NOVEMBER 2019 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 as usual below average. It showed that most of the candidates were not prepared and therefore not ready for the examination. They, however, showed some improvement in the understanding of Accounting Standards and the double entry principles. Candidates with higher 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 quite good, and compared favourably to those of the earlier years administered, except in terms of the volume of work required in questions three.
- 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.
- The amount of work required in questions one, two and four were commensurate with the time and marks allotted.
- Question three was quite loaded requiring more time.
- No typographical error was noted in the paper.
- There were no questions or sub-questions that were sub-standard or were deemed to be sub-standard.

Performance of Candidates

- The general performance of the candidates was far below average. About 80% of the candidates scored less than 40% of the total marks while a candidate scored as low as 3%. The poor performance could be attributed to inadequate preparation by the candidates, or the standard of understanding achieved in their previous levels of studies.
- There were no signs of copying.
- The level of preparedness of candidates for the examinations was low and it reflected in their poor performance.

Notable strengths and weaknesses of candidates

- Candidates who prepared adequately and were ready for the examinations scored above 50% of the total marks.
- The candidates' strengths were in the preparation of the Consolidated Income Statement in question one, Standards in question two, five and Ratio Analysis in question four. These are areas which any serious candidate would not like to ignore while preparing for the examinations.

- Suggested areas in which such strengths can be enhanced include the International Financial Reporting Standards (IFRS) and notes and adjustments in the preparation of financial statements.
- The general weaknesses shown were in respect of either lack of preparation or poor background of most of the candidates resulting in the inability to understand the additional information in respect of the question three.
- 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

a) The draft statements of financial position of Atia Ltd and that of Santana Ltd as at 30 June 2019 are as follows:

	Atia Ltd	Santana Ltd
Assets		
Non-current assets	**GH¢'000**	**GH¢'000**
Property, plant and equipment	196,000	42,000
Investments	60,000	-
	256,000	42,000
Current assets:		
Inventories	20,000	10,000
Trade receivable	19,000	8,500
Cash and bank balance	8,350	3,825
	47,350	22,325
Total assets	**303,350**	**64,325**
Equity and liabilities		
Ordinary share capital (issued at GHC1 each)	95,000	30,000
Retained earnings	105,000	18,250
Revaluation surplus	20,700	2,000
	220,700	50,250
Non-current liabilities:		
Deferred consideration	14,000	-
Current liabilities:		
Trade payables	30,000	9,500
Income tax payables	20,500	4,575
Accrued expenses	18,150	-
	68,650	14,075
	303,350	**64,325**

Additional relevant information:

i) On July 1, 2018, Atia Ltd purchased 21 million shares of Santana Ltd. At this date the retained earnings of Santana Ltd were estimated at GH¢17 million whereas the revaluation surplus was GH¢2 million respectively.

ii) Atia Ltd paid an initial amount of cash of GH¢46 million and agreed to pay the shareholders of Santana Ltd a further GH¢14 million on July 1, 2020. The financial accountant has recorded the full amounts of both elements of the consideration in the investments as shown in the statement of financial position.

iii) Atia Ltd has a cost of capital of 8% per annum.

iv) During the accounting period, Atia Ltd sold goods totaling an amount of GH¢4 million to Santana Ltd at a gross profit margin of 25%. At 30 June 2019, Santana Ltd still had a total of GH¢0.5 million of these goods in inventory. Atia Ltd has a normal margin usually to third party customers at 45%.

v) On the acquisition date, the fair values of Santana Ltd's net assets were equal to their carrying amounts with the exception of some inventory, which had cost GH¢ 1.5 million but had a fair value of GH¢1.8 million. On 30 June 2019, 10% of these goods remained in the inventories of Santana Ltd.

vi) It is the policy of Atia Ltd to value the non-controlling interest using the fair value method. For this purpose, the value of the non-controlling interest at acquisition date is estimated at GH¢7.5 million.

vii) Impairment test was conducted at the year end and no goodwill impairment occurred.

Required:
Prepare the consolidated statement of financial position of the Atia group as at 30 June 2019.

(20 marks)

QUESTION TWO

a) Daaho Ltd (Daaho) manufactures and distributes security equipment. Daaho prepares financial statements in accordance with International Financial Reporting Standards (IFRS) up to 31 August each year.

On 31 August 2019, the taxation liability account in the books of Daaho Ltd showed a debit balance of GH¢17,500 after paying the 2018 liability. The estimated liability for 2019 is GH¢84,500 and no entry has yet been made to record this.

Required:
Explain the appropriate accounting treatment of the above transaction for the year end 31 August 2019.

(3 marks)

b) RoyCo acquired a brand new property (land and buildings) on 1 January 2016 for GH¢40 million (including GH¢15 million in respect of the land). The asset was revalued on 31 December 2017 to GH¢43 million (including GH¢16.6 million in respect of the land). The buildings element was depreciated over a 50-year useful life to a zero residual value. The useful life and residual value did not subsequently need revision. On 31 December 2018 the property was revalued downwards to GH¢35 million as a result of the recession (including GH¢14 million in respect of the land).

The company makes a transfer from revaluation surplus to retained earnings in respect of realised profit.

Required:
Calculate the amounts recognised in profit or loss and in other comprehensive income for the years ended 31 December 2017 and 31 December 2018. **(6 marks)**

c) On 1 August 2018, Asawase Ltd entered into an agreement to acquire a motor vehicle. The terms of the agreement were that the vehicle would be leased for 5 years from the date of inception, subject to a deposit of GH¢19,972 and 5 annual payments of GH¢6,500 in advance, commencing on 1 August 2018. The fair value of the vehicle and the present value of the lease payments were GH¢48,000 at inception. The interest rate implicit in the lease is 8%.

Required:
In accordance with ***IFRS 16: Leases,*** show with appropriate calculations, the accounting entries required to record the transaction above in the financial statements for the year ended 31 July 2019. **(7 marks)**

d) Nabdam Ltd (Nabdam) operates in the media and publications industry and reports under IFRS. The 2018 financial statements of Nabdam are still in draft form. The audit is ongoing, and the company intends to authorise the financial statements in April 2019.

Nabdam rents a distribution warehouse in Korle, located beside the River Odorna. On 3 January 2019, the River Odorna burst its banks and GH¢650,000 of Nabdam's inventory was destroyed by the flood. The inventory was not insured and Nabdam will not receive any compensation for the loss. The company is not sure how to account for this event. The destroyed inventory is included in the inventory figure that is disclosed on Nabdam's draft statement of financial position at 31 December 2018.

Required:
Explain with justification, the appropriate accounting treatment of the above transaction.

(4 marks)
(Total: 20 marks)

QUESTION THREE

Biggs Ltd has a financial year ending 31 December. Its trial balance extracted as at 31 December, 2018 was as follows:

	GH¢'000	GH¢'000
Revenue (Note ii)		184,800
Lease rentals paid (Note ii)	7,200	
Production costs	98,000	
Distribution costs	9,000	
Administrative expenses	20,000	
Inventories at 1 January 2018	37,500	
Dividends paid (Note iii)	7,900	
Income tax (Note iv)		200
Property, plant and equipment at cost (Notes ii and v):	157,000	
Prov. for depreciation at 31 December 2017		38,400
Trade receivables	51,000	
Cash and cash equivalents	13,800	
Trade payables		18,000
Preference shares issued (Note iii)		64,000
Deferred tax (Note iv)		8,000
Stated Capital		53,000
Retained earnings at 1 January 2018		35,000
	401,400	**401,400**

Additional information:

i) The carrying value of inventories at cost at 31 December 2018 was GH¢39.5 million.

ii) On 1 January 2018 Biggs Ltd sold some of its plant and equipment to a finance company. Biggs Ltd credited the sales proceeds of GH¢25.6 million to revenue. The plant and equipment was purchased by Biggs Ltd on 1 January 2017 at a total cost of GH¢32 million and was being depreciated over its estimated useful life of five years. The cost and accumulated depreciation of the disposed asset is still included in the PPE cost and accumulated depreciation accounts.

On 1 January 2018 Biggs Ltd began to lease the plant and equipment from the finance company on a four-year lease. Lease rentals were GH¢7.2 million, payable annually in advance. If Biggs Ltd had borrowed funds from the finance company on 1 January 2018, the annual interest rate would have been 8.5%.

iii) On 1 January 2018 Biggs Ltd issued 200 million preference shares at 32.50 pesewas each. Costs of issue were GH¢1 million so the net proceeds of the issue were GH¢64 million. The preference shareholders will receive an annual dividend on 31 December each year of GH¢3.9 million. The shares will be redeemed at par on 31 December 2022. The effective annual finance cost attaching to these shares is approximately 6.4%. The first annual dividend was paid on 31 December 2018 and is included in dividends paid. The equity shareholders were paid a dividend of GH¢4 million in the year.

iv) The estimated income tax on the profits for the year to 31 December 2018 is GH¢4.5 million. During the year GH¢4.2 million was paid in full and final settlement of income tax on the profits for the year ended 31 December 2017. The statement of financial position at 31 December 2017 had included GH¢4.4 million in respect of this liability. At 31 December 2018 the carrying amounts of the net assets of Biggs Ltd exceeded their tax base by GH¢35.8 million. Assume an income tax rate of 25%.

v) The details of property, plant and equipment are as follows:

Component of PPE	***Cost*** **GH¢'000**	***Accumulated depreciation at 31 December 2017*** **GH¢'000**	***Carrying Amount at 31 December 2017*** **GH¢'000**
Land	32,000	0	32,000
Buildings	38,000	9,120	28,880
Plant and equipment	87,000	29,280	57,720
	157,000	**38,400**	**118,600**

Estimate of useful economic life (at date of purchase) of PPE components:

Land	–	nil (infinite life)
Building	–	50 years
Plant and Equipment	–	5 years

On 30 June 2018 the directors decided to sell the property because more suitable leasehold property had become available at a very competitive cost. They advertised the property for sale at that date at what was considered to be a realistic asking price of GH¢68 million. They estimated that costs of GH¢3 million would be necessary in order to sell the property. On 1 December 2018 they reduced the asking price to GH¢64.5 million and they sold the property at this price shortly after the year end. Costs to sell totaled GH¢2.5 million.

Required:

Prepare for Biggs Ltd,

a) The Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018. **(10 marks)**

b) The Statement of Financial Position as at 31 December 2018. **(10 marks)**

(Total: 20 marks)

QUESTION FOUR

Hukpor Ltd (Hukpor) manufactures a variety of consumer products. The company's founders have managed the company for thirty years and are now interested in selling the company and retiring. Seekers Ltd is looking into the acquisition of Hukpor and has requested the company's latest financial statements and selected financial ratios in order to evaluate Hukpor's financial stability and operating efficiency. The summary of information provided by Hukpor is presented below:

Hukpor Ltd

Statement of Profit or Loss for the year ended 31 December

	2018	**2017**
	GH¢'000	**GH¢'000**
Revenue	30,500	30,290
Cost of Sales	(17,600)	(18,900)
Gross Profit	12,900	11,390
Operating expenses	(4,940)	(4,550)
Profit before interest and taxes	7,960	6,840
Interest expense	(900)	(800)
Profit before tax	7,060	6,040
Taxation	(2,900)	(2,400)
Profit after tax	**4,160**	**3,640**

Statements of Financial Position as at 31 December

	2018	**2017**
	GH¢'000	**GH¢'000**
Assets		
Non-Current assets		
Property, plant and equipment	7,100	7,000
Current Assets		
Inventories	5,800	5,400
Accounts receivable	3,200	2,900
Marketable securities	500	200
Cash	400	500
Total current assets	9,900	9,000
Total assets	**17,000**	**16,000**
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	3,700	3,400
Income taxes payable	900	800
Accrued expenses	1,700	1,400
Total current liabilities	6,300	5,600
Long-term debt	2,000	1,800
Total liabilities	8,300	7,400
Stated Capital	3,700	3,700
Retained Earnings	5,000	4,900
Total shareholders' equity	8,700	8,600
Total liabilities and shareholders' equity	**17,000**	**16,000**

Selected Financial Ratios of Hukpor Ltd for 2017

Current ratio	1.61:1
Acid-test ratio	0.64:1
Inventory turnover	3.17 times
Times interest earned	8.55 times
Debt-to-equity ratio	86%

Required:

a) Calculate ratios for the years 2018 for Hukpor in comparison with ratios for 2017. **(5 marks)**

b) For each of the ratios computed for 2018, analyse Hukpor's performance for 2018 based on the results of the ratio computed, in comparison with the results for 2017. **(10 marks)**

c) Explain **FIVE (5)** limitations of accounting ratios. **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Define '***equity',*** and explain why the conceptual framework does not prescribe any ***recognition criteria*** for equity. **(4 marks)**

b) Mr. Charles Agyekum is a qualified ICAG member who prepares accounts on behalf of a small independent trader. An annual practicing certificate is not required.

This is the first year the member has prepared these accounts. When compiling the most recent accounts, he noticed that some errors were noted in the previous accounts. It appeared that the accounts were based on incomplete records as certain costs were excluded, either intentionally or because records were not maintained.

The client has also requested some additional work to be completed on a complex tax issue. However, the member has no prior experience and does not feel competent to do the work. The client would also like him to provide an audit opinion as they are planning to apply for a bank loan and the bank would like some additional assurance.

Required:

In accordance with IFAC's code of ethics, explain which ethical principles apply and comment on their relevance to the above scenario. **(6 marks)**

c) On 1 August 2018 Charlie Ltd, whose functional currency is the cedi, bought a property in Morocco for DH40 million. The property had a 20-year useful economic life with no residual value estimated. On 31 July 2019, the property was revalued to DH45 million.

Exchange rates were:
1 January 2018 GH¢1 = DH 1.32
1 August 2018 GH¢1 = DH 1.25
31 July 2019 GH¢1 = DH 1.125

Required:
In accordance with ***IAS 21: The Effects of Changes in Foreign Exchange Rates*** and ***IAS 16: Property, Plant & Equipment*** how much should be recognised in Statement of Profit or Loss and Other Comprehensive Income for year ended 31 July 2019? **(5 marks)**

d) Negative Goodwill is based on the accounting concept of Goodwill, an intangible asset that represents the worth of a company's brand name, patents and other intellectual property, customer base, licenses, and other items that are difficult to put an amount on but help to make a company valuable. When the price paid is less than the actual value of the company's net tangible assets, negative Goodwill results.

Required:
In accordance with ***IFRS 3: Business Combinations***, Identify **THREE (3)** factors that account for a negative Goodwill and indicate its accounting treatment when it occurs in the preparation of consolidated financial statements. **(5 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

Atia group
Consolidated Statement of Financial Position as at 30 June, 2019

Assets	GH¢'000
Non-current assets:	
Property, plant and equipment (GH¢196,000 + GH¢42,000)	238,000
Goodwill W3	16,198
	254,198
Current assets:	
Inventories (GH¢20,000+ GH¢10,000+ GH¢30 – GH¢125)	29,905
Trade receivables(GH¢19,000+ GH¢8,500)	27,500
Cash and bank (GH¢8,350 + GH¢3,825)	12,175
	69,580
	323,778
Equity and liability	
Share capital	95,000
Retained earnings	104,601
Revaluation surplus	20,700
	220,301
Non-controlling interest	7,794
Total equity	228,095
Non-current liability:	
Deferred consideration (GH¢ 11,998 + GH¢ 960)	12,958
Current liabilities:	
Trade payables (GH¢30,000 + GH¢9,500)	39,500
Income tax payable(GH¢20,500 + GH¢4,575)	25,075
Accrued expenses (GH¢18,150 + nil)	18,150
	82,725
	323,778

Workings

1. **Group Structure**

	%
a)	
Atia in Santana Ltd $\frac{21,000}{30,000}$ x 100	70
NCI	30
	100

Date of reporting	30 June 2019
Acquisition Date	01 July 2018
Post-acquisition period	1 year

Alternative presentation of Group Structure

Or

b)

Atia Group

$\frac{21,000}{30,000}$ x 100 70%

NCI 30

Santana Ltd

Date of reporting	30 June 2019
Acquisition Date	01 July 2018
Post-acquisition period	1 year

2. **Net assets of Santana**

	Acquisition date 1/7/2018 GH¢000	Reporting date 30/6/2019 GH¢000	Post-acquired profit GH¢000
Share capital	30,000	30,000	---
Retained earnings	17,000	18,250	1,250
Revaluation surplus	2,000	2,000	--
Fair value adjusted inventory	300	30	(270)
	49,300	**50,280**	**980**

3. **Goodwill**

Purchase consideration	GH¢000
Cash	46,000
Deferred consideration(Ghc14 million x 0.857)	11,998
	57,998
Non-controlling interest	7,500
	65,498
Total net asset at acquisition date	(49,300)
Goodwill to balance sheet	**16,198**

Alternative calculation for goodwill

Purchase consideration	GH¢000	GH¢000
Cash		46,000
Deferred consideration (Ghc14million x 0.857)		11,998
		57,998
Share of net assets (70% x 49,300)		(34,510)
		23488
Fair value of NCI	7500	
Share of NCI net asset (30% x 49,300)	(14,790)	(7290)
		16,198

4. Non-controlling interest

	GH¢000
Fair value of NCI at acquisition	7,500
Share of post-acquisition profit-Santana ltd (30% x GH¢980)	294
	7,794

5. Group retained earnings

	GH¢000
Atia ltd	105,000
Share of post-acquisition profit of Santana Ltd (70% x 980)	686
Unwinding discount on deferred consideration (GH¢11,998 x 8%)	(960)
Unrealized profit (25% x GH¢ 500)	(125)
	104,601

Suggested marking scheme: (80 ticks at 0.25 marks per tick up to maximum of 20 marks). This includes relevant workings.

EXAMINER'S COMMENTS

The approach to this section on Consolidation of the Statement of Financial position was straight forward and most candidates performed creditably well and a few scored the maximum marks. Most candidates were able to determine the group structure, goodwill on acquisition and the Non-controlling interest. A few however could not compute the Unrealised Profit on the closing Inventory.

QUESTION TWO

a)

- A debit balance on the tax account (GH¢17,500) represents under provision of tax for the previous year (2018). This must be added to the income tax charge for the current year.
- This means we must add the under provision to the estimated tax liability for 2019 and treat as income tax expense for 2019. Thus, GH¢102,000 (GH¢17,500+ GH¢84,500) to be recorded as income tax expense for 2019.
- The estimated tax liability of GH¢84,500 must be reported as current liability in the statement of financial position.

Identification of debit balance of GH¢17,500 as under provision for 2018 – 1 mark
Income tax expense GH¢102,000- – 1 mark
Current liability of GH84,500 – 1 mark

b) **Revaluation of Property plant and equipment**

	Land	**Buildings**	**Total**
	GH¢'000	**GH¢'000**	**GH¢'000**
Cost 1 January 2016	15000	25000	40,000
Accumulated Depreciation -1-1-16-31-12-17 (25,000/20yrs x 2 years)	**0**	**(1,000)**	**(1,000)**
Carrying amount 31-12-17	15,000	22,400	39,000
Revaluation gain (balance)	**1,600**	**2,400**	**4,000**
Revaluation amount 31-12-17	16,600	26,400	43,000
Depreciation charge (26,400 /48)		**(550)**	**(550)**
	16,600	25,850	42,450
Revaluation loss (balance)	(2,600)	(4,850)	(7,450)
Revaluation amount 31-12-18	14,000	21,000	35,000

Transfer (excess depreciation) 24,000/48yrs =50
RoyCo
Statement of Profit or Loss and other Comprehensive income Extract for the years 31st December:

	2018	**2017**
	GH¢'000	**GH¢'000**
Expenses		
Depreciation Charge	550	500 (25,000/20)
Revaluation loss (7,450-3,950)	3,500	0

Other Comprehensive Income

Revaluation Surplus	0	4,000
Transfer (2400/48)		(50)
	(3,950)	3,950

Alternative presentation

	Land GH¢'000	Buildings GH¢'000	Rev'n surplus GH¢'000	OCI GH¢'000	P/L GH¢'000
1 January 2016	15,000	25,000			
Dep'n 2016 (25,000/50)		(500)			(500)
Dep'n 2017 (25,000/50)		(500)			(500)
	15,000	24,000			
Rev'n (balance)	1,600	2,400	4,000	4,000	
31 December 2017	16,600	26,400			
Dep'n 2018 (26,400/48)		(550)			(550)
Transfer (2,400/48)			(50)		
	16,600	25,850	3,950		
Rev'n (balance)	(2,600)	(4,850)	(3,950)	(3,950)	(3,500)
31 December 2018	14,000	21,000	-		
2017				**4,000**	**(500)**
2018				**(3,950)**	**(4,050)**

(18 ticks evenly distributed for 6 marks)

c)

Workings

Initial recognition & measurement:

The asset is recognized at: GH¢48,000

The lease obligation is initially recognized at GH¢48,000 – 19,972 – 6,500) GH¢21,528

Journal:

Dr Vehicles	GH¢48,000	
Cr Lease obligation		GH¢21,528
Cr Cash (upfront payments: 19,972 + 6,500)		GH¢26,472

Subsequent measurement:

Finance cost for year ended 31 July 2019 (21,528 * 8%) GH¢1,722

Depreciation of leased asset (48,000 / 5 years) GH¢9,600

Journal:

Dr Profit or loss (finance costs)	GH¢1,722	
Cr Lease obligation		GH¢1,722
Dr Profit or loss (depreciation)	GH¢9,600	
Cr Leasehold asset accumulated depreciation)		GH¢9,600

Closing balance on lease obligation (21,528 + 1,722) GH¢23,250

Presented as current liability (full payment as it is in advance, due 1 August 2019) GH¢6,500
Presented as non-current liability GH¢16,750

Extracts from financial statements for year ended 31 July 2019:
Statement of Profit or Loss for year ended 31 July 2019:

	GH¢
Operating costs (depreciation)	9,600
Finance costs	1,722

Statement of Financial Position as at 31 July 2019:

	GH¢
Non-current assets:	
Leasehold building (48,000 – 9,600)	38,400
Non-current liabilities:	
Lease obligation	16,750
Current liabilities:	
Lease obligation	6,500

Correct entries in the Workings Schedule - 4 marks
6 correct entries in the financial statements extract - 3 marks

d)

- IAS 10 (Events after the Reporting Period) is the applicable accounting standard. IAS 10 outlines that an "event after the reporting period" is an event which occurs between the end of the reporting period and the date that the financial statements are approved.

- The standard differentiates between adjusting and non-adjusting events. Adjusting events provide further evidence on a condition that existed at the reporting date. Adjusting events must be adjusted in the financial statements.

- Non-adjusting events are events that are indicative of conditions that arose after the reporting date. No adjustments are made for non-adjusting events. The flood occurred on the 3rd January 2019. The condition (the flood and damage to the inventory) did not exist at the reporting date of 31st December 2018. Therefore, the event is a non-adjusting event and Nabdam does not have to adjust the 2018 financial statements for the GH¢650,000 inventory loss.

- However, IAS 10, states that if the event is material then the reporting entity must disclose the nature of the event and an estimate of its financial effect. Therefore, as the inventory loss is material, Nabdam would have to make a disclosure describing the nature of the event (a flood affecting a distribution warehouse) and an estimate of the financial effect of the event (GH¢650,000 damage to inventory) in its 2018 financial statements.

Identification of IAS 10 - 1 mark
Explanation of the treatment in IAS 10 – 1 mark
Treatment of as a non-adjusting event – 1 mark
Disclosure of the nature and effect in the financial statement – 1 mark

(Total: 20 marks)

EXAMINER'S COMMENTS

Most of the candidates applied their understanding on the issues raised in the various IFRS statements given. Candidates who performed poorly either did not understand the requirements or lack the basic knowledge of the Standards. This resulted in the loss of vital marks. A few of the candidates never attempted the question.

a) There was a problem with the interpretation of the question, as most candidates interpreted the debit balance on the taxation account as over payment instead of over provision. This led most of the candidates to lose vital points.
b) Most of the candidates were able to calculate the amounts to be recognised but could not present them in the Statement Profit or Loss and other Comprehensive income for the years ended 31st December 2017 and 2018.
c) This question was a test on the application of IFRS 16 on leases. Only few candidates were able to calculate and present the accounting entries for the year ended 31st July 2019. Most candidates could not show the various balances under Non-Current Assets, Non-current liabilities and Current liabilities. Similarly, candidates could not show separately the Operating Costs (Depreciation) and Finance cost in the Statement of Profit or Loss Account for the year ended 31st July, 2019.
d) Most of the candidates were able to differentiate between Adjusting and Non Adjusting events and their treatment. This could have been a bonus question but some of the candidates messed it up since they could not determine whether the event was an adjusting or non-adjusting
e) Only few candidates attempted this question and provided the principles behind the accounting treatment for leases as required under the IFRS 16. Even then majority of them messed up losing the marks.

QUESTION THREE

Biggs Ltd
Statement of Profit or Loss
For the year ended 31 December 2018

	GH¢ '000
Revenue (W1)	159,200
Cost of sales (W2)	(113,780)
Gross profit	45,420
Distribution costs	(9,000)
Administrative expenses	(20,000)
Operating Profit	16,420
Finance cost (W4)	(5,660)
Profit before tax	10,760
Taxation (W5)	(5,250)
Net profit for the year	**5,510**

Biggs Ltd
Statement of Financial Position as at 31 December 2018

	GH¢'000	GH¢'000
Assets		
Non-current assets:		
Property, plant and equipment (W6)		40,320
Current assets:		
Non-current assets held for sale (W7)	60,500	
Inventories	39,500	
Trade receivables	51,000	
Cash and cash equivalents	13,800	
		164,800
		205,120
Equity and Liabilities		
Capital and Reserves:		
Stated capital	53,000	
Retained earnings (W8)	36,510	
		89,510
Non-current liabilities:		
Finance lease payable (W 9)	12,764	
Preference shares (W10)	64,196	
Deferred tax (25% x 35,800)	8,950	
		85,910
Current liabilities:		
Trade and other payables (W12)		29,700
		205,120

Workings

1. Revenue	**GH¢'000**
As per trial balance	184,800
Less revenue proceeds of sale and lease back classified as a finance lease	(25,600)
Per Income Statement	159,200

2. Cost of sales	**GH¢'000**
Opening inventories	37,500
Production costs	98,000
Closing inventories	(39,500)
Depreciation (W3)	17,780
Per Income Statement	113,780

3. Depreciation of non-current assets included in cost of sales	**GH¢'000**
Buildings - 6 months until classified as held for sale (38,000/50yrs x 6/12)	380
Plant and equipment - as per TB (55,000/5yrs)	11,000
Leased plant - (32,000/5yrs)	6,400
Total depreciation for the period	**17,780**

4. Finance cost	**GH¢'000**
On finance lease (8.5% x (GH¢25,600 - GH¢7,200)	1,564
On preference shares (6.4% x GH¢64,000)	4,096
	5,660

5**. Income tax expense**	**GH¢'000**
Estimate on the profits of the current year	4,500
Over-provision in the previous year	(200)
Deferred tax (25% x 35,800) - 8,000	950
	5,250

6. Property, plant and equipment	**GH¢'000**
Plant and equipment at cost	87,000
Opening accumulated depreciation - per Trial Balance	(22,880)
Opening depreciation on finance lease (32,000/5)	(6,400)
Charge for the period in cost of sales (11,000 + 6,400) W3	(17,400)
	40,320

7. **Non-current assets held for sale**	**GH¢'000**
Carrying value at start of the year (32,000 + 38,000 – 9,120)	60,880

Depreciation to date of classification (W3)	(380)
Carrying amount at date of classification	**60,500**

	GH¢'000
Fair value of non-current assets held for sale	64,500
Costs to sell	(2,500)
Fair value less costs to sell	**62,000**

NB: Since the carrying amount is less than the fair value less cost to sell, the non-current assets held for sale would be included in the statement of financial position at the carrying amount.

8. Retained earnings	**GH¢'000**
Opening balance	35,000
Net profit for the period	5,510
Equity dividends	(4,000)
	36,510

9. Non-current portion of finance lease	**GH¢'000**
The closing liability is (25,600 - 7,200 + 1,564)	19,964

Since the payments are in advance, 7,200 of this is current and the balance of 12,764 non-current. The current liability could be split into accrued finance costs (1,564) and an accrued capital of 5,636.

10. Preference shares	**GH¢'000**
Initial liability	64,000
Finance cost (W4)	4,096
Dividend paid	(3,900)
	64,196

11. Trade and other payables	**GH¢'000**
Trade payables per Trial balance	18,000
Income tax estimate	4,500
Finance lease payable (W9)	7,200
	29,700

(80 ticks @ 0.25 marks per tick for all components of the question)

EXAMINER'S COMMENTS

The approach to the preparation of Statements of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018 and Financial Position as at that date was a challenge to candidates. No candidate scored 50% of the total marks allotted. Only a few candidates treated the Production cost in the cost of sales. The handling of all the additional information was a challenge to almost all the candidates

QUESTION FOUR

a) Calculation of ratios for 2018:

Ratio	Basis	Computation [GH¢'000]	Answer
1. Current ratio	Current assets :1 / Current liabilities	9,900 :1 / 6,300	1.57:1
2. Acid-Test Ratio	Current assets – Inventories :1 / Current liabilities	4,100 :1 / 6,300	0.65:1
3. Inventory turnover	Cost of Sales / Average inventory	17,600 / [1/2 x (5,800 + 5,400)]	3.14 times
4. Times interest earned	Profit before interest and taxes / Interest expense	7,960 / 900	8.84 times
5. Debt-to-Equity ratio	Total liabilities *100 / Shareholders' Equity / Debt/Shareholders 'Equity	8,300 *100 / 8,700	95.4%

(1 mark each for correct computation of ratios x 5 ratios = 5 marks)

b) Analyses of the performance of Hukpor Limited using the ratios computed:

Ratio	What the ratio measures	2018	2017	Analyses of the performance of Hukpor Limited
Current ratio	Measures ability to meet short-term obligations using short-term assets.	1.57:1	1.61	Hukpor Limited's current ratio has declined slightly over the last three years from 1.61 to 1.57 and the level of the current ratio is a bit below the industry average. This may be a cause for some concern, although the magnitudes are not large.
Acid-test ratio	Measures ability to meet short-term obligations using the most liquid assets.	0.65:1	0.64	Hukpor Limited has improved its acid-test ratio over the last year. Furthermore, an acid-test ratio below 1.0 indicates that Hukpor Limited may have difficulty meeting its short-term obligations.
Inventory turnover	Measures how quickly inventory is sold	3.14 times	3.17 times	Hukpor Limited's ratio has been steadily declining. This may indicate a decline in operating efficiency, obsolete inventory, or a poor marketing strategy.
Times interest earned	Measures the ability to meet interest commitments from current earnings. The higher the ratio,	8.84 times	8.55 times	Hukpor Limited's ratio has been improving over the last two years. This indicates that the company has additional capacity to borrow and repay funds.

	the more safety there is for long-term creditors.			
Debt-to-equity ratio	Measures the level of protection creditors have in the case of possible insolvency. It is also used to help gauge the company's capacity to take on additional debt.	95.4%	86%	Hukpor Limited's debt-to-equity ratio has deteriorated slightly. Hukpor Limited should be able to raise additional funds though debt.

2 marks each for analysis of performance x 5 ratios = 10 marks

c) Limitations of Ratio Analysis

- Although ratios are useful as a starting point in financial analysis, they are not an end in themselves. Ratios can be used as indicators of what to pursue in a more detailed analysis.
- Different companies often use different accounting methods (e.g. FIFO versus LIFO inventory valuation) and this can have an impact on the financial ratios that does not reflect real differences in the operations and financial health of the companies.
- Making comparisons across industries can be difficult. Companies in different industries tend to have different financial ratios.
- Since the ratios are based on accounting statements, they measure what has happened in the past and not necessarily what will happen in the future.
- **Business conditions**
  You need to place ratio analysis in the context of the general business environment. For example, 60 days of sales outstanding for receivables might be considered poor in a period of rapidly growing sales, but might be excellent during an economic contraction when customers are in severe financial condition and unable to pay their bills.
- **Interpretation.** It can be quite difficult to ascertain the reason for the results of a ratio. For example, a current ratio of 2:1 might appear to be excellent, until you realize that the company just sold a large amount of its stock to bolster its cash position. A more detailed analysis might reveal that the current ratio will only temporarily be at that level, and will probably decline in the near future.
- **Company strategy**. It can be dangerous to conduct a ratio analysis comparison between two firms that are pursuing different strategies. For example, one company may be following a low-cost strategy, and so is willing to accept a lower gross margin in exchange for more market share. Conversely, a company in

the same industry is focusing on a high customer service strategy where its prices are higher and gross margins are higher, but it will never attain the revenue levels of the first company.

(1 mark for each limitation well explained x 5 limitations = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The performance was far above average. A few candidates scored the maximum marks.

a) The computation of the ratios was satisfactorily done, except that few candidates could not calculate the Inventory turnover and the Interest earned ratios.
b) Also, there were situations candidates could not explain the performance in relation to the computations and the trend from 2017 to 2018.
c) The limitations of accounting ratios was well handled.

QUESTION FIVE

a) The conceptual framework defines equity as **'the residual interest in the assets of the entity after deducting all its liabilities'.**
Equity cannot be identified independently of the other elements in the statement of financial position/balance sheet. The characteristics of equity are that equity is a residual, i.e. something left over after the entity has determined its assets and liabilities. In other words: **Equity = Assets –Liabilities.**

There is no need for recognition criteria for equity **as it is a residual, determined after recognition criteria are applied to the other elements**. In other words, **the recognition of assets and liabilities will lead to recognition of equity**.

Definition of equity 2 marks
Explanation of reason for equity recognition 2 marks

b) **Integrity** – this is about being truthful, straightforward and honest, dealing fairly with people and situations; it rules out making misleading or false statements, whether by omission or inclusion of information, either knowingly or without taking care to find out. Mr Charles Agyekum has highlighted his concerns to his client and explained his views with a clear rationale.

Professional competence and due care – this is about acquiring and maintaining appropriate technical and other relevant skills and competence to perform our work, doing it thoroughly and correctly, on a timely basis, and ensuring that users of our output understand its context and limitations. Mr Charles Agyekum has acknowledged his professional ability and has identified a situation where he may not be the most appropriate accountant to complete a specific piece of work.

Professional behaviour – this is about complying with standards and laws, and avoiding actions that might bring the profession into disrepute, such as making unsubstantiated criticisms of a fellow professional, or exaggerating one's experience. Throughout this scenario, Mr Charles Agyekum has behaved professionally as he has explained his rationale to his client and not completed any work that he was unable to finish to an appropriate standard.

Identification of 3 ethical issues – 3 marks
Application of 3 ethical issues to the scenario – 3 marks

c) Under IAS 21 an asset purchased in foreign currency is translated into the functional currency of the entity at the date of purchase or revaluation and not restated otherwise. **(1 mark)**

Hence there are two movements here:
Cost of property: DH40 million / 1.25 = GH¢32 million **(1 mark)**

Depreciation for year: GH¢32 million / 20 years = GH¢1.6 million (charged to profit or loss) **(1 mark)**
Carrying value at year end: GH¢30.4 million

Revalued amount: DH¢45 million / 1.125 = GH¢40 million **(1 mark)**

Revaluation gain: (40m – 30.4m) = GH¢9.6 million (credited to OCI) **(1 mark)**

Explanation of the requirement of IAS 21 - 1 mark
Conversion into functional currency: Cost of Property – 1 mark
Depreciation – 1 mark
Translation of revaluation amount at the reporting date – 1 mark
Treatment of Revaluation gain - 1 mark

d) **Factors that account for a negative goodwill and treatment of negative goodwill.**
Where the cost of the business combination is greater than the net assets acquired, the investor has paid for something more than the net assets of the acquired business. The difference is called goodwill and is measured in accordance with (IFRS 3: Business Combinations - revised). Purchased goodwill is positive when the cost of investments exceeds the net fair value of identifiable assets, liabilities and contingent liabilities. In accordance with IFRS 3; Business combination, negative goodwill occurs when the acquired net assets exceed cost of investment.

Factors accounting for negative goodwill includes but not limited to:
1. The acquirer may be good in the negotiations of the purchase consideration than the acquiree.
2. The acquiree has no knowledge of the value of its business before and during the sale transaction
3. The acquire is desperate to sell in a force sale transaction

Accounting treatment of purchased goodwill
Positive purchased goodwill is capitalised on the consolidated balance sheet or statement of financial position and subject to an impairment test annually. Subsequent impairment test is charged to profit or loss as expenses. Impairment tests are conducted at least at each year end. Any resulting impairment loss is first recognized against consolidated goodwill.

However, purchased goodwill if negative is not capitalized since it represents a gain to the acquirer and hence IFRS3 business combination requires that it is recognized in the statement of profit or loss immediately after the reassessment and confirmation.

Marking scheme

	Marks
Factors (1 mark up to a maxim of 3 points)	**3**
Accounting treatment and impairment	**2**
Total marks	**5**

(Valid points given but not captured in the marking scheme should be accepted)

(Total: 20 marks)

EXAMINER'S COMMENTS

a) The approach to the definition of Equity was satisfactorily done. However, candidates could not adduce the reason of not prescribing recognition criteria for equity.
b) Most of the candidates were able to identify the ethical issue involved but could not apply it to the case.
c) The application of the exchange rate to cedis was a challenge to some of the candidates. Some could not select the applicable rate.
d) Most candidates could not identify the factors that account for negative goodwill in Business Combinations. However, a few candidates were able to indicate the accounting treatment in the preparation consolidated financial statements.

Conclusion

There was enough evidence to show that candidates understood what was required. A few candidates presented wrong or contrary answers mainly because they did not know the expected answers, which reflected in their poor performance.

The Way Forward

As previously recommended, we wish to reiterate the points as follows:

- The level of appreciation of candidates sitting for the examinations 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.
- Candidates are advised to reference questions continued on a different page after other questions have been answered. This is to avoid markers of a particular question not to miss the continuation at a later page of the answer book.