MAY 2017 PROFESSIONAL EXAMINATIONS
FINANCIAL REPORTING (PAPER 2.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

The general performance of most of the candidates was below average. It showed that they were not prepared and ready for the examination. They showed lack of understanding of the International Financial Reporting Standards and basic double entry principles. Candidates with high understanding of the Accounting Standards scored high marks especially in questions two and five. The orderly and logical presentation of answers continued to be a challenge to most candidates.

STANDARD OF THE PAPER

The standard of the questions was good but could not be compared to those of the earlier diets administered in terms of volume of adjustments required. The questions covered all the relevant sections of the syllabus. All the questions reflected the weighting of the topics in the syllabus, and the mark allocations followed a similar pattern in the previous exams.

Questions one, three and four were without much complications. Questions 2 and 5 (c) and (d) were on the Accounting Standards and the volumes of work required were commensurate with the allotted time and marks.

The questions were not too loaded except questions four and five. For instance, in question four, the number of ratios to be computed and commented on for a 15 mark question was too loaded. There were no ambiguities or typing errors noted in the paper.

PERFORMANCE OF CANDIDATES

The general performance of the candidates was far below average. About 80% of the candidates scored less than 35% of the total marks while a candidate scored as low as 2%. The poor performance could be attributed to inadequate preparation by candidates, or the low standard achieved in their previous levels of studies. A few excellent candidates scored more than 70% of the total marks.

The high level of performance by candidates was concentrated in Kumasi, Cape Coast and a few in Accra. The low performers were concentrated in the rest of the regional centres including Accra where most of the candidates were.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

- Candidates who prepared adequately and were ready for the examinations scored above 50% and a few scored more than 70% of the total marks.
- The candidates' strengths were in the preparation of the Consolidated Statement of Financial position in question one, the Statement of Cash Flow in question three, and Ratio analysis in question four. These are areas which any serious candidate would not like to ignore while preparing for the exams.

- Suggested areas in which such strengths can be enhanced include the International Financial Reporting Standards.
- 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 of preparation and the basic foundational knowledge for most of the candidates entering the examinations at this level.

QUESTION ONE

Ghanbetter is 90% subsidiary of Asonbata that was acquired one year ago for GH¢4billion when the retained earnings of Ghanbetter were GH¢800 million. Below are the financial statements of the companies.

Statement of Profit or Loss for the year ended 31 December, 2016

	Asontaba	Ghanbetter
	GH¢'million	GH¢'million
Revenue	20,000	4,000
Cost of sales	(12,000)	(2,000)
Gross profit	8,000	2,000
Distribution cost	(2,100)	(300)
Administration	(1,400)	(500)
Operating profit	4,500	1,200
Exceptional gain	Nil	580
Investment income	90	Nil
Finance costs	(600)	(150)
Profit before tax	3,990	1,630
Tax	(700)	(130)
Profit for the year	3,290	1,500

Statement of Financial Position as at 31 December, 2016

	Asontaba	Ghanbetter
	GH¢'million	GH¢'million
Investment in Ghanbetter	4,000	-
Other Assets	20,000	5,000
	24,000	5,000
Shared Capital (GH¢ 1)	5,000	1,000
Retained Earnings	15,690	2,200
Equity	20,690	3,200
Liability	3,310	1,800
	24,000	5,000

Additional information:

i) During the year Asonbata sold goods to Ghanbetter for GH¢100 million. These goods were sold at a margin of 20% and one quarter remained in inventory at the year-end.

ii) During the year Ghanbetter sold goods to Asonbata for GH¢180 million. These goods were sold at a mark-up of 50% and one half remained in the inventory at the year -end.

iii) At the year-end there were no outstanding inter-company current account balances.

iv) At the date of acquisition the fair value of Ghanbetter's net assets were equal to their carrying value with the exception of an item of plant that had a fair value of GH¢200 million in excess of its carrying value and a remaining useful life of four years.

v) Goodwill is to be calculated using the proportionate basis. An impairment review at the year-end reveals that no impairment loss arose.

vi) Both companies have paid a divided during the year. The dividend distributed by Asonbata was GH¢200 million and that of Ghanbetter GH¢100 million. The investment income that Asonbata has recognised is the dividend received from Ghanbetter Shortly before the year-end.

Required:
Prepared the Consolidated Statement of Financial Position, Statement of Changes in Equity, and Consolidated Statement of Profit or Loss for Asonbata for the year ended 31 December, 2016. **(20 marks)**

QUESTION TWO

a) Akakpo Ltd obtained a license free of charge from the government to dig and operate a gold mine. Akakpo Ltd spent GH¢6 million digging and preparing the mine for operation and erecting buildings on site. The mine commenced operations on 1 September 2014. The license requires that at the end of the mine's useful life of 20 years, the site must be reclaimed, all buildings and equipment must be removed and the site landscaped. At 31 August 2015, Akakpo Ltd estimated that the cost in 19 years' time of the removal and landscaping will be GH¢5 million and its present value is GH¢3 million.

On 31 October 2015, there was a massive earthquake in the area and Akakpo Ltd's mine shaft was badly damaged. It is estimated that the mine will be closed for at least six months and will cost GH¢1 million to repair.

Required:

i) Demonstrate how Akakpo Ltd should record the cost of the site reclamation as at 31 August 2015 in accordance with ***IAS 37 Provisions, Contingent Liabilities and Contingent Assets***. **(3 marks)**

ii) Explain how Akakpo Ltd should treat the effects of the earthquake in its financial statements for the year ended 31 August 2015 in accordance with ***IAS 10 Events after the Reporting Period***. **(2 marks)**

b) The following costs were incurred in 2016 in the design and construction of a new office building over a nine-month period during 2016:

	GH¢000
Feasibility study	8
Architects' fees	100
Site clearance (by external demolition professionals)	80
Construction materials	600
Cost of own inventories used in the construction (net realisable value if sold outside the company GH¢24,000)	30
Internal construction staff salaries during period of construction	360
External contractor costs	2,400
Income from renting out part of site as storage depot during early phase of construction	(12)
	3,566

Required:

In accordance with ***IAS 16 Property, plant and equipment,*** calculate the amount that should be capitalised as property in the financial statements for the year ending 31 December 2016. **(4 marks)**

c) The draft financial statements for the year ended 31 March 2015 for Kobby Ltd include the following:

	GH¢000
Statement of comprehensive income (extract)	
Income tax expense	850
Notes to the accounts:	
Over provision for the year to 31 March 2014	(50)
Estimate of tax due for the year to 31 March 2015	700
Increase in deferred tax provision for the year to 31 March 2015	200
	850
Statement of cash flows (extract)	
Tax paid in the year to 31 March 2015	600

Required:

i) Explain how deferred tax arises. **(2 mark)**

ii) Identify the most likely reason for the increase of GH¢200,000 in the deferred tax provision for the year to 31 March 2015. **(2 marks)**

iii) Explain what the over provision of GH¢50,000 in the income statement represents. **(2 marks)**

d) Bawaleshie Ltd controls the following financial assets at its reporting date of 31 January 2017:

i) An investment in the equity shares of Obojo Ltd was purchased during April 2016 for GH¢2.6 million. The fair value of this investment at 31 January 2017 was GH¢2.8 million. Bawaleshie Ltd decided at the date of purchase to recognize any fair value gains and losses through other comprehensive income. **(2 marks)**

ii) An investment in a bond issued by Shiashie Ltd on 1 February 2016. This bond cost GH¢10 million (equal to its par value) and entitles Bawaleshie Ltd to 8% interest per annum on the anniversary of the bond's issue. The principal is to be returned on 31 January 2021. It is the intention of Bawaleshie Ltd to retain the bond in order to collect the contracted cash flows on the due dates. **(3 marks)**

Required:
Recommend how the above financial assets should be accounted for at 31 January 2017 in accordance with the requirements of ***IFRS 9 Financial Instruments.***

(Total: 20 marks)

QUESTION THREE

The following information has been taken from the financial statements of Haruna Ltd, a listed company for the year ended 31 March 2017.

Statement of Profit or Loss and Other Comprehensive Income (extracts) for the year ended 31 March, 2017.

	GH¢'000
Profit before interest and tax	981
Finance costs	(108)
Profit before tax	873
Income tax expense	(305)
Profit for the year	568
Other Comprehensive income	
Revaluation surplus on property, plant and equipment	418
Total comprehensive income	**986**

Statements of Financial Position as at 31 March

	2017	**2016**
Assets	**GH¢'000**	**GH¢'000**
Non-current assets:		
Property, plant and equipment	11,250	10,500
Intangibles	500	452
	11,750	10,952
Current assets:		
Inventories	840	1,125
Trade and other receivables	260	210
Investments	38	18
Cash and cash equivalents	5	30
	1,143	1,383
Total assets	**12,893**	**12,335**

Equity and Liabilities		
Equity		
Ordinary share capital	6,000	5,250
Share deals account	1,800	1,425
Revaluation surplus	750	356
Retained earnings	2,011	3,369
	10,561	10,400
Non-current liabilities:		
Preference share capital (redeemable)	760	600
Current liabilities:		
Trade and other payables	222	210
Taxation	600	525
Ordinary dividend payable	750	600
	1,572	1,335
Total equity and liabilities	**12,893**	**12,335**

Statement of Changes in Equity for the year ended 31 march 2017 (Extract)

	Retained Earnings GH¢'000	**Revaluation Surplus GH¢'000**
Balance at 1 April 2016	3,369	356
Dividends declared	(1,950)	
Total comprehensive income for the year	568	418
Transfer from revaluation surplus to retained earnings	24	(24)
Balance as 31 March 2017	**2011**	**750**

The following additional information is relevant:

i) During the year Haruna Ltd issued both ordinary shares and redeemable preference shares for cash.

ii) Investments classified as current assets are held for the short term and are readily convertible into the stated amounts of cash on demand.

iii) During the year, Haruna Ltd sold plant and equipment with a carrying amount of GH¢840,500 for GH¢900,000. Total depreciation charges for the year amounted to GH¢1,100,000. Plant costing GH¢50,000 was purchased on credit. The amount is included within trade and other payables.

iv) Trade and other payables include accrued interest of GH¢5,000 as at 31 March 2017 (2016: GH¢10,000).

v) Intangibles relate to development costs capitalised in accordance with ***IAS 38 Intangible Assets***. Costs amounting to GH¢70,000 were capitalised during the year.

Required:
Prepare a Statement of Cash Flows for Haruna Ltd for the year to 31 March 2017 in accordance with ***IAS 7 Statement of Cash Flows***. **(20 marks)**

QUESTION FOUR

The following information has been extracted from the recently published accounts of Diamond Ltd and Shine Ltd.

Statement of profit or loss for the year ended 31 December 2016

	Notes	**Diamond Ltd** GH¢'000	**Shine Ltd** GH¢'000
Revenue	1	6,950	4,900
Operating profit	1	2,100	1,780
Interest	2	(1,059)	(890)
Profit before taxation		1,041	890
Income tax expense		(750)	(320)
Profit for the year		291	570

Statement of financial position as at 31 December 2016

	Notes	**Diamond Ltd** GH¢'000	**Shine Ltd** GH¢'000
Assets			
Non-current assets			
Property plant and equipment		5,180	4,772
Current assets			
Inventory		465	305
Receivables	3	1,160	815
Cash at bank and in hand		1,240	908
		2,865	2,028
Total assets		8,045	6,800
Equity and liabilities			
Equity			
Share capital (GH¢1 ordinary shares)		3,050	3,140
Retained earnings		2,450	1,805
		5,500	4,945
Non-current liabilities			
21% loan notes		1,380	1,250
Current liabilities	4	1,165	605
Total liabilities		2,545	1,855
Total equity and liabilities		8,045	6,800

Notes (to the accounts)

		Diamond Ltd	Shine Ltd
		GH¢'000	GH¢'000
1)	**Sales Revenue and Profit**		
	Sales revenue	6,950	4,900
	Cost of sales	(3,500)	(2,200)
	Gross profit	3,450	2,700
	Administration/distribution expenses	(1,350)	(920)
	Operating profit	2,100	1,780
	Depreciation charged	380	190
2)	**Interest**	GH¢'000	GH¢'000
	Amount payable on bank overdrafts	545	410
	Amount payable on loan stock	660	570
		1,205	980
	Receivable on short term deposits	146	90
	Net payable	1,059	890
3)	**Receivables**	GH¢'000	GH¢'000
	Amounts falling due within one year		
	Trade receivables	850	670
	Prepayments and accrued income	310	145
		1,160	815
4)	**Current Liabilities**	GH¢'000	GH¢'000
	Trade payables	450	220
	Accruals and deferred income	285	190
	Corporate taxes	430	195
		1,165	605
		GH¢'000	GH¢'000
5)	**Dividends Paid**	820	550

The following are the latest industry average ratios:

		Industry average
	Name of ratio	
1)	Profit margin	35.0%
2)	ROCE	30.0%
3)	Return on equity	20.0%
4)	Current ratio	2.50
5)	Quick ratio	2.00
6)	Interest cover	2.50
7)	Debt to equity	45%
8)	Accounts receivable collection period	30 days
9)	Accounts payable payment period	45 days
10)	Inventory turnover period	40 days

Required:

a) Calculate comparable ratios (to two decimal place where appropriate) for the two companies. All calculations must be clearly shown.

b) As the Financial Controller of Shine Ltd, write a report to the Managing Director analyzing the performance of your company, comparing the results against that of Diamonds Ltd (a key competitor) and against the industry average using the following measures:
- Profitability
- Liquidity
- Gearing
- Efficiency. **(15 marks)**

QUESTION FIVE

a) Compare and contrast ***Hire Purchase*** and ***Lease*** as a mode of acquiring an asset. **(3 marks)**

b) OTL Ltd commenced business on 1 January 2015. The head office is in Ghana and there is a branch in Nigeria. The currency unit of Nigeria is the Naira (₦).

	Head Office Books		**Nigeria Branch Books**	
	Dr	Cr	Dr	Cr
	GH¢	GH¢	₦	₦
Branch account	65,280			
Balances at bank	10,560		1,056,000	
Creditors		21,120		1,478,400
Property, plant and equipment (NBV)	39,600		2,323,200	
Head Office				5,068,800
Profit or loss account (Net profit for the year)		52,800		1,267,200
Issued share capital		86,400		
Inventory	26,400		1,900,800	
Trade receivables	18,480		2,534,400	
	160,320	**160,320**	**7,814,400**	**7,814,400**

Additional Information:

The trial balance of the head office was prepared before any entries had been made in respect of any profits or losses of the branch. Remittances from head office to branch and from branch to head office were recorded in the books at the actual amounts paid and received.

The rates of exchange were:
On 1 January 2015 ₦80 = GH¢1
Average rate for year 2015 ₦70.4= GH¢1
On 31 December 2015 ₦64 = GH¢1

Required:

i) Prepare the Trial Balance of the Nigeria branch as at 31 December 2015, in Ghana cedi;

ii) The closing entries, as at 31 December 2015, in the branch account in the books of the head office; and a summary of the Statement of Financial Position of OTL Ltd as at 31 December 2015. **(12 marks)**

c) Generally there are advantages of global harmonisation of financial reporting standards to countries around the world including Ghana.

Required:

Identify **THREE** advantages and **THREE** disadvantages of International Harmonisation of accounting standards to multi-national companies operating in Ghana. **(6 marks)**

d) The conceptual framework includes the ***measurement bases*** of the elements of the financial statements together with recognition criteria for them.

Required:

Explain the **FOUR** bases of measurement used in the financial statements. **(4 marks)**

(Total: 25 marks)

MARKING SCHEME

QUESTION ONE

ASONTABA

W1 Group Structure

Asontaba

↓ Parent's interest 90%
NCI 10%

The acquisition was one year ago and so there will be no need to time apportion the results of Ghanbetter

Ghanbetter

Unsold inventory at the year-end ($^1/_4$ × GH¢100m)	×	Gross profit margin 20%	= GH¢5m
Unsold inventory at the year-end ($^1/_2$ × GH¢180m)	×	Gross profit margin 50/150	=GH¢30m

W2 Net Assets

	At acquisition	**At year-end**	**Post-acquisition Profits**
	GH¢million	**GH¢million**	**GH¢million**
Share Capital	1,000	1,000	
Retained earnings	800	2,200	1,400
Fair value adjustment	200	200	
Depreciation ($^1/_4$× 200)		(50)	(50)
Less the purp (180m X1/2) X50/150)subsidiary is the seller)		(30)	(30)
Total	2,000	3,320	1,320

OR

Post-acquisition profits = 3320-2,000 = GH¢1.32 billion

W3 Goodwill

		GH¢million
FV of parent's investment		4,000
Net assets at acquisition w2 (2,000 x 90%)		(1,800)
		2,200

OR

FV of parent's investment		4,000
NCI at acquisition - as a proportion of net assets	(10% × 2,000)	200
Less the subsidiary's net assets at acquisition		2,000
Goodwill at acquisition - attributable to the parent		2,200
Less impairment loss		nil
Goodwill at the reporting date		**2,200**

W4 NCI

		GH¢million
NCI at acquisition as a proportion of net assets	(10% × 2,000)	200
Plus the NCI% of the subsidiary's post-acquisition profits	(10% × 1,320)	132
NCI at the reporting date		332
OR		
NCI at acquisition as a proportion of net assets at reporting	(10% × 3,320)	332

W5 Group retained earnings

		GH¢million
Parent's retained earnings		15,690
Less the PURP (parent is seller)		5
Plus the parent's % of the post-acquisition profits	(90% × 1,320)	1,188
		16,873

W6 Assets

Assets	**GH¢million**
Parent	20,000
Subsidiary	5,000
Fair value adjustment	200
less depreciation	(50)
Less PURP (parent is seller)	(5)
Less PURP (subsidiary is seller)	(30)
	25,175

NB: since the question did not provide details of current assets, all adjusting relating to current assets (.i.e. PURP) will me made direct on assets.

W7 Cost of Sales

Cost of sales	**GH¢million**
Parent	12,000
Subsidiary	2,000
less the inter-company	(100)
less the inter-company	(180)
Plus the PURP (parent is seller)	5
Plus the PURP (subsidiary is seller)	30
Plus the additional depreciation	50
	13,805

W8 Profit for the year attributable to the NCI

	GH¢million
NCI % of the subsidiary's profits (10% × 1,500)	150
less the NCI % of depreciation on FVA (10% × 50)	(5)
less the NCI % of the PURP (subsidiary is seller) (10% × 30)	(3)
	142

Asontaba Group
Statement of Financial Position as at 31 December, 2016

		GH¢million
Goodwill	w3	2,200
Assets	w6	25,115
		27,315
Share capital (GH¢1)		5,000
Retained earnings	w5	16,873
NCI	w4	332
Equity		22,205
Liabilities	(3,310 + 1,800)	5,110
		27,315

Asontaba Group
Statement of Profit or Loss account for the year ended 31 December, 2016

		GH¢million
Revenue	(20,000 + 4,000 less inter-company 100 and less inter-company 180)	23,720
Cost of Sales	w7	(13,805)
Gross profit		9,915
Distritbution costs	(2,100 + 300)	2,400
Administration expenses	(1,400 + 500)	1,900
Operating profit		5,615
Exceptional gain	(0 + 580)	580
investment income	(90 less inter-company 90)	nil
Finance costs	(600 + 150)	750
Profit before tax		5,445
Tax	(700 + 130)	830
Profit for the year		**4,615**
Attributable to the parent	Balancing figure	4,473
Attributable to the subsidiary	w8	142
Profit for the year		**4,615**

Asontaba Group
Statement of Changes in Equity for the year ended 31 December 2016

	Share Capital	Retained Earnings	NCI	Total Equity
	GH¢m	**GH¢m**	**GH¢m**	**GH¢m**
Opening balance	5,000	12,600	nil	17,600
Acquisition of a subsidiary			200	200
Profits for the year		4,473	142	4,615
Less dividends		200	(10)	(210)
Closing balance	5,000	16,873	332	22,205

		GH¢m
Opening retained earnings of Asontaba	Balancing figure	12,600
Plus the profit for the year	Per statement of profit or loss	3,290
Less dividends	Per note 6	200
Year-end retained earnings	Per statement of financial position	15,690

(20 marks spread evenly using ticks)

EXAMINER'S COMMENTS

Most candidates scored less than 50% of the total marks. The Consolidated Financial Position could have been a bonus question and candidates could have scored the maximum marks but most of them failed woefully. The preparation of the Statement of Changes in Equity, the calculation of the Net Assets, Goodwill and Non-Controlling Interest were poorly handled. However, a few candidates scored the maximum marks, confirming their preparedness.

QUESTION TWO

a)

i) ***IAS 37 Provisions, contingent liabilities and contingent assets*** requires that future costs of reinstatement be provided for as soon as they become an unavoidable commitment. The mine's license requires the work to be done, so there is a commitment as soon as the mine starts operations. The present value of the full cost must be provided for. **GH¢ 3 million will be credited to provisions and added to the cost of the non-current asset**. **(3 marks)**

ii) The earthquake occurred after the end of the accounting period. Assets and liabilities at 31 August 2014 were not affected. The earthquake is indicative of conditions that arose after the reporting period and does not give any further evidence in relation to assets and liabilities in existence at the reporting date. Therefore according to ***IAS 10 Events after the reporting period*** it will be classified as a **non-adjusting event after the reporting period**. The cost of the repairs will be charged to the Statement of comprehensive income in the period when it is incurred. Due to the impact on Akakpo Ltd, i.e. closure and loss of earnings for 6 months, the earthquake and an estimate of its effect will need to be disclosed by way of a note in Akakpo Ltd's financial statements for the year ended 31 August 2015. **(2 marks)**

b)

	GH¢'000
Feasibility study – expensed by analogy with SIC-32 para 2(a)/9(a) in accordance with IAS 8 para 11(a)	-
Architects' fees (IAS 16 para 17(b))	100
Site clearance (IAS 16 para 17(b))	80
Construction materials	600
Cost of own inventories used in the construction (IAS 2 is applied first before use on the project)	24
Internal construction staff salaries (IAS 16 para 17(a))	360
External contractor costs	2,400
Income from renting out part of the site as storage depot during early phase of construction (IAS 16 para 21)	-
	3,564

(4 marks)

c)

i) **Deferred tax** is the estimated future tax consequences of transactions and events that have been recognized in the financial statements of the current and previous periods. Deferred tax arises due to the **temporary differences between the accounting profit and the taxable profit**. The temporary differences cause the carrying value of some items in the statement of financial position to be different from their tax base (the amount recognized for tax calculation). **(2 marks)**

ii) Kobby Ltd's statement of comprehensive income shows an increase in deferred tax, this suggests that temporary differences in the year to 31/3/2015. The main reason was probably an increase in non-current assets causing the tax depreciation to increase more than the accounting depreciation for the year to 31/3/2015, thus causing the increase of GH¢200,000 in deferred tax provision. **(2 marks)**

iii) Current tax is the estimated amount of corporate income tax payable on the taxable profits of the entity for the period. The amount of current tax is accrued in the financial statements and carried forward as a current liability to the next accounting period when it will be paid. When the tax is paid there will usually be a difference between the amount paid and the amount accrued. If the amount paid is less than the amount accrued there will be an over provision of income tax. The amount over provided will be an adjustment to the income tax expense in the following period. In Kobby Ltd, the current tax estimate for year to 31 March 2014 was GH¢650,000, the statement of cash flows shows that GH¢600,000 was paid in the following period leaving a balance of GH¢50,000 over provided. **(2 marks)**

d)

(i) The investment is revalued to fair value at the reporting date. A gain of GH¢200,000 results. This is recognised in other comprehensive income, as the entity made an election to do so at the date of purchase.

31 Jan 2017 Dr Financial assets	GH¢200,000	
Cr Other comprehensive income / reserves		GH¢200,000

(Fair value gain on investment in shares of another entity)

(ii) As the cash flows due to Bawaleshie under the terms of the bond consist solely of interest and principal, the amortised cost method should be applied. Interest earned during the year ended 31 January 2017 is GH¢800,000 (8% of GH¢10m).
As this is not payable until the anniversary of the bond's issue (1 February 2017), an accrual must be made for this amount. The fair value of the bond at 31 January 2017 is therefore irrelevant.

31 Jan 2017 Dr Interest receivable (current asset)	GH¢800,000	
Cr Profit or loss		GH¢800,000

(Interest accrued to Bawaleshie Ltd on bond investment)

(5 marks)

(Total: 20 marks)

EXAMINER’S COMMENTS

Most of the candidates could not apply their understanding of the issues raised in the various IFRS statements given. This resulted in the loss of vital marks. Some of them never attempted the question.

a) i) Most of the candidates could not apply IAS 37 to record the cost of the site reclamation.

ii) Similarly, candidates could not explain the treatment of Events after the Reporting Period in the Financial Statements.

b) Only a few candidates were able to score the maximum marks in calculating the amount to be capitalised as the cost of the property in the financial statement.

c) i) Only a few candidates were able to explain effectively deferred tax and how it could come about.

ii) Most of the candidates could not identify the probable reasons of the increase of GH¢800,000 in the year as increase in non-current assets resulting in an increase in the Capital Allowances as compared to the depreciation in the financial statement.

iii) The explanation as to how the over provision of GH¢50,000.00 came about and what it represented could not be explained.

d) i) This approach to this sub question was above average. Candidates were able to discuss how to account for the gain in the books.

ii) Most of the candidates passed the correct entries on the interest earned by crediting other Income and debiting Interest Receivable. A few however wrongly debited the Investment Account.

The recording of the above two transactions by a journal entry with narrations could have earned the candidates the maximum marks.

QUESTION THREE

Haruna Ltd

a) Statement of cash flows for the year ended 31 March 2017

	GH¢'000	GH¢'000
Cash flows from operating activities		
Profit before tax	873	
Finance cost	108	
Depreciation charge	1,100	
Amortisation charge (W4)	22	
Profit on disposal of PPE (900-840.5)	(59.5)	
Decrease in Inventories (1,125-840)	285	
Increase in trade and other receivables(210-260)	(50)	
Increase in trade and other payables (W7)	33	
Cash generated from operations	2,245	
Interest paid (W2)	(113)	
Income tax paid (W1)	(230)	
Net cash from operating activities		1,952.5
Cash flows from investing activities		
Purchase of property, plant and equipment (W3)	(2222.5)	
Purchase of intangibles	(70)	
Proceeds from sale of property, plant and equipment	900	
Net cash used in investing activities		(1,442.5)
Cash flow from financing activities		
Proceeds from issue of ordinary share capital (6,000+1,800)-(5,250+1,425)	1,125	
Proceeds from issue of redeemable preference share (760-600)	160	
Dividends paid (W6)	(1,800)	
Net cash used in financing activities		(515)
Net increase in cash and cash equivalents		(5.0)
Cash and cash equivalents at beginning (30+18)		48
Cash and cash equivalents at close (38+5)		43

W1 **Income Tax**

	GH¢'000		GH¢'000
Cash paid	230	Bal b/d	525
Bal C/d	600	Income statement	305
	830		830

W2 **Finance Cost**

	GH¢'000		GH¢'000
Cash	**113**	**Bal b/d**	**10**
Bal c/d	**5**	**Income Statement**	**108**
	118		**118**

W3

PPE

	GH¢'000		GH¢'000
Bal b/d	10,500.0	Disposals	840.5
Revaluation surplus (W5)	418.0	Income statement	1,100.0
Purchased on credit	50.0	Bal b/d	11,250.0
Cash	2,222.5		-
	13,190.5		13,190.5

W4

Intangibles

	GH¢'000		GH¢'000
Cash	70	Bal b/d	500
Bal b/d	452	Income statement	22
	522		522

W5

Revaluation Surplus

	GH¢'000		GH¢'000
Retained earnings	24	Bal b/d	356
Bal c/d	750	PPE	418
	774		774

W6

Ordinary Dividends

	GH¢'000		GH¢'000
Cash	1,800	Bal b/d	600
Bal c/d	750	Retained earnings	1,950
	2,550		2,550

W7 Trade and other payables (excluding interest accrual and payables in respect of PPE)

Opening GH¢210,000 – GH¢10,000 = GH¢200,000
Closing GH¢222,000 – GH¢5,000 – GH¢50,000 = GH¢167,000
Increase = GH¢33,000

(20 marks evenly spread using ticks)

EXAMINER'S COMMENTS

The approach to the preparation of a Statement of Cash Flows was far below expectation. The question was straight forward with a few adjustments. This is an area candidates have not been tested for some time.

QUESTION FOUR

a) Diamond Ltd and Shine Ltd

i. Ratios

		Diamond		Shine	
Name of ratio	**Formula**				
Profit margin	PBIT/revenue x 100%	2,100 x100 / 6,950	30.22%	1,780x100 / 4,900	38.16%
ROCE	PBIT/CE x 100%	2,100 x100 / 6,880	32.65%	1,780*100 / 6,195	30.19%
Return on equity	PAT & Div/Equity shareholders' funds	291/5,500	5.29%	570/4,945	11.53%
Current ratio	CA/CL	2,865/1,165	2.46	2,028/605	3.35
Quick ratio	(CA-Inventory)/CL	(2,865 - 465)/1,165	2.06	(2,028 - 305)/605	2.85
Interest cover	PBIT/Interest charges	2,100/1,205 Or 2,100/660 3.18	1.86	1,780 /980 Or 1780/570 3.12	1.91
Debt to equity	Debt/Equity	1,380/5,500	25.09%	1,250/4,945	25.28%
Accounts receivable collection period (days)	Trade receivables/sales x 365	850/6,950 x 365	44.64	670/4,900 x 365	49.91
Accounts payable payment period (days)	Trade payables/cost of sales x 365	450/3,500 x 365	46.93	220/2,200 x 365	36.50
Inventory turnover period (days)	Inventory/cost of sales x 365	465/3,500 x 365	48.49	305/2,200 x 365	50.60

(6 marks spread evenly using ticks)

ii. Report to the Managing Director

To: Managing Director

From: Financial Controller

Subject: Analysis of performance for the year 2015

This report should be read in conjunction with the appendix attached which shows the relevant ratios.

(1 mark)

Profitability

Profit margin is one of the key indicators used to evaluate a company's performance as this margin calculates a company's net income as a percentage of the company's sales. Several factors directly contribute to the change in a company's net profit margin. A high profit margin shows that a company can convert sales into profits. The net profit margin also considers all of the costs associated with the sale of the products. Profit margin was better than that of our competitor Diamond Ltd as well as the industry average. This suggest that if we increase sales, there will be more profits for the company.

Return on Capital Employed is very useful for companies that require large amounts of capital to facilitate production, otherwise known as capital-intensive industries. Return on capital employed was bit lower than that of Diamond just approximating the industry average .Options available to the company to improve on its return on capital employed (ROCE) ratio include reducing costs, increasing sales, and paying off debt or restructuring financing.

Return on equity (**ROE**) is a measure of profitability that calculates how many Ghana cedis of profit a company generates with each Ghana cedi of shareholders' **equity.** ROE compared to the industry average of 20% was quite lower. This is bad even though it's significantly higher than that of Diamond. Return on equity can be improved if asset turnover, financial leverage and profit margins are properly managed by the company.

(2 marks)

Liquidity

The current and quick ratios performed better than the industry and that of Diamond. The higher the current ratio, the more capable the company is of paying its obligations, as it has a larger proportion of asset value relative to the value of its liabilities. This suggests that Shine has no short term liquidity challenges and should have no difficulty in paying short term debts as they fall due.

(2 marks)

Gearing

Gearing focuses on the capital structure of the business – that means the proportion of finance that is provided by debt relative to the finance provided by equity (or shareholders). However, it focuses on the long-term financial stability of a business**.** Our interest cover although slightly below the industry average it is marginally higher than that of Diamond. This also shows the company's ability to adequately settle interest charges.

The debt to equity ratio compares favourably with Diamond and is significantly lower than industry average. The higher the level of borrowing (gearing) the higher are the risks to a business, since the payment of interest and repayment of debts are not "optional" in the same way as dividends. However, gearing can be a financially sound part of Shine's capital structure particularly if the business has strong, predictable cash flows.

(2 marks)

Efficiency

Average collection period is worse off than both Diamond's and the industry average. Our longer credit days is yet to translate into higher sales for us compared to Diamond. More effort is required at the Credit Control Unit to reduce the collection period.

Although we collect from our debtors latter than Diamond and industry, we pay our suppliers earlier than both. We need to negotiate better credit terms form our suppliers to match the industry norm. The inventory days on hand is higher than industry and Diamond's. There is the possibility of having some obsolete items in store. This high level of inventory has been financed by increased overdraft which may reduce if the inventory levels can be managed down.

(2 marks)

Signed: Financial Controller.

(Total: 15 marks)

EXAMINER'S COMMENTS

This could have been a bonus question but as usual a few candidates handled the question as if it was their first time of coming across a question on ratio analysis. A few stated the formulae correctly but could not identify the figures from the financial statement given.

On the presentation of the report, most of them compared the performance of the two companies and related the performance to the Industry Average. A few others ignored the requirement of rounding off to two decimal places.

QUESTION FIVE

a) Hire Purchase and Leasing

- An arrangement to finance the use of the asset, in which one party pays consideration to the other party in periodical installments, is known as Hire purchasing. Leasing is a business deal in which one party buys the asset and grants the other party to use it, in return for lease rentals.
- In Hire Purchasing, the ownership is transferred to the hirer only if he pays the outstanding installments. On the other hand, in a finance lease, the lessee gets the option to buy the asset at the end of the term by paying a nominal amount, but in operating lease, there is no such option available to the lessee.
- Leasing is governed by International Financial Reporting Standard (IFRS)- IAS 17, IFRS 16 whereas there is no specific accounting standard for Hire Purchase.
- Hire purchase is a must in hire-purchasing but not in leasing.
- The duration of leasing is longer than hire purchase.
- The installment paid in hire purchasing includes the principal amount and interest. In contrast to leasing where the lessee has to pay the cost of using the asset only.

(Any 3 points for 3 marks)

b)

i)

Nigeria Branch
Trial Balance as at 31 December 2015

			Dr	**Cr**
	₦	**Rate**	**GH¢**	**GH¢**
Balances at bank	1,056,000	64	16,500	
Creditors	1,478,400	64		23,100
Fixed Assets purchased on 1/01/2014	2,323,200	80	29,040	
Head Office	5,068,800	Actual		65,280
Profit or loss account (Net profit for the year)	1,267,200	70.4		18,000
Inventory	1,900,800	64	29,700	
Trade receivables	2,534,400	64	39,600	
Exchange Difference				8,460
			114,840	**114,840**

ii)

Books of Head Office

	GH¢		GH¢
Bal b/d	**65,280**	**Bal c/d**	**91,740**
Exchange Difference	**8,460**		
Net Profit	**18,000**		
	91,740		**91,740**

iii)

Statement of financial position as at 31 December 2015

Non-current assets	**GH¢**	**GH¢**
Property, plant and equipment (39,600+29,040)		68,640
Current Assets		
Inventory (26,400+29,700)	56,100	
Trade receivables (18,480+39,600)	58,080	
Bank (10,560+16,500)	27,060	
	141,240	
Less current liabilities		
Trade payables (21,120 +23,100)	(44,220)	97,020
		165,660
Financed by:		
Capital		86,400
Reserves (52,800+18,000)	70,800	
Exchange difference	8,460	79,260
		165,660

(12 marks to be spread evenly using ticks)

b) Alternative solution

i)

Nigeria Branch
Trial Balance as at 31 December 2015

			Dr	Cr
	₦	**Rate**	**GH¢**	**GH¢**
Balances at bank	1,056,000	64	16,500	
Creditors	1,478,400	64		23,100
Fixed Assets	2,323,200	64	36,300	
Head Office	5,068,800	Actual		65,280
Profit or loss account (Net profit for the year)	1,267,200	70.4		18,000
Inventory	1,900,800	64	29,700	
Trade receivables	2,534,400	64	39,600	
Exchange Difference				15,720
			122,100	**122,100**

ii)

Books of Head Office

	GH¢		GH¢
Bal b/d	**65,280**	**Bal c/d**	**99,000**
Exchange Difference	**15,720**		
Net Profit	**18,000**		
	99,000		**99,000**

iii)

Statement of financial position as at 31 December 2015

Non-current assets	**GH¢**	**GH¢**
Property, plant and equipment (39,600+36,300)		75,900
Current Assets		
Inventory (26,400+29,700)	56,100	
Trade receivables (18,480+39,600)	58,080	
Bank (10,560+16,500)	27,060	
	141,240	
Less current liabilities		
Trade payables (21,120 +23,100)	(44,220)	97,020
		172,920
Financed by:		
Capital		86,400
Reserves (52,800+18,000)	70,800	
Exchange difference	15,720	86,520
		172,920

(12 marks to be spread evenly using ticks)

c) Advantages and Disadvantages of International Harmonisation of accounting standards

Advantages of Harmonization

- The first and most important advantage of harmonization of reporting standards is **to achieve comparability in financial statements**. Due to different sets of financial reporting standards, the way financial statements prepared and presented are different from each other which make it complicated to compare them. This is even more noticeable in multinational companies when they operate in more than just one country. If international harmonization is achieved, the level of international comparability also increases making it easier for companies to prepare the financial statements under one set of rules; investors who understand the financial statements due to the nature of IFRS and make well thought investment decisions.

- **International Expansion**
  Moving to a single set of global financial standards would also ease barriers to expansion for companies. If companies wish to expand overseas today, they need to consider international costs of compliance, which could mean adopting a completely new set of accounting records to meet statutory requirements in the new country. In some cases, this would nearly double the company's accounting costs. For many small businesses, even the large rewards of moving overseas are dwarfed by these expansion costs.

- **Central Authoritative Body**
  From a policy-making standpoint, moving to a single set of global standards puts rule making into the hands of one body. Currently, accounting standards are set within each country by each standard-setting body, as well as by an international group. One set of standards would reduce disagreement between countries and international regulators, and it might also cut costs. In some countries, businesses are required to pay reporting fees that go to fund these standard-setting bodies. While the costs may not affect large companies, they can have a huge impact on a small business. Moving to a central authoritative body could reduce these costs drastically.

- There will be **increased auditing efficiency and money saving** as companies has to use only one set of reporting standards. This also serves to reduce trade barriers among countries allowing more access to international capital markets.

- Another advantage worth noting is the **consistency to be achieved under IFRS** as it was one of the objectives of IFRS as a single reporting standard. The consistency also contributes to better understanding between investors, lenders and other businesses as there will be the nature of predictability in place. Moreover, companies operating in different countries also can use their expertise and systems in all countries they are operating due to consistency of the reporting standards. Another benefit that derives from consistency is the time scale needed to implement in new countries as there will be no need to learn and adapt to new country specific rules except minor adjustments.

(Any 3 points for 3 marks)

Disadvantages of Harmonization

- **Cultural Differences**
  One of the criticisms of harmonized accounting standards is that the IASB has failed to fully take into account the cultural, political and social differences between countries. This is particularly relevant to their implementation in developing countries, where language barriers, attitudes toward accounting and other socio-cultural aspects may affect their interpretation and application. For example, when the harmonized standards were implemented in Jordan, they were first translated into Arabic. Even though technical accounting terms have been well-defined in Arabic, challenges arose when the English terminology was hard to interpret or used inconsistently and, therefore, difficult to translate accurately.

- **Worldwide Acceptance**
  National accounting standards are highly politicized and there is often a natural tendency to place the interests of the national economy ahead of those of the global economy. Private sector businesses and professional accounting bodies also have a vested interest in accounting practices and financial reporting. Pressure from these groups to change or reject certain standards can carry a lot of weight with political decision makers. Adopting international financial standards is met with

additional challenges in developing countries. They often lack the resources and infrastructure to adapt national legal and legislative frameworks in which to house the standards, making proper implementation difficult.

- **International Enforcement**
  The success of harmonized financial reporting depends on individual governments enforcing adherence to the international standards once they have been implemented. In 2008, the French authorities allowed the bank Société Générale to transfer some of its losses from 2008 to 2007, meaning its financial statement for 2008 looked much better than the reality. This provoked an international outcry, not the least from the IASB. When exceptions are made, it undermines the integrity of the whole system and renders it ineffective.

- **Training and Retraining**
  When a country decides to harmonize with the international standards, its companies, accountants and auditors need to be retrained in the new standards and reporting procedures for financial statements. College and university programs in this field also have to undergo significant changes in order to educate new people entering the profession. Before any of this can happen, trainers and professors will require training so they can instruct professionals and students. This will require the development of new learning materials and curricula, new examinations for professional licensing and new accounting software and reporting systems. To further complicate matters, the adoption of harmonized standards has to be phased in, so for a number of years, two different systems are in operation. Such a complex transition requires a lot of safety mechanisms to ensure it achieves uniform results.

- Another disadvantage of harmonization is when **there exists different economic environment** as harmonization could be considered useless. If a particular country has its own practice in place, and even though they adapt to use one of the international reporting standards, it could be more harmful to the country rather than make anything good. This is because the irrelevant element of the new reporting standard may be of no use and therefore may even introduce ambiguity and complication to that country's reporting standards.

(Any 3 points for 3 marks)
(6 marks)

d**) Measurement bases of elements of Financial Statement**

- **Historical cost** is whereby assets are recorded at the amount of cash or cash equivalents paid or fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amounts of proceeds received in exchange for the obligation, or in some circumstances at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

- **Current cost** whereby assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently, and liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

- **Realisable (settlement) value** is the amount of cash or equivalents that could currently be obtained by selling an asset in an orderly disposal. Settlement value is the undiscounted amounts of cash and cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.

- **Present value** is the presented discounted value of the future net cash flows in the normal course of business.

(4 points explained for 4 marks)

(Total: 25 marks)

EXAMINER'S COMMENTS

a) The approach to the sub question was good. The requirement of "compare and contrast made a few candidates write a full page for the three marks allocated.
b) The approach was well above average. Only a few candidates did not attempt the question and also could not apply the correct exchange rates in the translation.
c) The approach was below average. Only a few candidates were able to state the advantages and disadvantages of International Harmonisation of Accounting Standards. A few presented their answers using the principles of International Trade.
d) The bases of measurement of the elements of the financial statements were well handled. Most candidates who attempted it scored the maximum marks. However, a few stated the bases without any explanation and therefore lost a few vital marks.

CONCLUSION

There was enough evidence to show that candidates understood what was required, since there were no material deviations. Candidates presented wrong or contrary answers mainly because they did not know the expected answers, which reflected in their poor performance.

The academic standard of candidates entering the exams at this level appears to be on the decline 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.