. The above figures have not been taken into account for the year ended 31 March 2018 except for the contributions paid which have been entered in cash and the defined benefit obligation.

Required:

Prepare the group consolidated statement of financial position of Accra Ltd as at 31 March 2018. **(20 marks)**

QUESTION TWO

a) Builsa Ltd (Builsa) is a listed company which assemble personal computers (PCs) and it is preparing its financial statements for the year ended 31 May 2018.

Builsa plans to close down one of its divisions. This division, which is classified as a separate business segment, will cease all of its activities on 31 July 2018. Most of the assets of the business will be redeployed elsewhere in Builsa's business, however some smaller items of plant will be sold off or scrapped. Approximately half of the staff of the division will be made redundant and they were notified of the decision in late May 2018. Customers and suppliers were notified at the same time. The annual 2018 financial statements are scheduled to be released to the markets on 9 August 2018.

Required:
Advise the directors as to the financial reporting issues arising from the above matters and explain the appropriate treatment in Builsa's financial statements in each case. **(6 marks)**

b) On 1 June 2017, Bole Bamboi Ltd (Bole Bamboi) purchased a factory building in a regional development area for GH¢4 million. It used the building to store some relocated equipment but, shortly after the purchase, the roof needed to be replaced. Bole Bamboi has been replacing the roof of the factory building with an environmentally friendly one, including insulation and integrated solar panels. The replacement of the roof will cost GH¢2 million. The cost of the replacement is to be incurred by Bole Bamboi; however the Ministry of Trade and Industry advanced a 5-year, interest-free loan to Bole Bamboi on 1 July 2017 to finance the GH¢2 million cost. The loan has to be repaid in 5 equal annual instalments of GH¢400,000 beginning on 30 June 2018.An equivalent loan from Bole Bamboi's bank with the same repayment terms would have been made at a fixed annual interest rate of 5% for the 5 years.

The present value of 5 annual payments of GH¢1 at 5% is GH¢4.32948.

Required:
In accordance with IFRS recommend, with suitable calculations, the financial reporting treatment of the above items in the financial statements of Bole Bamboi for the year ended 31 December 2017. **(5 marks)**

c) Gonja Ltd is an investment company which holds a portfolio of securities linked to the real-estate market in Ghana. The following information is available at 31 July 2018 regarding this portfolio:

i) The portfolio cost GH¢13 million 2 years ago.
ii) Real-estate prices in Ghana are generally accepted to have dropped by 20-30% in the past 2 years.
iii) The portfolio of securities held by Gonja is difficult to value, as there is no active market. However, the company has received an offer of GH¢2.6 million for this portfolio from an

investor. It has no intention of accepting this offer although similar companies have accepted offers from this investor due to financial difficulties.

iv) A normal sale in the present climate could be reasonably expected to yield GH¢6 million, based on an analysis of transactions in similar assets.

v) Gonja's valuation models suggest that the real estate market in Ghana will recover, and it expects that the portfolio will generate GH¢12 million (at present value) over the next three years.

Required:

In accordance with ***IFRS 13: Fair Value Measurement***, advise Gonja Ltd on the amount it should state its investment portfolio in its financial statements to 31 July 2018, assuming it wishes to use fair value as measured. **(5 marks)**

d) Nyame Ltd incurred the following expenditure during the year:

	GH¢'000	GH¢'000
Licence to operate in business sector for 10 years from 1 January 2017		400
Costs incurred in planning a website for a new product (The website will be set up in 2018)		40
Purchase of 300 personal computers (PCs) on 1 July 2017 (Three-year useful life). Total cost:		
300 PCs (excluding operating system)	480	
Windows operating system for each unit (licence for 300 PCs)	60	
Microsoft Office software for each unit (licence for 300 PCs)	48	588
Induction training for new staff		30

Nyame Ltd owns the rights to a popular range of books, which it purchased from another entity for GH¢180,000 few years ago. The rights were not amortised as they have been attributed an indefinite useful life. The books are still very popular so no impairment losses have been necessary and it was valued by an independent valuer at GH¢280,000 at the year-ended 31 December 2017.

The company's policy is to use the revaluation model for its intangible assets where a market valuation is available and permitted.

Required:

Recommend with suitable calculations the carrying amount of intangible assets at the end of the year 31 December 2017 according to the guidance given in ***IAS 38: Intangible assets***.

(5 marks)

e) Garu-Tempane Ltd had the following transaction during the year ended 31 December 2018: The entity entered into a contractual commitment to make a variable rate loan to a customer beginning on 1 January 2019 for a fixed period at 1% less than the rate at which the entity (not the customer) can borrow money.

Required:
Advise the directors of Garu-Tempane Ltd of the accounting treatment of the above transaction under ***IFRS 9: Financial Instruments*** for the year ended 31 December 2018.

(4 marks)

(Total: 25 marks)

QUESTION THREE

The shareholders of Wunam Bank (Ghana) Limited, have decided to sell the company to GCC Bank (Ghana) Limited following their inability to recapitalize the company as being demanded by the Bank of Ghana. The statement of financial positions of the two banks as at 31st March 2018 are given below.

	GCC Bank Ltd	Wunam Bank
	GH¢000	GH¢000
Cash and balances with other banks (Note (vi))	43,000	6,250
Investments (Note (ii))	64,250	13,000
Loan & advances (Note (i))	115,100	16,700
Other assets (Note (iii))	3,150	4,250
Property, Plant & Equipment (Note (v))	14,300	8,650
	239,800	**48,850**
Deposits and Current Accounts (Note (iv))	191,100	37,750
Other liabilities (Note (vii))	4,050	11,000
	195,150	48,750
Stated Capital (Note (x))	22,500	2,500
Statutory Reserve Fund	5,100	900
Retained Earnings	17,050	(3,300)
	44,650	100
	239,800	**48,850**

The following additional information relate to Wunam Bank Ltd;

i) Wunam Bank Ltd. carries a huge non-performing loan portfolio. It is estimated that only 40% of the outstanding loans are recoverable.
ii) Investments represent 91-Day Treasury Bills held as secondary reserves. An audit has shown that the investments were overstated in 2017 as interest on investments for that year amounts to GH¢4.15 million.

iii) Other assets include long outstanding debits amounting to GH¢3.6 million. These are not represented by tangible assets.
iv) Deposits amounting to GH¢3.75 million could not be accounted for. This phenomenon has prevailed since 2014 but has not been provided for in the accounts.
v) Property, plant and equipment include an old banking software amounting to GH¢1.25 million. This is considered worthless. The remaining tangible fixed assets have been revalued at GH¢15.3 million.
vi) Cash and balances with other banks include an amount of GH¢2.4 million due from Sakara Rural Bank Ltd which was liquidated in 2016.
vii) Other liabilities include interest earned on investments amounting to GH¢3.15 million.
viii) Goodwill was assessed at 2.5% of adjusted deposits and current accounts.
ix) Wunam Bank Ltd. has been investing each year in Government bonds to provide funds in order to install Automatic Teller Machines and to open two ultra-modern branches in Takoradi and Kumasi respectfully. This practice is only known to the Managing Director and the Finance Manager, and the investments are worth GH¢12.6 million as at 31 March, 2018.
x) The stated capital of Wunam Bank Ltd. is made up of 100 million ordinary shares of no par value.

Required:

a) Identify **FOUR (4)** factors you would consider in determining the value to be placed on assets when using the net assets approach to valuation of Wunam Bank Ltd. **(4 marks)**

b) Determine the value to be placed on the shares of Wunam Bank Limited using the net assets approach to valuation. **(5 marks)**

c) Prepare the statement of financial position of GCC Bank (Ghana) Limited after the takeover using your answer in (b) above. Assume the following: The purchase consideration was duly settled; GCC Bank Ltd. took over all assets and liabilities; and Goodwill was written off. **(6 marks)**

(Total: 15 marks)

QUESTION FOUR

The Gandi Group (TGG) operates in the farming industry and has operated a number of 100% owned subsidiaries for many years. The Gandi group has its operations in the Brong-Ahafo Region of Ghana. Its financial statements for the last two years are shown below.

Consolidated statements of profit or loss for the year ended 30 September.

	2018	2017
	GH¢000	GH¢000
Revenue	47,000	34,250
Cost of Sales	(23,000)	(14,000)
Gross profit	24,000	20,250
Distributions costs	(10,600)	(9,650)
Administrative expenses	(12,800)	(7,700)
Profits from operations	600	2,900
Investment income	-	300
Finance costs	(60)	-
Profit before tax	540	3,200
Taxation	(150)	(960)
Profit for the year	390	2,240
Attributable to:		
Shareholders of Gandi	790	2,240
Non-controlling interest	(400)	-
	390	2,240

Consolidated statements of financial position (extracts) as at 30 September

	2018	2017
Current assets	GH¢000	GH¢000
Inventory	3,250	2,285
Trade receivables	8,500	7,800
Bank	305	3,000
Equity		
Share capital	12,500	3,000
Retained earnings	36,750	36,250
Non – controlling interest	255	
Non-current liabilities		
Loan	10,000	-

Additional information:

i) TGG has become increasingly worried about two major areas in its business environment. First of all, there are concerns that reliance on large supermarkets are putting pressure on cash flow, as the supermarkets demand long payment terms. Secondly, the consistent increases in fuel prices mean that delivering the produce nationally is becoming extremely expensive.

ii) In order to deal with the above worrying concerns, TGG purchased 80% of Asida Ltd on 1 October 2017. This was the first time TGG had purchased a subsidiary without owning 100% of it. Asida Ltd operates two luxury hotels in the Ashanti Region of Ghana, and Gandi Ltd purchased Asida Ltd with a view to diversification and to provide a long term solution to the cash flow concerns raised above.

iii) TGG raised finance from multiple sources to finance its activities as it did not have ready finance. Part of this finance came from the disposal of GH¢5.5 million held in investments, making a GH¢2.25 million gain on disposal, which is included in administrative expenses.

iv) Asida Ltd opened a third hotel which is located in Accra in March 2018, its largest yet. After poor initial reviews, Asida Ltd appointed a new marketing director in May 2018. As a result of an extensive marketing campaign, online feedback had improved.

v) The following ratios have been calculated for the year ended 30 September 2017:

Gross profit margin	59.1%
Operating margin	8.5%
Return on capital employed	7.4%
Inventory turnover period	60 days
Receivables collection period	83 days

Required:

a) Prepare the equivalent ratios for the year ended 30 September 2018. **(5 marks)**

b) Analyse the ***financial performance*** and ***cash flow*** of TGG for the year ended 30 September 2018, making specific reference to any concerns or expectations regarding future periods. **(10 marks)**

(Total: 15 marks)

QUESTION FIVE

a) An increasing number of users have an interest in environmental matters, either as socially responsible investment (SRI) analysts, private investors, banks, employees or customers**.** In cases where there are material environmental impacts, they will normally expect to see something in the annual reports.

Required:
What might users expect to see in a company's annual report to indicate that environmental concerns are receiving adequate attention? **(9 marks)**

b) You are Peter Anokye, a newly qualified accountant and have recently been appointed as the deputy financial controller in Nanton Ltd (Nanton). You report directly to the finance director, Maria Wakasu. Just last week, you received the following email from Maria.

"As you are aware, I have to present some financial information at the board meeting scheduled in two days' time and I need your help. I should be grateful if you could give me some advice on this issue. I don't know whether you heard the news that Mamprugo Ltd (Mamprugo), an important customer of ours, is having some liquidity challenges. I think it is a case of not being able to manage their working capital cycle effectively. I know the financial controller of Mamprugo well, and he has mentioned that they have approached Yendi Ltd (Yendi) for credit. Of course, if they are successful, we should have no problems in getting paid. Today, I have received a request from Yendi asking for a credit reference for Mamprugo. I think if you check their credit history you will find they were good payers. Do you think I should mention anything about the liquidity issue to Yendi?

As I mentioned to you yesterday, over coffee, the Chief Executive Officer (CEO) regards leasing as an important method of financing the company. However, you are probably more up to date with the existing accounting requirements than me. The current accounting standard has some significant deficiencies and no longer meets the needs of users of financial statements. On 1 January 2016, we entered into a sale and finance leaseback transaction with our bank. The arrangement involved the sale, at fair value, of a building for GH¢8 million. The book value of the building in the financial statements at that date was GH¢6 million. I know that the CEO is particularly concerned that showing the lease as a finance lease could be detrimental to any loan applications that we might make over the next twelve months. Between you and I, we need to keep him happy: my year-end bonus could be in jeopardy if we get this area wrong. In the medium term, I am worried about the implications of the introduction of ***IFRS 16: Leases****, particularly the effects on the statement of financial position, statement of profit and loss and other comprehensive income, and our key financial ratios. Surely our gearing ratio will be higher. Maybe we can get round the problem of including leases on the statement of financial position by classifying some of them as short-term (i.e. less than twelve months).*

Peter, I should be grateful if you could give me some advice on this issue."

Required:
Appraise the ***ethical issues*** arising from the information provided in the mail sent by Maria, and propose and justify appropriate steps that Peter Anokye should take to address them.

(10 marks)

c) You are the financial controller of Navrongo Ltd (Navrongo), a company that experienced a relatively difficult trading during the year ended 30 September 2018. Reporting deadlines for the 2018 financial statements are rapidly approaching and you have a number of matters to finalise. The finance director made the following suggestion in an email:

"A revised accounting standard that is relevant to Navrongo is expected to be issued by the IASB during the 2019 calendar year. Based on the content of the corresponding exposure draft, the revisions to the accounting standard would be beneficial to Navrongo in the year of adoption. ***The 2018 Navrongo financial statements should be prepared using the proposed new accounting standard on the basis of voluntary early adoption of the new standard".***

Required:
Explain to the finance director, justifying whether you agree or disagree with the suggestion above. **(6 marks)**

(Total: 25 marks)

SOLUTION TO QUESTIONS

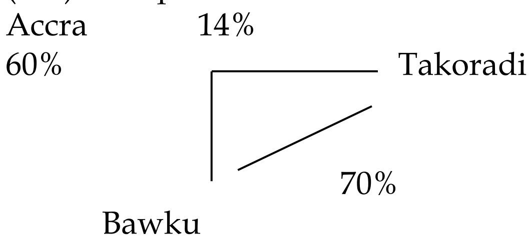
QUESTION ONE

ACCRA LTD
Consolidated statement of financial position as at 31 March 2018

Assets:	**GH¢ million**
Non-current assets:	
Property, plant and equipment (720 + 550 + 650 + 17.5 + 20 + 16.3)	1,973.8
Goodwill (W3)	199
Financial assets (160 + 10.5 + 70.5)	241
	2,413.8
Current assets(447.5 + 340.5 + 75)	863
Total assets	**3,276.8**
Equity and liabilities	
Share capital	875
Retained earnings (W5)	678.05
Other components of equity (W5)	85.05
Total equity attributable to shareholders of parent	1,638.1
Non-controlling interest (W4)	479.7
Total equity	2,117.8
Total non-current liabilities (492.5 + 382.5 + 75 + 3-define benefit liability	953
Current liabilities (57.5 + 43.5 + 98 + 7 – provision for restructuring)	206
Total liabilities	1,159
Total equity and liabilities	**3,276.8**

Workings:

(W1) Group structure



The group effective interest in Takoradi Ltd is:

Direct interest	14%
Indirect interest or effective interest (60% x 70%)	42%
Group effective interest	56%
The NCI interest in Takoradi Ltd is therefore (100% -56%)	44%

	100%
Consolidation of Bawku Ltd	
Group	60%
NCI (100% - 60%)	40%
	100%

The acquisition date for Takoradi Ltd is 1 April 2017 as this is when Accra Ltd gains control over Bawku Ltd and therefore indirect control over Takoradi Ltd.

(W2) Net assets

Bawku Ltd	**Acquisition date GH¢ million**	**Reporting date GH¢ million**	**Post-Acquisition GH¢ million**
Share capital	605	605	-
Other components	27.5	40	12.5
Retained earnings	325	465	140
Fair value adjustment – Land (remaining figure)	17.5	17.5	-
	975	1,127.5	152.5
Takoradi Ltd			
Share capital	400	400	-
Other components	35	47.5	12.5
Retained earnings	120	175	55
Fair value adjustment – Land (remaining figure)	20	20	-
	575	642.5	67.5

Therefore, the post-acquisition profits of Bawku Ltd is GH¢152.5 million (GH¢1,127.5- GH¢975) and that of Takoradi Ltd is GH¢67.5 million (GH¢642.5 – GH¢575).

(W3) Goodwill

The cost of Takoradi Ltd has three elements: the cost of the direct holding, the cost of the indirect holding and the indirect holding adjustments.

Bawku Ltd	
	GH¢ million
Fair value of consideration	625
NCI at acquisition (40% x GH¢975)	390
Fair value of identifiable net assets acquired (W2)	(975)
Goodwill at acquisition	40
Impairment	(40)
Goodwill at reporting date	-

Alternative:

Bawku Ltd	
	GH¢ million
Fair value of consideration	625
Group share of Fair value of identifiable net assets acquired (60% x 975)	(585)
Goodwill at acquisition	40
Impairment	(40)
Goodwill at reporting date	-

Takoradi Ltd	
	GH¢ million
Fair value of consideration:	
Direct holding (Fair value at date control obtained)	390
Indirect holding	635
Indirect holding adjustment (40% x GH¢635 million)	(254)
NCI at acquisition (44% x GH¢ 575 million)	253
Less fair value of identifiable net assets (W2)	(575)
Goodwill at reporting date	199

Accra's investment in Takoradi Ltd was held at GH¢155 million at the reporting date. Therefore, the fair value increase of GH¢15 (GH¢155 – GH¢140 million) that has arisen since the date that control was achieved must be removed from the consolidated statements. Retained earnings must also be reduced by GH¢15 million.

Alternative:

Takoradi Ltd	
	GH¢ million
Fair value of purchase consideration:	
Direct holding	140
Indirect holding (60% x 635)	381
	521
Less Group's share of fair value of identifiable net assets (56% x 575)	(322)
Goodwill at reporting date	199

Alternative:

Takoradi Ltd	
	GH¢ million
Fair value of purchase consideration:	
Direct holding	140
Indirect holding (60% x 635)	381

NCI at acquisition (44% x GH¢575)	253
Less fair value of identifiable net assets (W2)	(575)
Goodwill at reporting date	199

(W4) Non-controlling interest

	GH¢ million
NCI in Bawku Ltd at acquisition (40% x GH¢975)	390
Add: NCI % of post –acquisition net assets (40% x (GH¢1,127.5 million - GH¢ 975 million)	61
Indirect holding adjustment (40% x GH¢635 million)	(254)
NCI in Takoradi Ltd at acquisition	253
NCI in post-acquisition net assets (44% x (GH¢642.5 - GH¢ 575)	29.7
	479.7

Alternative:

	GH¢ million
NCI in Bawku Ltd's net assets at reporting date (40% x GH¢1,127.5)	451
NCI in Takoradi Ltd's net assets at reporting date (44% x GH¢642.5)	282.7
NCI's share of investment in Bawku (40% x GH¢635)	(254)
	479.7

(W5) Retained earnings

	GH¢ million
Accra Ltd	620
Bawku Ltd: 60% x (GH¢930 million - GH¢ 650 million (W2))	84
Takoradi Ltd: 56% x (GH¢350 million - GH¢240 million)(W2))	30.8
Gain on Takoradi Ltd's investment (W3)	(15)
Impairment of goodwill (W3)	(40)
Reversal of impairment loss (W6)	5.8
Restructuring provision (W7)	(7)
Pension plan (W8)	(0.55)
	678.05

Other components of equity

	GH¢ million
Accra Ltd	62.5
Bawku Ltd: 60% x (GH¢40 million – GH¢27.5 million) (W2)	7.5
Takoradi Ltd: 56% x (GH¢47.5 million – GH¢35 million) (W2)	7
Revaluation gain (W6)	10.5
Pension plan re-measurement (W8)	(2.45)

	85.05

(W6) the office

	GH¢ million
Cost of office building	45
Depreciation (45/30years)	(1.5)
Carrying amount	43.5
Revaluation loss – Profit or Loss	(6)
Fair value at 31 March 2017	37.5
Depreciation (37.5/29years)	(1.3)
	36.2
Revaluation surplus - OCI	16.3
Fair value at 31 March 2018	52.5

If no revaluation reserve exists for an item of PPE then a downwards revaluation is recognized in the statement of profit or loss.

Some of this reversal can be recognized in profit or loss, but this is capped at the amount needed to increase the asset to the value it would have been had no impairment occurred. If no impairment had occurred, the asset would have been held at GH¢42 million (GH¢45 million – (2 x GH¢1.5)). Therefore, the gain recorded in profit or loss is GH¢5.8 million (GH¢42 million – GH¢36.2 million). The remainder of the gain is recognized in other comprehensive income.

The entries will be:

Dr property, plant and equipment	GH¢16.3 million
Cr profit or loss	GH¢5.8 million
Cr other comprehensive income	GH¢10.5 million

(W7) provision for restructuring

Only those costs that result directly from and are necessarily entailed by a restructuring may be included in a restructuring provision. This includes cost such as employee redundancy costs or lease termination costs. Expenses that relate to ongoing activities, such as relocation and retraining, are excluded.

With regard to the service reduction, a provision should be recognized for the redundancy and lease termination costs of GH¢14 million. The sites and details of the redundancy costs have been identified.

In contrast, Accra Ltd should not recognized a provision for the finance and IT department's re-organisation. The re-organisation is not due to start for two years. Stakeholders outside are unlikely to have a valid expectation that management is committed to the re-organisation as the time frame allows significant opportunities for management to change the details of the plan or even to decide not to proceed with it. In addition, the degree of identification of the staff to lose their jobs is not sufficiently detailed to support the recognizing of a redundancy provision.

(W8) pension plan

In order to calculate the re-measurement component, reconcile the opening and closing net pension deficit. The re-measurement component is accounted for in other comprehensive income.

The liability recognized in the financial statements will be GH¢3 million (that is, GH¢17.5 million- GH¢14.5 million)

	GH¢ million
Net obligation at 1 April 2017 (GH¢15 million – GH¢14 million)	1.0
Net interest component (GH¢1 million x 5%)	0.05
Contributions	(1)
Service cost component	0.5
Re-measurement loss (remaining fingure)	(2.45)
Net obligation at 31 March 2018 (17.5 -14.5)	3

The service cost component and net interest component will be charged to profit or loss (GH¢0.55 million) and the re-measurement loss to Other Comprehensive Income (GH¢2.45 million). There will be no adjustment for the contributions, which have already been taken into account.

Marking scheme – 80 ticks maximum for 0.25 marks per tick

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 1 required candidates to prepare group consolidated statement of financial position. Performance of candidates in this question was average. Whereas the few candidates who were well prepared scored high marks, the ill prepared candidates scored poorly.

The under listed were some of the difficulties encountered by candidates:

- Computation of the group effective interest in the sub-subsidiary company Takoradi Ltd.
- Computation of consolidated Retained Earnings, Non-controlling Interest and Consolidated Goodwill.
- Many candidates had challenges in dealing with the acquisition of office accommodation, the restructuring plans and the group pension plan. These areas were either attempted poorly or not attempted at all.

QUESTION TWO

a) **IFRS 5**

- The issue here is whether the closure of the division should be accounted for as a discontinued operation under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. A discontinued operation is defined as 'a component of an entity that either has been disposed of or is classified as held for sale and:
    a) represents a separate major line of business or geographical area of operations, or
    b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
    c) is a subsidiary acquired exclusively with a view to resale.'
- As the discontinued operation has not been disposed of at the year end, it can only be classified as discontinued in the 2018 financial statements if it meets the definition of 'held for sale'. Disposal groups are classified as held for sale if 'their carrying amount will be recovered principally through a sales transaction rather than through continuing use'.
- This is not the case here as most of the assets are being redeployed elsewhere in the business.
- The small assets could potentially be classified as held for sale if all the relevant criteria, but not as a discontinued operation.

IAS 37

- Provision should be made for a redundancy costs if a constructive obligation exists at the year end. This appears to be the case as, assuming a detailed formal plan for the restructuring has been made, and the entity has raised a valid expectation in those affected that the restructuring will be carried out by notifying them of the redundancy before the year end.

IAS 10

- As the annual financial statements were not scheduled to be released until after the closure of the division, the closure should be disclosed as a non-adjusting event after the reporting period due to its significance to the business (it is a separate operating segment).

(3 points for 6 marks)

b) The loan must be recognised initially at its fair value in accordance with IFRS 9 Financial
Instruments, discounted at the market rate of interest:
GH¢400,000 x 4.32948 =GH¢1,731,791.
The remainder is treated as government grant:

	GH¢m	GH¢m
DR Cash	2,000,000	
CR Loan		1,731,791
CR Grant (deferred income or reduce cost of roof)		268,209

Interest is applied to the loan up to the 31 December 2017 year end and recognised as a finance cost in profit or loss:

(GH¢1,731,791 x $1.05^{½}$) =GH¢1,774,557 -GH¢1,731,791 =GH¢42,767.

The grant element is compensating this interest cost and so should be amortised to profit or loss. The most sensible approach would be to recognise the credit on the same basis, ie recogniseGH¢42,767 in 2017 rather than on a straight line basis to ensure the interest cost and grant credit compensate each other correctly.

(5 marks)

c)

- There are a number of potential values that could be used here. However not all are of equal quality.
- There is an offer for the asset of GH¢2.6 million. However Gonja has no intention of accepting this offer, so it is not an active market price.
- An orderly sale would be expected to yield GH¢6 million. This figure is arrived at after analyzing transactions in similar assets. Therefore this would seem to qualify as a level 2 input, and would seem reasonable to use as the basis of valuation.
- The valuation models which suggest a portfolio value of GH¢12 million are level 3, as they are unobservable. Therefore they are inferior to level 2 inputs. However, the fact that the models seem to be anticipating a recovery would suggest that the valuation determined by them would not be attainable in the current market. Therefore this value would not meet the IFRS 13 definition of fair value.
- Hence, the best estimate of fair value in this situation would be GH¢6 million.

(Identification of input levels = 2 marks)
(GH¢2.6 million for not an active market price = 1 mark)
(GH¢12 million not appropriate value = 1 mark)
(GH¢6 million for an active market price = 1 mark)
(Total: 5 marks)

d)

	Intangible assets GH¢
Licence (400 – (400/10 years))	360,000
Web site planning – expensed (SIC-32 para 9(a))	0
Computers – tangible assets (IAS 16)	0
Operating system – tangible assets (computers cannot operate without it – IAS 38 para 4)	0
Microsoft Office (48 – (48/3 x 6/12))	40,000
Training – expensed (IAS 38 para 69(c))	0
Book range (cannot be revalued as no active market)	180,000
	580,000

(5 marks)

e) Commitment to provide a loan at less than market interest rates

The commitment to provide a loan to the customer appears to have been entered into at less than market interest rates, given that the rate is lower than that at which the entity can borrow money on the market. A commitment to provide a loan at less than market interest rates represents a financial liability. This is because the entity has an obligation to pay more interest on financing the loan than it will receive from the customer.

(2 marks)

The commitment was entered into during 2019 and is initially measured at its fair value. Interest income is recognised on this amount using the effective interest method.

(0.5 mark)

At the year end, the liability is increased to its IAS 37 provision valuation ('the best estimate of the expenditure required to settle the present obligation') if this amount exceeds the amount of the initial fair value recognised less amounts already amortised to profit or loss using the effective interest rate. **(1 mark)**

Any difference is charged to profit or loss. **(0.5 mark)**

(4 marks)

(Total: 25 marks)

EXAMINER'S COMMENTS

Question 2 was on selected accounting standards. Most candidates displayed complete lack of knowledge and understanding of the applicable standards, although the standards were in the syllabus. Question 2 was either poorly answered or not attempted at all.

Question 2 was in five (5) parts.

Part a) was on closing down of a division. Candidates struggled in identifying the relevant standards. A number of candidates confused discontinued operations with liquidation. Strangely, some of them discussed Altman's Z-Score.

Part b) was on an interest-free loan. Computation of the fair value of the loan and the grant as well as their treatment under IFRS 9 Financial Instruments posed a lot of challenge to candidates.

Part c) examined the amount Gonja Ltd should state for its investment portfolio in accordance with IFRS 13: Fair Value Measurement. Candidates did not analyse the various values provided by the Examiner. Only a few wrote about the three levels under IFRS 13.

Part d) asked candidates to recommend with suitable calculations the carrying amount of intangible assets in accordance with IAS 38: Intangible Assets. The calculations were wrongly done. Most candidates dwelt on the commentary without the calculations. Furthermore, candidates were unable to link their answers to the requirements of the question.

Part e) tested candidates on commitment to provide a loan at less than the market interest rates. Not many candidates recognized that a commitment to provide a loan at less than market interest rates represents a financial liability.

QUESTION THREE

a) Factors to consider in determining the value to be placed on assets.

i) Consideration of whether or not the assets should be professionally valued.

ii) The existence of hidden liabilities such as contingent liabilities, deferred taxes, redundancy payments, among others

iii) The realisability of receivables such as debtors and other bills receivables. Also consider the recoverable amount of inventories.

iv) Consideration of whether or not the assets can be separately disposed of in the open market.

v) Consideration of whether or not there are prior charges on any of the assets.

vi) The specific valuation basis to use whether it should be going concern basis, replacement cost basis, breakup basis.

(Any four points for 1 mark each up to a maximum of 4 marks)

(b)

	GH¢000
Loans and Advances (40% x 16,700)	6,680
Investment (13,000 – 4,150)	8,850
Other Assets (4,250 – 3,600)	650
Deposit and Current Assets (37,750 + 3,750)	(41,500)

Property, Plant & Equipment	15,300
Cash and Balances (6,250 – 2,400)	3,850
Other Liabilities (11,000 – 3,150)	(7,850)
Interest Receivable	3,150
Goodwill (25% of 41,500)	1,037.5
Investment in Govt. Bonds	12,600
Total value of company	2,767.5

Price of a share GH¢2,767,500/100,000,000 =GH¢0.0277

(10 ticks x 0.50 mark per tick = 5 marks)

(c) GCC BANK LIMITED

Statement of financial position as at 31/03/18 merger or amalgamation

	GH¢000
Cash balance with other banks (43,000 + 3,850-2,767.5)	44,082.5
Investments (64,250 + 8,850)	73,100
Investment in government bonds	12,600
Loans & advances (115,100 + 6,680)	121,780
Other assets (3,150 + 650)	3,800
Property plant & equipment (14,300+ 15,300)	29,600
	284,962.5
Deposit and current accounts (191,100+ 41,500)	232,600
Other liabilities (4,050 + 7,850)	11,900
Total liabilities	244,500
Stated capital	22,500
Statutory reserve fund	5,100
Income Surplus (17,050 – 3,150 – 1,037.5)	12,862.5
Total equity	40,462.5
Total liabilities and equity	**284,962.5**

(A maximum of 24 ticks attracting 0.25 marks per tick = 6 marks)

(Total: 15 marks)

EXAMINER'S COMMENTS

Question 3 was on takeover of a banking institution by another banking institution.
Question 3 was in three (3) parts.
Part a) asked candidates to identify factors to consider in determining the value to be placed on assets when using the net assets approach to valuation of the acquired company. Answers to this were generally satisfactory.

Part b) asked candidates to determine value to be placed on the shares of the acquired company using the net asset approach to valuation. Generally, the answers were satisfactory. However, many candidates treated the deposits stated in note iv) to the question as asset instead of liability.
Part c) required candidates to prepare statement of financial position after the takeover. Large number of candidates prepared the statement of financial position with only the assets and liabilities taken over; they did not merge them with the assets and liabilities of the investing company.

QUESTION FOUR

a) **Ratios for the pure group:**

Ratios	**Formula**	**Calculations**	**2018**	**2017**
Gross profit	Gross profit/sales x 100	(24,000/47,000) x 100	51.1%	59.1%
Operating margin	Profits from operations/sales x 100	(600/47,000) x 100	1.3%	8.5%
Return on capital	Profits from operations/total shareholders fund + long-term loan x 100	(600/(49,505 + 10,000) x 100	1.0%	7.4%
Inventory turnover Period	Inventory/cost of sales x 365 days	(3,250/23,000) x 365	52 days	60 days
Receivables Collection period	Receivables/sales x 365 days	(8,500/47,000) x 365	66 days	83 days

5 marks for calculation = 0.3 marks per 15 ticks (3 ticks per ratio x 5 ratios)

b) **Analysis of the performance and cash flow of the Gandi group Performance**
Revenue and expenses have all increased during the year. Some of this will be due to the acquisition of Asida Ltd in the year, but without Asida's individual financial statements it is difficult to see how much this has contributed. Asida Ltd has been controlled since 1 October 2017 so has contributed full year's results for the year to September 2018 which would not have been included in the year to 30th September 2017.
It is also important to recognize that the new Hotel was only opened in March 2018, so a full year's revenue has not yet been generated by this. Whereas revenue has increased significantly by 37.2%, it can be seen that higher expenses have meant that the Gandi Ltd

group has made less profit than in the previous period. For example, cost of sales increased astronomically by 64.3% from the previous year.
The gross profit margin has fallen in the year from 59.1% to 51.1%. This could be attributable to the increased pressure on prices from supermarkets or difficult trading conditions, but could also be as a result of the addition of Asida Ltd into the group.
It may be that the hotel industry generates much lower margins than the farming industry, or it may be that Asida Ltd itself generates margins. It may also be that the poor reputation associated with the new hotel resulted in the need to offer lower room rates to attract new customers or to bring customers back. Following the improvement in feedback as indicated in the question, this will hopefully improve profits in future periods. The improvement in feedback should lead to increased future bookings, so it may be that the new hotel generates a significantly improved return in future years.
The operating margin has also deteriorated in the year. It is also important to note that there is a significant one-off GH¢ 2.25 million gain on disposal in relation to the sale of investments during the year. Without this exceptional item, Gandi Ltd group would have made a worrying loss from operations of GH¢1.65 million (2,250 – 600). Further analysis of this loss, the reason for this loss is due to a significant increase in the administrative expenses, which would be GH¢ 30.1 million excluding the GH¢ 2.25 million profit on disposal. Therefore, the Gandi Ltd group would have incurred costs relating to the acquisition of Asida Ltd, which will not be incurred in future periods.

There will have been significant expenses associated with the set-up of the new hotel during the year, which again are unlikely to be repeated in future periods unless Asida Ltd plans on opening another hotel in the near future. The increased marketing expenses will also have had a significant impact on the profit, though it is unclear whether this is something that may need to be repeated or maintained in future periods.
There will be many costs associated with the new hotel which will be recurring, such as the increase in staff numbers, and the running costs of the hotel. The new marketing director is likely to have demanded a significant salary, as he or she was brought in specifically to address a problem with the hotel's reputation.
The distribution costs have increased marginal by 9.8% during the year. This could suggest that there has been a decline in the underlying farming business, as fuel costs have risen significantly. It could also mean that the hotel business has extremely low distribution costs, which is likely.

Whereas the Gandi Ltd group has managed to reduce its exposure to fuel prices through the purchase of Asida Ltd not dependent on distribution, it is questionable how wise this has been. Asida Ltd appears to have lower margins and will still incur significant costs in terms of cooling and lighting, which may rise in a similar manner to fuel costs.
The return on capital employed has also deteriorated in the year from 7.4% to 1%, which is expected due to the reduced operating profits. Removing the gain on disposal of the investments would make the Gandi group loss-making, meaning that it would make a negative return on capital employed.

It thus appears that Asida Ltd is a loss-making entity, as the non-controlling share of the group's profit is negative. As Asida Ltd is the only non-100% controlled subsidiary, the non-controlling interest will relate solely to Asida's performance.
This may also suggest that there is goodwill impairment following the purchase of Asida Ltd. This could have arisen from the poor reputation associated with the new hotel. If the non-controlling interest is valued at fair value, 20% of the impairment would be allocated to the non-controlling interest's share.

In addition to the reduced operating profits, the capital employed by the Gandi Ltd group has increased significantly. A total of GH¢9.5 million of new shares have been issued during the year, probably to fund the purchase of Asida Ltd. There has also been a GH¢10 million long-term loan contracted, although it is possible that Asida Ltd already had this loan and this has resulted from the consolidation of Asida's assets and liabilities.
The sale of investments and share issue and potentially the contracted loan suggest that the Gandi Ltd group paid a very high price for Asida Ltd. This may not have been wise if Asida Ltd has low margins, or is loss making. If Asida Ltd owns the hotel premises, then this may have explained the high price as the land is likely to hold its value, even if Asida performs poorly as demonstrated.

Cash flow position
The cash balance has fallen to GH¢ 0.3 million as at 30 September 2018. It is important to note that the Gandi Ltd group has raised significant funds during the year through a share issue, sale of investments and the potential receipt of a long-term loan. This means that significant amount of the cash raised is likely to have been spent on the purchase of Asida Ltd and the new hotel.

However, the decrease in receivable collection period will have a positive effect on the cash flow of the Gandi Ltd group. As a hotel will largely be cash based rather than offering credit, this will aid the cash flow of the Gandi Ltd group. This means that the purchase of Asida Ltd may help offset its problems caused in the farming sector with the longer terms demanded by the supermarkets.
Another positive sign on cash flow is the reduction in the inventory turnover period. This will be as a result of the fact that Asida Ltd will not carry much inventory, as this is likely to relate to food and drink served in the hotels.

Conclusion
The success of the Gandi Ltd group in the current year is difficult to judge; it has been a transitional year. There are concerns over the performance of Asida Ltd, although there are reasons to believe this may improve in the instant future periods. For a more meaningful comparison, individual financial statements of companies within the Gandi Ltd group would need to be accessed.

Students who write memo should be accepted although the requirement of the question does not specifically ask for a memo format

4 marks available for performance assessments (any valid point is a mark each up to 6 marks maximum.

4 marks for cash flow comments

1 mark for conclusion

1 mark for format/introduction

Points raised by candidates must be specific to the scenario in the question

(Total: 15 marks)

EXAMINER'S COMMENTS

Question 4 was on analysis of financial statements. It was in two parts. Performance in this question was better than that in the other questions.

Part (a) asked candidates to prepare equivalent ratios for the year ended 30 September 2018. (The main question provided a list of ratios calculated for the year ended 30 September 2017.) The ratios were well done except that some candidates: i) calculated return on equity rather than return on capital employed; ii) calculated inventory turnover ratios instead of inventory turnover period; iii) had challenges calculating the receivable collection period; and iv) some candidates did the calculations without stating the formulas.

Part (b) required candidates to analyse the financial performance and cash flow of TGG. Most candidates did not relate their analysis to the context set out in the question. Linkages between the ratios were generally absent in the analysis. Many candidates prepared cash flow statements; perhaps they were confused when the Examiner used the phrase "cash flow" instead of "liquidity" or "financial position". Candidates did not provide possible causes of movements in the ratios and how they could be dealt with.

QUESTION FIVE

a)

- In cases where there are material environmental impacts, they will normally expect to see a statement of ***corporate commitment, policies and strategy, showing the importance attached to such issues***. There could well be a competitive advantage to be gained from being seen as a leader in responsible environmental practices. The statement would usually deal with the overall control over such issues, whether through a committee of the board or a senior manager with practical experience of environmental issues in a corporate context.

- Most users, particularly investors and lenders, will also be concerned to know whether there are any material financial impacts, actual or potential, arising from environmental issues. Where this is the case, discussion of environmental risks and uncertainties in the annual report, together with the related action taken, may therefore be appropriate as well as information about environmental performance. Depending on the nature of the entity, there could be a call for information about matters such as ***site remediation, disposal of waste, resource recycling or supply chain performance***. In identifying the environmental matters likely to be of particular concern to report users, some form of stakeholder engagement is beneficial.
- Many fund managers have a department dealing with SRI. In reviewing a company's annual report, the environmental matters attracting attention will tend to vary according to its nature, size and geographical location but, where environmental matters are significant, will generally fall within the following main areas:

✓ ***Commitments, policies and strategies.***
✓ ***Environmental management/EMS and ISO 14001 certification.***
✓ ***Principal environmental impacts.***
✓ ***Environmental performance – absolute and relative.***
✓ ***Fines, penalties or awards.***

- In appropriate cases, it is often helpful to users if reference is made to compliance with voluntary codes, such as EMAS or The Natural Step, or certification of the EMS to a particular standard, such as ISO 14001 or Project Acorn. This would normally help to demonstrate the adoption of desirable environmental policies.

(Any 3 points well explained for 9 marks)

b) Ethical issues

- This issues facing Maria are not simply a matter of following rules but are a complex mix of issues concerning **trust, duty of care, accountability and confidentiality**.

- Classification of a lease can be quite subjective. In the case of land, this is particularly subjective as the title may not pass to the lessee at the end of the lease agreement. If the features of the lease meet conditions set down in IAS 17 Leases yet the directors want to understate liabilities in order to raise a loan, then an ethical dilemma arises.

- Maria's year-end bonus, contingent on treatment of the lease, represents a conflict of interest.

- If Maria tells Yendi about the liquidity issues surrounding Mamprugo, is she betraying trust? However, if she does not mention the liquidity problem, then amounts owing to Yendi may not be paid. Can the information be deemed to come under insider information' and therefore it should not be disclosed. If Mamprugo goes into liquidation, then then Maria's reputation and career may suffer.

Appropriate steps that Peter Anokye should take

- As a Chartered Accountant (CA), you should consider the Code of Ethics in formulating a way to resolve the conflict that appears to be developing. It is essential that CAs do not succumb to pressure from management so that financial information is prepared in a misleading manner.

- If the matter cannot be resolved with Maria, then further discussions need to be held with your immediate line manager and/or others within the business such as non-executive directors. Perhaps take confidential advice from ICAG (Professional Standards and Ethics Committee).

(5 points at 2 marks each: 10 marks)

c) New standard to be issued by the IASB

- Although a revised accounting standard is expected to be published during 2019, it is not appropriate to implement changes in the 2018 financial statements. The revised standard has not yet been formally published by the IASB (in accordance with the IASB's procedures for developing and publishing accounting standards) and therefore does not yet have any standing for 2018 financial reporting purposes.

- It is not appropriate to implement financial reporting changes based on the contents of the exposure draft as comments submitted to the IASB in respect of the exposure draft may significantly affect the content of the final standard. While there may be an expectation that the revised standard will be issued in 2019, that is not a certainty and there can be significant periods of time between the exposure draft stage and finalisation of an accounting standard. Furthermore, once published, there may well be a further period of time before the standard becomes effective.
- Early adoption of standards (prior to its stipulated effective date) is sometimes permitted and encouraged by the IASB but this does not apply to the exposure draft

stage of development. On this basis, the 2019 financial year is the earliest year for which adoption of the proposed new standard is a possibility.

(3 points for 6 marks)

(Total: 25 marks)

EXAMINER'S COMMENTS

Question 5 was in three parts.

Some candidates provided very good answers to the question.

Part a) asked for what users expect to see in a company's annual report to indicate that environmental concerns are receiving adequate attention. Many candidates wrote about what various stakeholders, for example investors, Banks, Employees, etc., would expect from the company. Obviously, they misread the question.

Part b) asked candidates to appraise the ethical issues in a given scenario and propose and justify appropriate steps that should be taken. Many candidates discussed ethical issues in general without relating to the specific issues in the scenario.

Part c) required candidates to explain to a finance director, justifying, whether they agree or disagree with the suggestion that exposure draft/proposed standard be used in preparing the company's financial statements. Many candidates scored high marks in this part.