MAY 2016 PROFESSIONAL EXAMINATION
FINANCIAL REPORTING (2.1)
EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S REPORT

STANDARD OF THE PAPER

The standard of the questions could not be compared to those previously administered. With the exception of Question 3 which was quite loaded, the rest of the questions were not and the volume of work required was quite minimal. The questions covered all the relevant sections and reflected the weighting of the topics in the syllabus, and it followed a similar pattern in the previous exams. A flexible marking scheme was produced because of few ambiguities in the question to prevent students being disadvantaged. In all, the standard of the paper was good. The marks allocation followed the weightings in the syllabus, except question three whose total mark allocation was 30. This was due to the various sub sections in the question.

PERFORMANCE OF THE CANDIDATES

More than 80% of the candidates scored less than 40% of the total marks while a few candidates scored below 12%. This could be attributed to inadequate preparation by candidates, or the low standard achieved in their previous level of studies. The general performance of the candidates was far below average. The high performers were concentrated in Kumasi and Accra. The low performers were in the other regional centres. The low performers were concentrated in the rest of the regional centres including some centres in Accra. There were no signs of copying. The level of preparedness of candidates for the exams was low and this reflected in their poor performance. Candidates who prepared adequately and were ready for the examinations scored more than 50% of the total marks. A few candidates scored above 65% of the total marks.

NOTABLE STRENGTHS & WEAKNESS

The candidates' strengths were in the preparation of the Statement of Profit or Loss and Financial Position as in question one, Consolidation in question two and Ratio analysis in question four. These are areas which any serious candidate will not like to ignore while preparing for the exams. Suggested areas in which such strengths can be enhanced include the International Financial Reporting Standards and Partnership Accounting. The general weaknesses shown were in respect of either lack of preparation or the background of most of the candidates entering the examinations at this level. The weaknesses were widespread as could be seen in the general performance. The reasons for the weaknesses shown were in respect of lack preparation and lack of the basic foundational knowledge for most of the candidates entering the examinations at this level. The Institute should reconsider the exemption policy for students registering for the examinations with HND and first Degree.

FINANCIAL REPORTING QUESTIONS

QUESTION ONE

The following trial balance relates to Zealow Ltd as at 31st December 2015.

	GH¢000	GH¢000
Turnover		213,800
Cost of sales	143,800	
Operating expenses	22,400	
Trade receivables	13,500	
Bank		900
Closing inventories -31st December 2015 (note (i))	10,500	
Interest expenses (note (iii))	5,000	
Rental income from investment property		1,200
Plant and equipment-cost (note (ii))	36,000	
Land and building- at valuation (note (ii))	63,000	
Accumulated depreciation		16,800
Investment property-valuation 1st January 2015 (note (ii))	16,000	
Trade payables		11,800
Joint arrangement (note (v))	8,000	
Deferred tax (note (iv))		5,200
Ordinary shares of 25p each		20,000
10% Redeemable preference shares of GH¢1 each		10,000
Retained earnings – 1st January 2015		17,500
Revaluation surplus (note (ii))		21,000
	318,000	318,000

The following additional information is relevant:

i) An inventory count on 31st December 2015 listed goods with a cost of GH¢10.5 million. This includes some damaged goods that had cost GH¢800,000. These would require remedial work costing GH¢450,000 before they could actually be sold for an estimated GH¢950,000.

ii) **Non-current assets:**

Plant

All plant, including that of the joint operation (note v), is depreciated at 12.5% on reducing balance basis.

Land and building

The land and building were revalued at GH¢15 million and GH¢48 million respectively on 1st January 2015 creating a GH¢21 million revaluation surplus. At this date the building had a remaining life of 15 years. Depreciation policy is on a straight-line basis. Zealow Ltd does not make a transfer to realized profits in respect of excess depreciation.

Depreciation on both the building and the plant should be charged to the cost of sales.

Investment property

On 31st December 2015 a qualified surveyor valued the investment property at GH¢13.5 million. Zealow Ltd uses the fair value model in **IAS 40** ***Investment property*** to value its investment property.

iii) Interest expenses include overdraft charges, the full year's preference dividend and an ordinary dividend of 4p per share that was paid in June 2015.

iv) The directors have estimated the provision for income tax for the year ended 31st December 2015 at GH¢8 million. The deferred tax provision at 31st December 2015 is to be adjusted (through the profit or loss statement) to reflect that the tax base of the company's net assets is GH¢12 million less than their carrying amounts. The rate of tax is 30%.

v) On 1st January 2015 Zealow Ltd entered into a joint arrangement with two other entities. Each venturer contributes their own assets and is responsible for their own expenses including depreciation on assets of the joint arrangement. Zealow Ltd is entitled to 40% of the joint venture's total turnover. The joint arrangement is not a separate entity and is regarded as a joint operation.

Details of Zealow Ltd joint venture transactions are:

	GH¢000
Plant and equipment at cost	12,000
Share of joint venture turnover (40% of total turnover)	(8,000)
Related joint venture cost of sales excluding depreciation	5,000
Trade receivables	1,500
Trade payables	(2,500)
	8,000

Required:

a) Prepare the statement of profit or loss for Zealow Ltd for the year ended 31st December 2015. **(10 marks)**

b) Prepare the statement of financial position for Zealow Ltd as at 31st December 2015. **(10 marks)**

(Total: 20 marks)

QUESTION TWO

On 1st April 2014, H Plc. acquired four million of the ordinary shares of S Ltd, paying GH¢4.50 each. At the same time, H Plc also purchased, GH¢500,000 of S Ltd 10% redeemable preference shares. At the acquisition date, the retained earnings of S Ltd were GH¢8,400,000.

Reproduced below are the draft statements of financial positions of the two companies at 31st March 2015:

	H Plc.	S Ltd
	GH¢000	GH¢000
Non-current assets		
Land and buildings	22,000	12,000
Plant and equipment	20,450	10,220
Investments in H Plc:		
Equity	18,000	-
Preference	500	-
Total non-current assets	**60,950**	**22,220**
Current assets		
Inventories	9,850	6,590
Trade receivables	11,420	3,830
Cash at bank and in hand	490	-
Total assets	**82,710**	**32,640**
Equity		
Ordinary shares of GH¢1 each	10,000	5,000
10% Preference shares	-	2,000
Retained earnings	51,840	14,580
Non-current liabilities		
10% Debentures 2018	12,000	4,000
Current liabilities		
Trade payables	6,400	4,510
Bank overdraft	-	570
Taxation	2,470	1,980
Total equity and liabilities	**82,710**	**32,640**

Extracts from the statement of profit or loss of S Ltd, before intra group adjustments, for the year to 31st March 2015 are:

	GH¢000
Profit before tax	5,400
Taxation expense	1,600
	3,800

The following information is relevant.

i) Included in the land and buildings of S Ltd is a large area of development land at cost of GH¢5 million. Its fair value at the date S Ltd was acquired was GH¢7 million and by 31st March 2015 this had risen to GH¢8.5 million. The group valuation policy for development land is that it should be carried at fair value and not depreciated.

ii) Also at the date of acquisition of S Ltd, S Ltd plant and equipment included plant that had a fair value of GH¢4 million in excess of its carrying value. This plant had a remaining life of 5 years. The group calculates depreciation on a straight-line basis. The fair value of the other net assets of S Ltd approximated to their carrying values.

iii) During the year, S Ltd sold goods to H Plc. for GH¢1.8 million. S Ltd adds a 20% mark-up on cost to all its sales. Goods with a transfer price of GH¢450,000 were included in the inventory of H Plc. at 31st March 2015.The balance on the current accounts of the H Plc and S Ltd was GH¢240,000 on 31st March 2015.

iv) An impairment test carried out at 31st March 2015 showed that the consolidated goodwill was impaired by GH¢1,488,000.

v) S Ltd had paid its preference dividends in full and ordinary dividends of GH¢500,000.

Required:

a) Prepare the consolidated statement of financial position of H Plc. as at 31st March 2015. **(14 marks)**

b) Calculate the non-controlling interest in the adjusted profit of S Ltd for the year to 31st March 2015. **(3 marks)**

c) Explain why **IFRS 3 *Business Combinations*** requires an acquirer to consolidate the fair values of the assets and liabilities of an acquired subsidiary, at the acquisition date. **(3 marks)**

(Total: 20 marks)

QUESTION THREE

a) i) The issue share capital of Ghana Trust, a publicly listed company on the Ghana Stock Exchange, at 31st March 2013 was GH¢10 million. Its shares are denominated at 25 pesewas each. Ghana Trust's earnings attributable to its ordinary shareholders for the year ended 31st March 2013 were also GH¢10 million, given an earnings per share of 25 pesewas.

Year ended 31st March 2014

On 1st July 2013 Ghana Trust issued eight million ordinary shares at full market price. On 1st January 2014 a bonus issue of one new ordinary share for every four ordinary shares held was made. Earnings attributable to ordinary shareholders for the year ended 31st March 2014 were GH¢13.8 million.

Year ended 31st March 2015

On 1st October 2014 Ghana Trust made a rights issue of shares of two new ordinary shares at a price of GH¢1.00 each for every five ordinary shares held. The offer was fully subscribed. The market price of Ghana Trust's ordinary shares immediately prior to the offer was GH¢2.40 each. Earnings attributable to shareholders for the year ended 31st March 2015 were GH¢19.5 million.

Required:

Calculate Ghana Trust's earnings per share for the years ended 31st March 2014 and 2015 including comparative figures. **(7 marks)**

ii) On 1st April 2015 Ghana Trust issued GH¢20 million 8% convertible loan stock at par. The terms of the conversion (on 1st April 2018) are that for every GH¢100 of loan stock, 50 ordinary shares will be issued at the option of loan stockholders. Alternatively, the loan stock will be redeemed at par for cash. Also, on 1st April 2015 the directors of Ghana Trust were awarded share options on 12 million ordinary shares exercisable from 1st April 2018 at GH¢1.50 per share. The average market value of Ghana Trust's ordinary shares for the year ended 31st March 2015 was GH¢2.50 each. The income tax rate is 25%. Earnings attributable to ordinary shareholders for the year ended 31st March 2015 were GH¢25,200,000. The share options have been correctly recorded in the statement of profit or loss.

Required:

Calculate Ghana Trust's basic and diluted earnings per share for the year ended 31st March 2015 (comparative figures are not required).

You may assume that both the convertible loan and the directors' options are dilutive. **(5 marks)**

b) Naniama Ltd issued 3,000 convertible bonds at par. The bonds are redeemable in 4 years' time at their par value of GH¢100 per bond. The bonds pay interest annually in arrears at an interest rate (based on nominal value) of 5%. Each bond can be converted at the maturity date into 5 GH¢1.00 shares. The prevailing market interest rate for four year bonds that have no right of conversion is 8%.

The present value at 8% of GH¢1 receivable at end of:

Year 1	0.926
Year 2	0.857
Year 3	0.794
Year 4	0.735

Required:
Show the initial accounting treatment of the bond in accordance with International Financial Reporting Standards (IFRS). **(5 marks)**

c) You are the finance director of ABC Company. ABC is preparing its financial statements for the year ended 31st December 2015. The following item has been brought to your attention:
ABC acquired the entire share capital of XYZ Ltd during the year. The acquisition was achieved through a share exchange. The terms of the exchange were based on the relative values of the two companies obtained by capitalizing the companies' estimated cash flows. When the fair value of XYZ's Ltd identifiable net assets was deducted from the value of the company as a whole, its goodwill was calculated at GH¢2.5 million. A similar exercise valued the goodwill of ABC at GH¢4 million. The directors wish to incorporate both goodwill values in the companies' consolidated financial statements

Required:
Describe how ABC should treat the item in its financial statements for the year ended 31st December 2015 commenting on the directors views, where appropriate. **(5 marks)**

d) As a newly qualified accountant with The Institute of Chartered Accountants (Ghana) (ICAG), you are asked to make a short presentation to the rest of the staff in the accounting and finance department of your employer who are themselves yet to join ICAG as students about the standard setting process adopted by the International Accounting Standards Board.

Required:
Discuss the standard setting process as adopted by the IASB to these junior staff. **(5 marks)**

e) The functional currency according **to IAS 21** ***the effects of changes in foreign exchange rates*** is the currency of the primary economic environment where the entity operates.

Required:
Identify **THREE** factors in accordance with IAS 21 that an entity will consider in determining its functional currency **(3 marks)**

(Total: 30 marks)

QUESTION FOUR

ANN Co is considering acquiring an interest in its competitor IB Co LTD. The managing director of ANN Co has obtained the three most recent statements of financial position of IB Co Ltd as shown below.

IB CO Ltd- Statement of financial position at 31st December

	2013	2014	2015
	GH¢'000	GH¢'000	GH¢'000
Non – current assets			
Land and buildings	11,460	12,121	11,081
Plant and equipment	8,896	9,020	9,130
	20,356	21,141	20,211
Current Assets			
Inventories	1,775	2,663	3,995
Trade receivables	1,440	2,260	3,164
Cash	50	53	55
	3,265	4,976	7,214
Total Assets	**23,621**	**26,117**	**27,425**
Equity			
Share capital	8,000	8,000	8000
Retained earnings	6,434	7,313	7,584
	14,434	15,313	15,584
Non – current liabilities			
12% debentures 2015 – 2018	5,000	5,000	5,000
Current liabilities			
Trade payable	390	388	446
Bank	1,300	2,300	3,400
Income taxes payable	897	1,420	1,195
Dividend payable	1,600	1,696	1,800
	4,187	5,804	6,841
	23,621	**26,117**	**27,425**

Required:

Prepare a report for the managing director of ANN Co. commenting on the financial position of IB Co Ltd. and highlight any areas that require further investigation (using gearing and liquidity ratios only). **(15 marks)**

QUESTION FIVE

Dum and Sor were in partnership as retail traders sharing profits and losses: Dum three quarters (3⁄4) and Sor one quarter (1⁄4). The partners were credited annually with interest at the rate of 6% per annum on their fixed capitals, no interest was charged on their drawings.

Sor was responsible for the buying department of the business. Dum managed the head office and Sor was employed as the branch manager. Dum and Sor were each entitled to a commission of 10% of the net profits (after charging such commission) of the shop managed by him.

All goods were purchased by head office and goods sent to the branch were invoiced at cost.

The following was the trial balance as at 31st December 2014.

	Head Office Books		Branch Books	
	Dr.	Cr.	Dr.	Cr.
	GH¢	GH¢	GH¢	GH¢
Drawings accounts and fixed capital accounts				
Dum	2,500	14,000		
Sor	1,200	4,000		
Furniture and fittings at cost	1,500		1,100	
Furniture and Fittings provision for depreciation as at 31 Dec.2013		500		350
Inventory as at 1st January 2014	13,000		4,400	
Purchases	37,000			
Goods sent to branches		18,000	17,200	
Sales		39,000		26,000
Provision for doubtful debts		600		200
Branch and head office current accounts	6,800			3,600
Salaries and Wages	4,500		3,200	
Sor, on account of commission			240	
Carriage and travelling expenses	2,200		960	
Administrative expenses	2,400			
Trade and general expenses	3,200		1,800	
Trade Receivables	7,000		3,000	
Trade Payables		5,800		400
Bank balances	600	0.00	0.00	1,350
	81,900	**81,900**	**31,900**	**31,900**

You are given the following additional information:

i) Inventory on 31st December 2014 amounted to :
   Head office GH¢14,440
   Branch GH¢ 6,570
ii) Administrative expenses are to be apportioned between head office and the branch in proportion to sales.
iii) Depreciation is to be provided on furniture and fittings at 10% of cost.
iv) The provision for bad & doubtful doubts is to be increased by GH¢50 in respect of head office receivables and decreased by GH¢20 in the case of those of the branch.
v) On 31st December 2014 cash amounting to GH¢2,400 in transit from the branch to head office, had been recorded in the branch books but not in those of head office, and on that date goods invoiced at GH¢800, in transit from head office to the branch, had been recorded in the head office books but not in the branch books. Any adjustments necessary are to be made in the head office books

Required:

a) Prepare the statement of profit or loss and the appropriation account for the year ended 31st December 2014, showing the net profit of the head office and branch respectively. **(6 marks)**
b) Prepare the statement of financial position as on that date. **(6 marks)**

c) Prepare the current accounts for Head office and the branch. **(3 marks)**

(Total: 15 marks)

FINANCIAL REPORTING SCHEME

QUESTION ONE

(a) **Zealow Ltd statement of profit or loss for the year ended 31 December, 2015**

	GHC'000	GHC'000
Revenue (w (i))		221,800
Cost of sales (w (i))		(156,200)
Gross profit		65,600
Operating expenses		(22,400)
Investment income		1,200
Loss on investment property (16,000 – 13,500 w (ii))		(2,500)
Financing cost (5,000 – 3,200 ordinary dividend (w(v))		(1,800)
Profit before tax		40,100
Income tax expense (w (iii))		(6,400)
Profit for the period		**33,700**

Zealow Ltd Statement of financial position as at 31 December 2015

Non-current assets		
Property, plant and equipment (w (iv))		87,100
Investment property (w (ii))		13,500
		100,600
Current assets		
Inventories (10,500 – 300 (w (i)))	10,200	
Trade receivables (13,500 + 1,500 JV)	15,000	25,200
Total assets		125,800
Equity and liabilities:		
Ordinary shares of 25p each		20,000
Reserves:		
Revaluation	21,000	
Retained earnings (w (v))	48,000	69,000
		89,000
Non-current liabilities		
Deferred tax (w (iii))	3,600	
Redeemable preference shares of GHC1 each	10,000	13,600
Current liabilities		
Trade payables (11,800 + 2,500 JV)	14,300	
Bank overdraft	900	
Current tax payable	8,000	23,200
Total equity and liabilities		**125,800**

Workings in GHC'000

Revenue	
Per question	213,800
Joint operation revenue	8,000
	221,800
Cost of sales:	
Per question	143,800
Closing inventories adjustment (see below)	300
Joint operation costs	5,000
Depreciation (w (iv)) – building	3,200
- plant	3,900
	156,200

The damaged inventories will require expenditure of GHC450,000 to repair them then have an expected selling price of GHC950,000. This gives a net realizable value of GHC500,000, as their cost was GHC500,000, as their cost was GHC800,000, a write down of GHC300,000 is required.

(i) The fair value model in **IAS 40** ***investment property*** requires investment properties to be included in the balance sheet at their fair value (in this case taken to be the open market value). Any surplus or deficit is recorded in income.

(ii)	Taxation:	
	Provision for year	8,000
	Deferred tax (see below)	(1,600)
		6,400

Taxable temporary differences are GHC12 million. At a rate of 30% this would require a balance sheet provision for deferred tax of GHC3.6 million. The opening provision is GHC5.2 million, thus a credit of GHC1.6 million, thus a credit of GHC1.6 million will be made in the statement of profit or loss.

(iii) **Non-current assets**

Land and building

Depreciation of the building for the year ended 31 December 2015 will be (48,000/15 years) 3,200

Plant and equipment

Per trial balance	36,000
Joint operation plant	12,000
	48,000
Accumulated depreciation 1 January 2015	(16,800)
Carrying amount prior to charge for year	31,200
Depreciation year ended 31 December 2015 at 12.5%	(3,900)
Carrying amount at 31 December 2015	27,300

Summarizing:	**Cost/valuation**	**Accumulated Dep**	**Carrying amount**
Land and building	63,000	3,200	59,800
Plant and equipment	48,000	20,700	27,300
Property, plant and equipment	**111,000**	**23,900**	**87,100**

(iv) retained earnings

balance b/f	17,500
profit for period	33,700
ordinary dividends paid (20,000 x 4 x 4p)	3,200
	48,000

EXAMINER'S COMMENTS

Most of the candidates knew what was expected of them. They rather fumbled in the answer to the workings. This resulted in the loss of vital marks. The preparation of the Financial Position was not well handled.

QUESTION TWO

H PLC GROUP
Consolidated balance sheet as at 31 December 2015

	GHC000
Non-current assets:	
Goodwill	992
Land and buildings (22,000+12000+2,000+1500)	37,500
Plant and equipment (20,450+10,220+4,000-800)	33,870
	72,362
Current assets:	
Inventories (9850+6590-75w2)	16,365
Trade receivables (11,450+3,830-240w3)	15,010
Cash at bank and in hand	490
	104,227
Equity	
Share capital	10,000
Revaluation (group share of post-acquisition gain w1	1,200
Group retained earnings	54,596
	65,796
Non-controlling interest	6,741
Non-current liabilities	
10% debenture 2018 (12,000 + 4,000)	16,000
Current liabilities	
Trade payables (6,400 + 4510 -240 w3)	10,670
Bank overdraft	570
Taxation (2,470 + 1,980)	4,450
	104,227

Workings

1. Group structure

H Ltd
(4m/5m x100) Date of acquisition/ control: 01/04/2013
80% control Date of reporting: 31/03/2014
20% NCI Post-acquisition period: 1 year
S Ltd

2. Net Assets:

	Acquisition date 01/04/2013 GHS'000	reporting date 31/03/2014 GHS'000	post acquisition retained earnings GHS'000
Ordinary Share capital	5,000	5,000	_
Retained earnings	8,400	14,580	6,180
Fair value of dev. Land	2,000	3,500	
Fair value of plant	4,000	4,000	
Fair value dep'n- plant (4,000/5)		(800)	(800)
PUP on inventory (20/120x450)		(75)	(75)
	19,400	26,205	5,305

3. Goodwill computation

	GHS'000
Cost of Investment	18,500
Less: Net Assets at acquisition w2 (19,400 x80%)	(15,520)
10% Preference shares	(500)
Total Goodwill	2,480
Less impairment loss	(1,488)
Goodwill at consolidation	992

Note: proportionate method is required as the question is silent of fair value method.

4. Consolidated income surplus	**GHS'000**
Balance at 01/04/2013	51,840
Goodwill impairment	(1,488)
Group share of post-acquisition profit w2 (5,305 x80%)	4,244
At consolidation	**54,596**

5. Non-Controlling interest	**GHS'000**
Add: NCI's share of post-acquisition profit (80% x 26,205)	5,241
10% Preference shares (2,000 -500)	1,500
At consolidation	**6,741**

b) **Non-controlling interest in the adjusted profit of H LTD for the year ended March 2015.**

	GHC000	NCI	
Profit before tax before group adjustments (Q)	5,400		
Adjustments:			
Extra depreciation on fair value gain (4000/5)	(800)		
Provision for unrealized profit	(75)		
Adjustment profit and tax	4,525		
Taxation expenses	(1,600)		
	2,925		
10% preference dividend	(200)	150	200@75%
	2,725	545	2725@20%
Total NCI		**695**	

The profits after tax are GHC2,925, but the preference dividends would have been paid, as distributable profits exist. The ordinary NCI is 20% of the retention.

c)

Why IFRS 3 requires an acquirer to consolidate the fair values of the assets and liabilities of an acquired subsidiary, at the acquisition date:

- So that goodwill is reliably and consistently measured from acquisition to acquisition and in the same consistent way from company to company.
- By attributing fair values to the assets and liabilities of the subsidiary, values which relate to specific assets/liabilities are not, by default, attributed, wrongly, to the (intangible) goodwill.
- Post-acquisition profits will be more reliably reported

EXAMINER'S COMMENTS

Most candidates were able to score more than 50% of the marks. However, only a few could do the workings in the notes, including the preparation of the Consolidated Income Surplus and the calculation of the Goodwill. The calculation of non-controlling interest was a challenge to most candidates. Most candidates could not explain why in Business Combination (IFRS 3) an acquirer is required to consolidate the fair values of assets and liabilities at the acquisition date. This is a good example of the poor method candidates plan their studies towards the exams.

QUESTION THREE

a)

(i) Ghana Trust - EPS year ended 31 March 2014:

The issue on 1 July 2013 at full market value needs to be weighted:

	40m x 3/12	= 10m
New shares	8m	
	48m x 9/12	= 36m
		46m

Without the bonus issue this would give an EPS of 30p (13.8m/46m x 100).

The bonus issue of one for four would result in 12 million new shares giving a total number of ordinary shares of 60 million. The dilutive effect of the bonus issue would reduce the EPS to 24p (30p x 48m/60m).

The comparative EPS (for 2013) would be restated at 20p (25p x 48m/60m).

EPS year ended 31 March 2015:

The rights issue of two for five on 1 October 2014 is half way through the year. The theoretical ex rights value can be calculated as:

Holder of	100 shares worth GHC2.40	= GHC240
Subscribes for	40 shares at GHC1 each	= GHC40
Now holds	140 worth (in theory)	= GHC280 i.e. GHC2 each.

Weighting:

	60m x 6/12 x 2.40/2.00 =	36 million	
Rights issue (2 for 5)	24m		
	84m x 6/12 =		42 million
New total			
Weighted average			78 million

EPS is therefore 25P (GHC19.5m/78m x 100).

The comparative (for 2014) would be restated at 20P (24Px 2.00/2.40).

The 7 marks should be spread by ticks based on a student effort. Credit should be awarded for effort put up by students

(ii) The basic EPS for the year ended 31 December 2015 is 30p (GHC25.2m/84m x 100). ***1 mark***

Dilution

Convertible loan stock

On Conversion loan interest of GHC1.2 million after tax would be saved (GHC20 million x 8% x (100% - 25%)) and a further 10 million shares would be issued (GHC20m/GHC100 x 50). ***1 mark***

Directors' options

Options for 12 million shares at GHC1.50 each would yield proceeds of GHC18 million. At the average market price of GHC2.50 per share this would purchase 7.2 million shares (GHC18m/GHC2.50).therefore the 'bonus' element of the options is 4.8 million shares (12m - 7.2m). ***1mark***

Using the above figure the diluted EPS for the year ended 31 December 2015 is 26.7p (GHC25.2m + GHC1.2m)/ (84m + 10m + 4.8m)). ***2marks***

b) Naniama Ltd

	GHC
Non-current liabilities	
Financial liability component of convertible bond (W1)	270,180
Equity	
Equity component of convertible bond (300,000 – (Wi) 270, 180)	9,820

Working

GHC

Fair value of equivalent non-convertible debt

Present value of principal payable at end of 4 years

(3,000 x GHC100 = GHC300,000 x 0.735) = **220,500**

Present value of interest annuity payable annually in arrears for 4 years

Year 1	(5% x 300,000) =	15,000 x 0.926	13,890	
Year 2		15,000 x 0.857	12,855	
Year 3		15,000 x 0.794	11,910	
Year 4		15,000 x 0.735	11,025	
			49,680	**49,680**
				270,180

20 ticks @ 0.25 per tick for 5marks in total

c) ABC Ltd

Whilst it is acceptable to value the goodwill of GHC2.5 million of XYZ (the subsidiary) on the basis described in the question and include it in the consolidated balance sheet, the same treatment cannot be afforded to ABC's own goodwill. The calculation may indeed give a realistic value of GHC4 million for ABC goodwill, and there may be no difference in nature between the goodwill of the two companies, but it must be realized that the goodwill of ABC is internal goodwill and IFRSs prohibit such goodwill appearing in the financial statements. The main basis of this conclusion is one of reliable measurement. The value of acquired (purchased) goodwill can be evidenced by the method described in the question (there are also other acceptable methods), but this method of valuation is not acceptable as a basis for recognizing internal goodwill.

Correct interpretation within IAS 38 and IFRS 3 should be awarded 5 marks

d)

The standard setting process

The following summarizes the key steps in the standard setting process:

Issues paper — IASB staff prepare an issues paper including studying the approach of national standards setters.

The SAC is consulted about the advisability of adding the topic to the IASB's agenda.

Discussion Document — A Discussion Document may be published for public comment.

Exposure Draft — An Exposure Draft is published for public comment.

International Financial after considering all comments received, an IFRS is Reporting Standard approved by at least 8 votes (of 14) of the IASB. The final standard includes both a basis for conclusions and any dissenting opinions.

Each step properly discussed for 1 mark each total five (5) marks

e).

i. The currency that mainly influences sales prices for goods and services
ii. The currency of the currency whose competitive forces and regulations mainly determine the sales price of goods and services
iii. The currency that mainly influences labour, material and other costs of providing goods and services

iv. The currency in which funding from issuing debt and equity is generated
v. The currency in which receipts from operating activities are usually retained

Any three valid points for one mark each

EXAMINER'S COMMENTS

The calculation of the earning per share for Ghana Trust Company was a disaster. Only a few candidates attempted the question and it was poorly handled. A few attempted this question. The result was far below expectation, since candidates could not calculate the present value of interest payable in 4 years. The approach was as usual poor as candidates did not know the difference in the treatment of purchased and non-purchased goodwill. The standard setting process was well attempted by most candidates. It was however difficult for them to systematically go through the various stages in setting a standard. The identification of the factors an entity will consider in determining it functional currency was a challenge to the candidates

QUESTION FOUR

To	:	MD of ANN Co
From	:	Accountant
Date	:	XX.XX.XX
Subject	:	The financial position of IB Co LTD

Introduction

This report has been prepared on the basis of the three most recent income statements and balance sheets of IB Co Ltd covering the years 2013 to 2015 inclusive. Ratio analysis used in this report is based on the calculations shown in the appendix attached.

Debt and liquidity

The debt ratio measures the ratio of a company's interest bearing debt finance to its equity finance (shareholders' funds). Although we have no information as to the norm for the industry as a whole, the debt ratios appear reasonable. However, it should be noted that it has risen substantially over the three year period.

When reviewing IB Co's liquidity the situation has improved over the period. The current ratio measures a company's ability to meet its current liabilities out of current assets. A ratio at least 1 should therefore be expected IB Co Ltd did not meet this expectation in 2013 and 2014.

This ratio can be misleading, as inventory is included in current assets. Because inventory can take some time to convert into liquid assets a second ratio, the quick ratio, is calculated which excludes inventories. As can be seen, the quick ratio, although improving, is low and this shows that current liabilities cannot be met from current assets if inventories are excluded. As a major part of current liabilities is the bank overdraft, the company is obviously relying on the bank's continuing support with both short and long-term funding. It would be useful to find out the terms of the bank funding and the projected cash flow requirements for future funding.

Conclusion
The review of the three year financial statements for IB Co Ltd has given rise to a number of queries which need to be resolved before a useful conclusion can be reached on the financial position of IB Co Ltd. It may also be useful to compare IB Co's ratios to those of other companies in the same industry in order to obtain some idea of the industry norms.

Workings-Calculation of relevant ratios

		2013	**2014**	**2015**
Debt equity ratio	Debt/Equity x100	5000/14,434 x 100 34.6%	5,000/15,313 x100 = 32%	5,000/15,584x100 = 32%
Current ratio	Current assets/current liabilities	3,265/4,187 =0.78 :1	4,976/5,804 =0.86 :1	7,214/6,841 1.05 :1
Quick ratio	Current assets-inventories/current liabilities	3,265-1775/4,187 0.36 :1	4,976-2663/5,804 0.40 : 1	7,214-3,995/6841 0.47 :1

EXAMINER'S COMMENTS
The computation of the ratios could have been a bonus question but the omission of the Income statement from the question threw most of the candidates off.

QUESTION FIVE

(a) Dum and Sor

Statement of Profit or Loss for the year ended 31 December 2014

		Head Office GH¢		**Branch GH¢**
Sales		39,000		26,000
Less cost of goods sold				
Opening inventory	13,000		4,400	
Add purchases	37,000			
	50,000			
Goods to branch	(17,200)		17,200	
	32,800		21,600	
Closing inventory (14,440 + 800)	(15,240)		(6,570)	(15,030)
		17,560		
Gross profit		21,440		10,970
Bad debt provision not required				20
				10,990
Salaries	4,500		3,200	
Administrative expenses	1,440		960	
Carriage	2,200		960	
General expenses	3,200		1,800	
Provision for bad debts	50		-	
Depreciation	150		110	
Manager's commission		11,540	360	7,390
Net profit		9,900		3,600
				13,500

Appropriation of profits

Net profit b/d		13,500
Dum: Commission (w3)		900
Interest on Capital		
Dum: 6% x 14,000	840	
Sor: 6% x 4,000	240	1,080
		1,980
Balance of profits		
Dum: ¾ x 11,520	8,640	
Sor: ¼ x11,520	2,880	11,520
		(13,500)

(b) Dum and Sor

Statement of Financial Position as at 31 December 2014

	GH¢	**GH¢**
Non Current Assets		
Furniture	2,600	
Accumulated Depreciation	(1,110)	1,490
Current Assets		
Inventory (14,440+6,570+800)	21,810	
Trade Receivables (7,000+3,000)	10,000	
Provision for doubtful debts (600+200+50-20)	(830)	
Bank (600+2,400)	3,000	33,980
Total Assets		**35,470**
Equity and Liabilities		
Capital		
Dum	14,000	
Sor	4,000	18,000
Current Accounts		
Dum(wi)	7,880	
Sor(wi)	1,920	9,800
Total Equity		27,800
Current Liabilities		
Trade payables	6,200	
Bank overdraft	1,350	
Manager's commission (360-240)	120	7,670
Total Equity and Liabilities		**35,470**

c) **In the books of Head Office**

Branch Current Accounts

Balance per TB	6,800	Inventory in	800
Branch profit		Transit c/d	
Per Profit or Loss	3,600	Cash in transit	2,400
		Bal cld	7,200
	10,400		**10,400**

In the books of the Branch

Current Accounts

		Balance per TB	3,600
		Branch profit	
Balance c/d	7,200	Per Profit or Loss	3,600
	7,200		7,200

(wi) Current Accounts

	Dum	Sor
Drawings	(2,500)	(1,200)
Commission	900	-
Interest on Capital	840	240
Share of profits	8,640	2,880
	7,880	1,920

(w2) Manager's Commission

10,990 – (3,200+960+960+1,800+110)

10,990- 7,030 = 3,960

Commission = $\frac{10}{110} \times 3,960$

= 360

(w3) Dum's Commission

$\frac{10}{110} \times 9,900 = 900$

EXAMINER'S COMMENTS

The combination of a Partnership and Branch Accounts posed a total confusion in the minds of most candidates. This could have been a bonus question but then candidates showed total ignorance in the preparation of partnership accounts.

CONCLUSION

The academic standard of candidates entering the exams at this level appears to be falling hence the poor performance in the subject. Candidates are therefore advised not to take the examinations for granted. They should ensure that they have completed the syllabus and worked through series of questions before registering for the examinations. On the examiners and moderators, there is the need for the Institute to organise a training/refresher course for us so that the basic challenges in marking and collating of marks can be overcome.