NOVEMBER 2020 PROFESSIONAL EXAMINATIONS
FINANCIAL REPORTING (PAPER 2.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENT

The performance of candidates was below average compared to the previous sitting. Few candidates exhibited a high sense of preparedness and a good mastery of the subject, scoring over 60%. The performance of most candidates, however, demonstrated lack of adequate preparation for the paper. Majority of candidates scored below 35%. Meanwhile, the questions fell within the approved syllabus of the Institute and the marks distribution was fair and in line with the syllabus grid.

STANDARD OF THE PAPER

The standard of questions was appropriate for the level being assessed. The requirements of the questions were generally clear. Evaluation of the examination questions indicated that the syllabus coverage was good and provided candidates enough flexibility to appropriately respond to current issues in financial reporting.
The difficulty level of the paper was standard and within expectation. Questions were evenly weighted; the paper followed the pattern of the previous sittings and is generally consistent in standard with the previous sitting's paper. The mark allocations generally followed the weightings in the syllabus grid and commensurate with the amount of time and effort required to answer the questions.
There were no questions deemed to be sub-standard by the moderators and examiners during the coordination and marking. Again, the type, relevance and quality of the questions provided in the examination were well-balanced. No typing errors were sighted in the questions.

PERFORMANCE OF CANDIDATES

The performance of candidates could have been average, at least, considering that the standard of questions was appropriate for the level being assessed. The pass rate for this paper was 23% for November 2020 diet. Majority of candidates scored marks which were below 35%, with a good number scoring below 20%. The poor performance of candidates is consistent with previous sittings and can be attributed not only to inadequate preparation by candidates for the paper, but also to the standard of quality attained by candidates in previous tertiary institutions attended. Examiners did not sight any signs of copying by candidates at any centre.

NOTABLE STRENGTHS & WEAKNESSES OF CANDIDATES

Many candidates demonstrated a deeper understanding of preparation of consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position. Candidates scored good marks in this area. The strength of candidates was also boosted by a well-balanced and flexible marking scheme adopted by the examiners.

Abysmal understanding of International Financial Reporting Standards (IFRSs). Most candidates either did not attempt questions on IFRSs or provided answers with no bearing on IFRSs. Given that financial reporting is all about IFRSs, the examiner should consider assigning more weight to IFRSs cases in future examinations.

The level of numeracy expected of prospective accountants as demonstrated by candidates is highly unacceptable. The standard of language and legibility of handwriting was pitiful.

There was sufficient evidence of poor time management by most candidates. This resulted in candidates not attempting all questions thereby limiting their chances of passing.

Some candidates presented their solutions in ink and pencil.

QUESTION ONE

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019 of Kingdom Ltd and Paradise Ltd.

	Kingdom Ltd	Paradise Ltd
	GH¢000	**GH¢000**
Revenue	125,200	60,000
Cost of sales	(91,600)	(48,000)
Gross profit	33,600	12,000
Distribution costs	(4,000)	(2,400)
Administrative expenses	(7000)	(3,600)
Finance costs	(400)	-
Profit before tax	22,200	6,000
Income tax expenses	(6,200)	(2,000)
Profit for the year	16,000	4,000
Other comprehensive income:		
Gain on revaluation of property	3,000	-
Total comprehensive income	**19,000**	**4,000**

Statement of financial position as at 31 December 2019		
Assets	**GH¢000**	**GH¢000**
Non-current assets:		
Property, plant and equipment (PPE)	37,400	27,800
10% loan note	2,000	-
	39,400	27,800
Current assets:		
Inventory	8,600	2,400
Trade receivables	9,400	5,000
Bank	-	600
	18,000	8,000
Total assets	**57,400**	**35,800**
Equity and liabilities:		
Share capital (issued at GH¢1 each)	20,000	18,000
Revaluation surplus	4,000	-
Retained earnings	12,600	7,000
	36,600	25,000
Non-current liabilities:		
10% loan note	5,000	2,000
Current liabilities:		
Trade payables	6,800	7,200
Bank overdraft	3,400	-
Income tax payable	5,600	1,600
	15,800	8,800
Total Liabilities and Equity	**57,400**	**35,800**

Additional relevant information:

i) Kingdom Ltd acquired 60% of the share capital of Paradise Ltd on 1 April 2019. The purchase consideration was settled by a share exchange transaction of two shares in Kingdom Ltd for every three acquired shares in Paradise Ltd. The share price of Kingdom Ltd at the acquisition date was GH¢3 per share. In addition, Kingdom Ltd will also pay cash consideration of GH¢0.275 pesewas on 1 April 2020 for each acquired share in Paradise Ltd. Kingdom Ltd's cost of capital is 10% per annum. None of the consideration has been recorded by Kingdom Ltd.

ii) The fair values of Paradise Ltd's net assets and liabilities were equal to their carrying amounts at the date of acquisition with the exception of Paradise's property, which had a fair value of GH¢8 million above its carrying amount. For the purpose of consolidation, this led to an increase in depreciation charges (in cost of sales) of GH¢200,000 in the post-acquisition period to 31 December 2019. Paradise Ltd has not incorporated the fair value of property increase into its entity's financial statements.

iii) The policy of Kingdom Ltd group is to value all properties to fair value at each year end. On 31 December 2019, the increase in Kingdom Ltd's property has already been recorded. However, a further increase of GH¢1.2 million in the value of Paradise Ltd's property since its value at acquisition to 31 December 2019 has not yet been recorded.

iv) Kingdom Ltd made sales to Paradise Ltd throughout the year 2019 and it had consistently been GH¢600,000 per month. Kingdom Ltd made a mark-up of 25% on all of these sales. A total of GH¢1.2 million (at cost to Paradise) of Paradise Ltd's inventory at 31 December 2019 had been supplied by Kingdom Ltd during the post-acquisition period.

v) At 31 December 2019, Kingdom Ltd had a trade receivable balance owing from Paradise Ltd of GH¢ 2.4 million. However, this did not agree to the equivalent trade payable of Paradise Ltd as a result of a payment by Paradise Ltd of GH¢800,000 made in December 2019, which did not reflect in Kingdom Ltd bank account until 4 January 2020. Kingdom Ltd's policy for cash timing differences is to adjust the parent's financial statements.

vi) Kingdom Ltd on December 2019, accepted a GH¢1 million 10% loan note from Paradise Ltd.

vii) At 31 December 2019, the goodwill that arose on acquisition was impaired by GH¢1 million. Kingdom Ltd has a policy of treating goodwill impairment as part of administrative expense.

viii) It is the policy of Kingdom Ltd group to value the non-controlling interest at fair value. For this purpose, Paradise Ltd's share price was trading at GH¢2.50 each at the acquisition date.

ix) Assume that all items of income and expenditure accrue evenly throughout the year except where indicated otherwise.

Required:

a) Prepare the consolidated statement of profit or loss and other comprehensive income for Kingdom Ltd group for the year ended 31 December 2019. **(10 marks)**

b) Prepare the consolidated statement of financial position for Kingdom Ltd group as at 31 December 2019. **(10 marks)**

(Total: 20 marks)

QUESTION TWO

a) Nkoso Ltd (Nkoso) is an agro-processing company which reports under International Financial Reporting Standards up to 31 December each year.

On 10 October 2019, Nkoso organised a Christmas party at the company's head office in Accra. Unfortunately, there was an incident of food poisoning and the company has received 500 legal claims from victims of the food poisoning, seeking compensation of an average of GH¢5,000 each. A letter from Nkoso's legal advisors, dated 10 December 2019, suggests 40% of these claims are likely to be successful.

The Accountant of Nkoso does not want to make any provision for these claims on the grounds that less than 50% of the cl aims are likely to be successful. The legal advisors have suggested that an average of two years from the end of the current reporting period will elapse before the claims are settled. The risk related discount rate is estimated to be 10%.

Required:
In accordance with ***IAS 37: Provisions, Contingent Liabilities and Contingent Assets,*** advise the directors of Nkoso on the appropriate accounting treatment of the above in the financial statements for the year ended 31 December 2019**.** **(6 marks)**

b) In accordance with ***IAS 36: Impairment of Assets***, explain which of the following would require an impairment test to be performed during the year ended 31 December 2019 on assets or cash-generating units or at group level in respect of Timtim Ltd (Timtim):

i) A fall in the benchmark interest rate used by the lender to calculate interest due on Timtim's loans payable, its main form of finance.
ii) Acquisition by Timtim of 100% of another entity in 2018 at a price substantially above the fair value of the entity's net assets. The entity acquired was not sold in 2019.
iii) Sanctions put in place restricting exports by Timtim to a major client.
iv) Increase in the tax rate applied to Timtim.

(Note: You should consider each event independently). **(4 marks)**

c) On 1 April 2018, Chofi Ltd (Chofi) borrowed GH¢15 million in order to partly fund the construction of a new building. The interest rate was 6% payable annually in arrears. On 1 July 2018, construction commenced. On 1 October 2018, GH¢10 million was paid to the contractor as the first stage payment. On 1 December 2018, a further GH¢10 million was paid to the contractor. Construction was still in progress at the reporting date of 31 March 2019.

Required:
In accordance with ***IAS 23: Borrowing Costs***, show the appropriate calculations, the amount that should be capitalised in the financial statements of Chofi for the year end 31 March 2019. **(4 marks)**

d) Kumeri Ltd (Kumeri) is a real estate company which reports under International Financial Reporting Standards (IFRSs). The Office Building of Kumeri had a net carrying amount of GH¢18 million at the beginning of the financial year 1 January 2019. The property was held under the cost model. As its residual value was estimated at more than its cost due to a buoyant property market, no depreciation had been charged.

As part of a relocation of the company's business, the property became vacant and was leased out to a third party on 1 April 2019 (under a six-month short lease). At the time the property was leased out, its fair value was GH¢22 million.

At the end of the lease, the company decided to transfer the property to its inventories of properties for sale in the ordinary course of its business. At that date the value of the property was GH¢21 million. The property was sold in December 2019 for GH¢21.3 million.

The company uses the fair value model for its investment property.

Required:
Determine the amounts to be recognised in profit or loss and in other comprehensive income in respect of the property for the year ended 31 December 2019. **(6 marks)**

(Total: 20 marks)

QUESTION THREE

a) Makoo Ltd's financial statements for the year ended 31 December 2019 are being prepared and you are provided with the following trial balance at that date:

	GH¢'000	GH¢'000
Revenue (Note i)		315,000
Inventories at 1 January 2019	32,000	
Raw material purchases	150,000	
Production costs	60,000	
Distribution costs	12,000	
Administrative expenses	22,000	
Lease rentals paid (Note iii)	20,000	
Property, plant and equipment at cost (PPE)	180,000	
Prov. for depreciation on PPE at 31 December 2018 (Note iv)		35,000
Income tax account (Note v)	400	
Deferred tax (Note v)		7,200
Trade receivables (Note vi)	50,000	
Cash and cash equivalents	24,800	
Trade payables		27,000
Share Capital		154,000
Equity dividend paid 31 March 2019	30,000	
Retained earnings at 1 January 2019		43,000
	581,200	**581,200**

Additional Information:

i) On 20 December 2019, Makoo Ltd signed a contract to supply a customer with goods in February 2020. The customer paid a deposit of GH¢5 million when the contract was signed and Makoo Ltd credited this amount to revenue. Makoo Ltd did not make any adjustment to inventory on 20 December 2019 as a result of receiving the deposit.

ii) On 31 December 2019, the value of the inventories at cost at Makoo Ltd's premises was GH¢40 million. This included 200,000 units of partly completed inventory that had cost GH¢20 per unit to manufacture. The estimated cost to complete this inventory is GH¢6 per unit and the selling cost is estimated at GH¢1 per unit. Until recently the selling price of this product was GH¢30 per unit. However, a competitor has developed a new product which has affected the ability of Makoo Ltd to sell the product at the normal price and it is estimated that they will need to reduce the price to GH¢22.50 per unit (selling costs unaffected) in order to be able to sell these items.

iii) On 1 January 2019 Makoo Ltd entered into an agreement to lease a number of machines. The lease was for a four-year period, which was the estimated useful economic life of the machines. Makoo Ltd is required to repair and insure the plant, which has no estimated residual value at the end of the lease. The lease rentals were set at GH¢10 million every six months, payable in advance. The lease rentals figure included GH¢20 million in respect of this lease. The rate of interest implicit in this lease was 5% per six-monthly period and the present value of the future lease payments was estimated at GH¢60 million at 1 January 2019.

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

	Cost	***Accumulated depreciation at 31 December 2018***	***Carrying Amount at 31 December 2018***
Component of PPE	GH¢'000	GH¢'000	GH¢'000
Property	90,000	5,000	85,000
Plant and equipment	90,000	30,000	60,000
	180,000	**35,000**	**145,000**

- Depreciation of all property, plant and equipment should be charged to cost of sales. Depreciation has not yet been charged for the year ended 31 December 2019.
- The plant and equipment is being depreciated on a straight-line basis at 25% per annum. No disposals of property, plant and equipment occurred in the period.
- The depreciable element of the property has an allocated carrying value of GH¢50 million and is being depreciated on a straight-line basis over 50 years from the date of original purchase. On 1 January 2019 the directors of Makoo Ltd revalued this property for the first time. The property had an estimated market value at 1 January 2019 of GH¢100 million. It is further estimated that GH¢54 million of this value relates to the depreciable element. The original estimate of the useful economic life is still considered valid.
- The directors have decided not to make an annual transfer of excess depreciation on revalued assets to retained earnings.

v) On 31 March 2019 Makoo Ltd made full and final payment to discharge the income tax liability for the year ended 31 December 2018. The balance on the income tax account in the trial balance is the residue after making that payment. The estimated income tax liability for the year ended 31 December 2019 is GH¢5 million. A transfer of GH¢600,000 needs to be made to the deferred tax account for the period. This includes the impact of all the adjustments necessary to prepare the financial statements apart from the initial revaluation of the property (Note iv). The rate of income tax is 25%.

vi) The closing trade receivables include an amount of GH¢10 million owed by a customer who experienced cash flow problems prior to the year end. Makoo Ltd agreed to accept a payment of GH¢8 million in full and final settlement of the debt and to defer the payment until 31 December 2020. Makoo Ltd would expect a return of 10% on sums invested for one year.

Required:
Prepare for Makoo Ltd;

a) The Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019. **(10 marks)**
b) The Statement of Financial Position as at 31 December 2019. **(10 marks)**

(Total: 20 marks)

QUESTION FOUR

As a newly employed Accountant of Spring Ltd, you have been presented with the following financial statements:

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

	2018	2017
	GH¢	**GH¢**
Net Turnover	456,500	420,000
Cost of Sales	(295,000)	(227,000)
Gross Profit	161,500	193,000
General, Administrative and Selling Expenses	(109,500)	(93,000)
Operating Profit	52,000	100,000
Interest Expenses	(14,500)	(3,000)
Investment Income	5,000	4,500
Profit before Tax	42,500	101,500
Corporate Tax	(12,500)	(15,000)
Profit for the year	**30,000**	**86,500**

Statement of Retained Earnings for the year ended 31 December

	2018	2017
	GH¢	**GH¢**
Balance b/f	149,500	89,500
Net Profit for the year	30,000	86,500
	179,500	176,000
Dividends: Preference Shares	(10,000)	(9,000)
Ordinary Shares	(12,000)	(17,500)
Balance c/f	**157,500**	**149,500**

Statement of Financial Position as at 31 December

	2018	**2017**
	GH¢	**GH¢**
Assets		
Goodwill	10,000	5,000
Tangible Non-current	106,000	132,000
Inventories	147,000	118,500
Accounts Receivable	80,000	24,000
Cash and Bank balances	26,000	28,500
	369,000	**308,000**
Liabilities and Capital		
Accounts Payable	37,500	26,500
Accruals	25,500	20,000
Debentures	58,500	37,000
Share Capital		
Preference Shares	40,000	25,000
Ordinary Shares	50,000	50,000
Retained Earnings	157,500	149,500
	369,000	**308,000**

Required:

a) Compute, for the two years, the following ratios:

i) Return on Capital Employed
ii) Assets Turnover
iii) Current Ratio
iv) Quick Ratio
v) Debt/Equity Ratio
vi) Interest Cover **(6 marks)**

b) Write a report to the Finance Director commenting on the financial performance and position of the company. **(10 marks)**

c) Earnings per share is a financial ratio, and it's usually the first ratio investors look at when analyzing a company. Although earnings per share is a very popular performance measurement tool, it is not without its drawback and limitations.

Required:

Identify **FOUR (4)** limitations of Earnings per share. **(4 marks)**

(Total: 20 marks)

QUESTION FIVE

a) Mr. Julius Opuni, a Chartered Accountant has been appointed as Chairman of a Senior High School governing body on a voluntary basis. He has also been appointed to the Finance and Buildings Committee that awards building contracts. The membership of this committee includes a number of individuals with private sector experience and local businessmen. One is a local contractor (Mrs. Esther Asamoah-Frimpong) who has been a governing member for a number of years and is well respected by the governing body.

At his first meeting, the committee considers a report from the Head Teacher about the condition of the school hall and sets out a scheme of remedial building works with estimated costs. After discussion of the scheme, and recognising the need to move quickly if the work is to be carried out during the first quarter, Esther offers to do the work at a competitive price and the other governing members on the committee are minded to accept the offer.

However, although the offer has been made, the governors are not considering the use of a formal tender process or making any reference to governance arrangements that could exist for tenders. Julius is concerned that the committee is unable to demonstrate reasonable decision making, stewardship of public money and its subsequent reputational risk.

Required:
Advise Julius on **THREE (3)** courses of action he should take in order to act ethically in awarding the contract. **(6 marks)**

b) Tenet Bank Ltd places a non-cancellable order for a new Automated Teller Machine (ATM) with one of the major commercial ATM manufacturers at a fixed price, with delivery in 30 months and payment in full to be made on delivery.

Required:
Under the conceptual framework, advise whether Tenet Bank should recognise any asset or liability at the time it places the order. **(3 marks)**

c) Plyway Ltd (Plyway) was founded in 2001 and operates in the logistics and supply chain management sector. It prepares financial statements in accordance with International Financial Reporting Standards (IFRSs) up to 31 December each year.

On 1 January 2017, Plyway purchased a GH¢50 million social bond from a renowned finance house. The bond pays a respectable 6% annual interest, which is also the effective rate of interest payable on 31 December. Plyway has classified the bond at fair value through profit or loss.

At 31 December 2019, the carrying value of the bond is GH¢50 million but there are reliable reports within the financial sector that the finance house has financial difficulties. The market interest is now 8%. The cash flows in respect of the bond are as follows:

Year Amount	**GH¢m**
31 December 2019	4
31 December 2020	3.5
31 December 2021	42.5

Interest received for the accounting year ended 31 December 2019 has already been correctly accounted for.

Required:
In accordance with ***IFRS 9: Financial Instruments,*** show with appropriate calculations, the accounting entries required to record the transaction above in the financial statements of Plyway for the year ended 31 December 2019. **(6 marks)**

d) ***IFRS10: Consolidated Financial Statements*** outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate other entities it controls.

Required:

i) Define ***control*** **(1 mark)**

ii) Indicate **FOUR (4)** circumstances that an entity may not have gained control in another entity but may be allowed to prepare consolidated financial statements. **(4 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a) **Kingdom Ltd Group**

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019.

	GH¢000
Revenue (GH¢125,200 + (GH¢60,000 x 9/12) – (GH¢600 x 9 month))	164,800
Cost of sales (GH¢91,600+ (GH¢48,000 x 9/12) – GH¢5,400 + GH¢240 + GH¢200)	(122,640)
Gross profit	42,160
Distribution costs (GH¢4,000 +(GH¢2,400 x 9/12)	(5,800)
Administrative expenses(GH¢7,000 + (GH¢3,600 x 9/12) + GH¢1,000	(10,700)
Finance costs (GH¢400 + (GH¢270 x 9/12)	(603)
Profit before tax	25,057
Income tax expenses (GH¢6,200 + (GH¢2,000 x 9/12)	(7,700)
Profit for the year	17,357
Other comprehensive income:	
Gain on revaluation of property (GH¢3,000 + GH¢1,200)	4,200
Total comprehensive income	21,557
Profit for the year attributable to:	
Shareholders of the parent	16,637
Non-controlling interest (GH¢4,000 x 9/12 – GH¢1000 – GH¢200 x 40%)	720
	17,357
Total comprehensive income attributable to:	
Shareholders of the parent	20,357
Non- controlling interest (GH¢720 + (GH¢1,200 x 40%)	1,200
	21,557

Kingdom Ltd Group

b) Consolidated statement of financial position as at December 31, 2019

	GH¢000
Assets	
Non-current assets:	
Property, plant and equipment(GH¢37,400 + GH¢27,800) + GH¢8000 - GH¢200 + GH¢1,200	74,200
10% Loan note (2,000-1,000)	1,000
Goodwill W2	11,300
	85,500
Current assets:	
Inventory (GH¢8,600+ GH¢2,400 - GH¢240 URP)	10,760
Trade receivables (GH¢9,400 + GH¢5,000 - GH¢2,400 intra-group)	12,000
Bank (0 + GH¢600)	600
	23,360

	109,860
Equity and liabilities:	
Equity capital (GH¢20,000 + (GH¢7,200 * 3)	41,600
Retained earnings W4	13,237
Revaluation surplus (GH¢4,000 + (GH¢1,200 x 60%)	4,720
	59,557
Non-controlling interest W3	19,200
	78,757
Non-current liabilities:	
10% loan notes (GH¢5,000 + GH¢2,000 - GH¢1,000)	6,000
Current liabilities:	
Trade payables (GH¢6,800 + GH¢7,200 – GH¢1,600)	12,400
Current tax payables (GH¢5,600 + GH¢1,600)	7,200
Bank (GH¢3,400 – GH¢800 cash in transit)	2,600
Deferred consideration (GH¢2,700 + (10% x GH¢2,700 x 9/12)	2,903
	109,860

Workings
Group structure
Kingdom Ltd

1/4/2019 60% - group share (60% x 18,000 shares) = 10,800 shares acquired
9/12 40% - Non-controlling interest share (40% x 18,000 shares) = 7,200 shares x GH¢2.50 = GH¢18,000

Paradise Ltd

Paradise ltd	
Pre-acquisition profit	GH¢000
Retained earnings b/f: (GH¢7,000 – GH¢4000)	3,000
Plus (3/12 x GH¢4,000)	1,000
	4,000

1. Net asset – Paradise Ltd

	Acquisition date	Reporting date	Post-acquisition
	GH¢000	GH¢000	GH¢000
Share capital	18,000	18,000	-
Retained earnings	4,000	7,000	3,000
Fair values-property	8,000	9,200	-
Additional depreciation (Given in the question)	-	(200)	(200)
	30,000	34,000	2,800
Post-acquisition profit (GH¢2800 – GH¢1,000 impairment loss) = GH¢1,800			

Or Post acquisition profit = (34,000-30,000 -1,200) = GH¢2,800

2. Goodwill

	GH¢000
Purchase consideration:	
Shares (18,000 shares x 60% x 2/3 x GH¢3)	21,600
Deferred consideration (18,000 shares x 60% x GH¢0.275 x 1/(1.1)	2,700
	24,300
Fair value of NCI at acquisition (40% x 18,000 shares x GH¢2.50)	18,000
	42,300
Net asset at acquisition date W2	(30,000)
	12,300
Impairment	(1,000)
	11,300

Alternative calculation of goodwill

	GH¢000	GH¢000
Cost of investment		24,300
Share of net assets (60% x GH¢30,000)		(18,000)
Parent goodwill		6,300
Fair value of net asset at acquisition	18,000	
NCI share of net asset at acquisition (40% x GH¢30,000)	(12,000)	6,000
		12,300
Impairment loss		(1,000)
		11,300

3. Non-controlling interest

	GH¢000
Fair value of NCI at acquisition	18,000
Share of post-acquisition profit- P &L (GH¢3000- GH¢1000- GH¢200 x 40% = GH¢720 + (GH¢1,200 x 40%)	1,200
	19,200

Alternative calculation of Non-controlling interest

	GH¢000
Fair Value	18,000
Share of post-acquisition Profit (40% x 2,800)	1,120
Revaluation gain (40% x 1,200)	480
	19,600
Share of impairment loss (40% x1,000)	(400)
	19,200

4. **Group retained earnings**

	GH¢000
Kingdom Ltd	12,600
Unrealized profit (GH¢1,200 x 25/125)	(240)
Unwind discount (GH¢2,700 x 10% x 9/12)	(203)
Share of post-acquisition profit (60% x GH¢2,800)	1,680
Share of impairment loss (60% x1,000)	(600)
	13,237

Suggested marking scheme: (80 ticks at 0.25 marks per tick up to maximum of 20 marks). This includes both statement of profit, the statement of financial position, and relevant workings.

EXAMINER'S COMMENTS

This was the favorite of most candidates. Many candidates scored all 20 marks allocated with a good number scoring between 15 marks and 19 marks.

But almost all candidates could not properly analyse the **profit for the year** and **total comprehensive income for the year** between the parent's owners and the non-controlling interest owners within the consolidated statement of comprehensive income.

Few candidates were however helpless, with some presenting their answers as "(P+S)" without including any figures. Others time apportioned the subsidiary's statement of financial position items while a few others failed to time apportion the subsidiary's income and expenses.

QUESTION TWO

a) The food poisoning claims are covered by IAS 37 Provisions, Contingent Liabilities and Contingent Assets. If there was a single claim, then it would be classified as a contingent liability, and no provision should be recognised in the SFP. This is because the outcome is possible not probable.

However, because there are 500 claims and each one has a 40% chance of succeeding, then overall Nkoso would expect to lose 200 claims. Therefore, a provision should be recognised in the SFP because:

- There is an obligation at the end of the reporting period due to a past event
- There is a probable outflow of economic resources
- A reliable estimate can be made (200 claims at GH¢5,000 each)

Because the claims are not expected to be settled for another two years, the provision should be discounted using the risk related time value of money. The provision should therefore be carried in the SFP at 31 December at:

500 X 5,000 X 0.40 X $1/(1.10)^2$ = GH¢826,446

	GH¢m	GH¢m
Dr SPLOCI (retained earnings)	0.8	
Cr Provisions (NCL)		0.8

Explanation of the treatment in IAS 37 or provisions and contingent liabilities, stating the conditions: 2 marks
Amount of provision to be recognized taking into consideration the discount rate 2 marks
Journal entries for the provision 2 marks

b)
i) Fall in benchmark interest:
No impairment test is required. However a rise in interest rates would trigger an impairment test.

ii) Acquisition of entity last year:
Yes, impairment test is necessary because the acquisition would result in goodwill and must be tested annually for impairment.

iii) Sanctions restricting exports:
Yes, this impairment indicator alters cash flow of the unit.

iv) Increase in tax rate:
No, impairment losses are calculated on a pre-tax basis.

(4 points for 4 marks)

c) IAS 23 requires that three conditions be met before capitalization of finance costs takes place. These are

- finance costs are being incurred;
- activities necessary to bring the asset into use are under way; and
- expenditure has been incurred.

On this basis all three are met only on the payment of the first GH¢10 million to the contractor on 1 October 2018. The finance cost on this amount from 1 October 2018 to 31 March 2019 should be capitalised (GH¢10m * 6% * 6/12), amounting to GH¢300,000. **(2 marks)**

On 1 December 2018 a further GH¢10 million was paid to the contractor. However only GH¢5 million of this was borrowed. Hence (GH¢5m * 6% * 4/12) GH¢100,000 should be capitalised. **(2 marks)**

Determination of finance costs to be capitalized for 6 months from 01/10/2018 to 31/03/2019
Determination of further finance costs to be capitalized for 4 months from 01/12/2018 to 31/03/2019

d)

	P/L	OCI
	GH¢'m	GH¢'m
Transfer from PPE to investment property (22 – 18)		4
Final fair value after rev'n becomes cost of inventories (21-22)	(1)	-
Profit on sale of inventories (21.3 – 21)	0.3	-
	(0.7)	**4**

Recognition of loss on transfer from Investment Property to inventory – 2 marks
Recognition of loss in transfer from Investment Property to Inventory - 2 marks
Profit on disposal of property - 2 marks

EXAMINER'S COMMENTS
Performance of candidates on this question was the worst. The performance exhibited by candidates demonstrates very weak understanding and unwillingness to learn IFRSs. It is difficult to state which of the standards examined was the favorite of candidates.

a) This tested candidates' understanding of the conditions that must be met before an entity can make provision in financial statements (IAS 37).

- Very few candidates made a good attempt
- Most candidates did not attempt it
- Other candidates settled on contingent liability instead.

b) This part of the question tested candidates understanding on indicators of impairment (IAS 36).
The question required critical thinking by candidates. They were required to simply state whether there was the need to test for impairment or not and explain why.
Candidates demonstrated poor understanding of practical indicators of impairment of assets

- Most candidates simply stated "Yes" or "No" without explanation.
- Others were caught up in a 'lottery' guess.
- Majority scored zero.

c) This part of the question was on borrowing costs (IAS 23). The question states "On 1 April 2018, Chofi Ltd (Chofi) borrowed GH¢15 million in order to partly fund the construction of a new building" Some candidates treated it as funds borrowed specifically to supplement existing funds. Others also saw as funds borrowed partly for the building and for other activities.

- The examiners accepted both positions to ensure no candidate was disadvantaged.
- Majority of the candidates simply did not attempt this question.
- Very few candidates attempted it well.
- Other candidates attempted it but demonstrated abysmal mathematical skills.

d) This was on Investment property (IAS 40)
It was testing the accounting treatment of transfer from Property plant and equipment to Investment Property and then to inventory.

- Once again, most candidates did not attempt it.
- Some candidates were simply adding and subtracting figures in no particular order.
- Very few candidates scored high, up to the maximum marks available

QUESTION THREE

Makoo Ltd
Statement of comprehensive income for the year ended 31 December 2019

	GH¢'000
Revenue (W1)	310,000
Cost of sales (W4)	(244,100)
Gross profit	65,900
Distribution costs	(12,000)
Administrative expenses (W5)	(24,727)
Profit before interests and taxes	29,173
Finance costs (W7)	(5,650)
Profit before tax	23,523
Income tax expense (W8)	(6,000)
Profit for the year	17,523
Other comprehensive income (W9)	11,250
Total comprehensive income	**28,773**

Makoo Ltd
Statement of financial position
As at 31 December 2019

	GH¢'000
Assets	
Non-current assets	
Property, plant and equipment (W10)	188,800
Current assets	
Inventories (W4)	39,100
Trade receivables (50,000 – 2,727) (W6)	47,273
Cash and cash equivalents	24,800
Total assets	111,473
	299,973

Equity and Liabilities	
Equity	
Stated capital	154,000
Retained earnings (W11)	30,823
Revaluation surplus (W9)	11,250
Total equity	195,773
Non-current liabilities	
Lease liability (W7)	37,933
Deferred tax (W12)	11,550
Total non-current liabilities	49,483
Current liabilities	
Trade and other payables (W13)	32,000
Customer deposit	5,000
Lease liability (W7)	17,717
Total current liabilities	54,717
Total equity and liabilities	**299,973**

Workings	**GH¢'000**
1. Revenue	
As shown in Trial Balance	315,000
Adjustment for revenue not yet earned	(5,000)
	310,000

2. Inventory adjustment	**GH¢'000**
Cost of relevant components (200,000 x GH¢20)	4,000
NRV of relevant components (200,000 x (GH¢22.50 - GH¢1 - GH¢6)	(3,100)
Adjustment to cost of sales	900

3. Depreciation	**GH¢'000**
Purchased plant (90,000 x 25%)	22,500
Leased plant (70,000 x 25%)	17,500
Property (54,000/45yrs) see note below	1,200
	41,200

Note: In previous years the total depreciation on the property is 10% of the depreciable amount. So the property is 45 (50 x 90%) years old. Therefore the remaining useful life of the property is 45 years.

4. Cost of sales	**GH¢'000**
Opening inventories	32,000
Raw material purchases	150,000
Closing inventories (40,000 – 900 (W2)	(39,100)
Production costs	60,000
Depreciation (W3)	41,200
Charged to the income statement	**244,100**

5. Administrative expenses	**GH¢'000**
As per Trial Balance	22,000
Impairment of financial assets (W6)	2,727
Charged to the income statement	**24,727**

6. Impairment of financial assets	
Carrying value of trade receivable	10,000
Recoverable amount (8,000 x 1 (1.10)	(7,273)
Impairment loss	**2,727**

7. Lease liability	**GH¢'000**	**GH¢'000**	**GH¢'000**	**GH¢'000**	**GH¢'000**
Period ended	***Bal b/f***	***Payment***	***Bal in period***	***Interest @ 5%***	***Bal c/f***
30-Jun-19	60,000	0	60,000	3,000	63,000
31-Dec-19	63,000	(10,000)	53,000	2,650	55,650
30-Jun-20	55,650	(10,000)	45,650	2,283	47,933

The year-end liability is GH¢55,650,000 of which GH¢17,717 (20,000 – 2, 283) is current. The balance of GH¢37, 933 (55,650 – 17, 717) is non-current. The total finance cost for the period is GH¢5,650 (3,000 + 2,650).

8. **Taxation**	**GH¢'000**
Current year's estimate	5,000
Prior year's under provision	400
Transfer to deferred tax	600
	6,000

9. Gain on revaluation of Property	
Market value of revalued property	100,000
Previous carrying value of revalued property	(85,000)
Gross revaluation surplus	15,000
Deferred tax at 25%	(3,750)
Net revaluation surplus	**11,250**

10. Property plant and equipment	**GH¢'000**
Plant and equipment - per trial balance	60,000
Market value of property	100,000
Initial carrying value of leased plant (60,000 +10,000)	70,000
Depreciation for the year (W3)	(41,200)
	188,800

11. Retained earnings	**GH¢'000**
Opening balance	43,000
Profit for the period	17,523
Dividend	(30,000)
Closing balance	**30,523**

12. Deferred tax	**GH¢'000**
Opening balance	7,200
Transfer for the period	600
On property revaluation (W9)	3,750
	11,550

13. Trade and other payables	**GH¢'000**
Trade payables	27,000
Income tax liability	5,000
	32,000

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

(Total: 20 marks)

EXAMINER'S COMMENTS

This question was set on final account of non-group limited liability company incorporating IFRSs. The performance of candidates was not different from their performance on question two.

- Some candidates could not simply present the format for a statement of profit or loss or statement of financial position.
- Many candidates did not attempt this question.
- Candidates scored as low as 3 out of 20. Others scored zero.

QUESTION FOUR

a) Computation of ratios for Peace Limited for 2017 and 2018

	SPRING LTD			
		Formula	**2018**	**2017**
i)	ROCE	$\frac{EBIT}{Capital\ Employed} \times 100$	$\frac{52{,}000}{306{,}000} \times 100$ = 17%	$\frac{100{,}000}{261{,}500}$ = 38.24%
ii)	Assets Turnover	$\frac{Sale}{Capital\ Employed}$	$\frac{456{,}500}{306{,}000}$ =1.49 times	$\frac{420{,}000}{261{,}500}$ = 1.61 times
iii)	Current Ratio	$\frac{Current\ Asset}{Current\ Liability}$	$\frac{253{,}000}{63{,}000}$ = 4.02:1	$\frac{171{,}000}{46{,}500}$ = 3.68:1
iv)	Quick Ratio	$\frac{Current\ Asset - Inventories}{Current\ Liabilities}$	$\frac{253{,}000 - 147{,}000}{63{,}000}$ = 1.68:1	$\frac{171{,}000 - 118{,}500}{46{,}500}$ = 1.13:1
v)	Debt/Equity Ratio	$\frac{Debt}{Equity} \times 100$	$\frac{98{,}500}{207{,}500}$ x 100 = 47.47%	$\frac{62{,}000}{199{,}500} \times 100$ = 31%
vi)	Interest Cover	$\frac{EBIT}{Interest}$	$\frac{52{,}000}{14{,}500}$ = 3.59 times	$\frac{100{,}000}{3{,}000}$ = 33.33 times

(6 marks evenly spread using ticks)

b) **Report**

To: Financial Director
From: Accountant
Date: 1 November 2019
Subject: Financial Performance and Position of Peace Ltd

Following the discussions on the above subject, I wish to submit this report for your study and consideration.

Financial Performance

The financial performance of the entity is measured in terms of its profitability in relation to resources deployed during the period. Over the two years, the profit level has declined, using return on capital as a measure. ROCE compares the returns earned for a period to the net assets or capital employed used in generating that returns. There was a decline in ROCE from 38.24% for 2017 to 17% in 2018. This shows that management was not able to utilize assets more efficiently to generate higher returns.

Assets turnover which is the revenue per cedi of long-term capital used declined marginally from 1.61 times in 2017 to 1.49 times in 2018. This means that management ability to regenerate revenue for every one cedi of capital used declined in 2018.

Financial Position

The financial position of the firm is measured in terms of the short-term liquidity and long-term solvency position of the firm. In terms of liquidity, there has been an improvement in the company's ability to settle its current liabilities from its current assets from 3.68:1 (2017) to 4.02:1 (2018). Over the period the company has more equity than prior charged capital. But the proportion of capital to prior charged capital has increased from 31% (2017) to 47.47% (2018).

Conclusion

Generally, the company has experienced declining trends in its performance with the exception of liquidity.

Signed
Accountant **(10 marks)**

c) **Limitations of Ratio Earnings Per Share**

- Management knows investors rely on using EPS as a guidance for company performance so they'll naturally want the EPS figure to appear as high as possible in the short term. They may make decisions to maximise the EPS figure in the short term, which may damage the entity's prospects in the long term.
- EPS also doesn't consider cash flow. Management may focus so much on increasing the earnings figure, they start selling to bad customers who don't pay

or sell at lower margins. If the company can't earn cash to pay its bills, no matter how large the earnings are, it may be insolvent.

- EPS also ignores inflation, the price of goods and services generally may be increasing, so this could be contributing to the good EPS figure, but this growth might be misleading if the company can't buy as many goods this year as it could last year.
- Also, each company has different accounting policies; this makes it harder to compare individual companies on a like for like basis.

(***1 mark for each limitation well explained x 4 limitations = 4 marks)***

(Total: 20 marks)

EXAMINER'S COMMENTS

Financial Statement analysis using ratios. The performance was average. Very few candidates performed well on this question scoring almost all the maximum marks allocated. Surprisingly most candidates performed rather very poorly.

- Some candidates did not simply know what to do. Others stated the formulae wrongly.
- Some candidates did not know how to substitute figures from the financial statements into the equation.
- Some candidates were able to calculate correct ratios but they could not analyse them.

QUESTION FIVE

a) **Suggested course of actions**

- Mr. Julius Opuni should make his concerns known and explain to the committee members why he feels acceptance of the builder governor's offer could be inappropriate.
- He should explain that award of such a contract should be subject to a **proper tendering evaluation process**. This would ensure that any tenders awarded would be subject to a proper process with integrity.
- He should also explain that the committee needs to demonstrate a proper decision-making process that would support any contracts awarded. This would also protect the governors from any potential reputational risk that the school did not properly award contracts, especially as it is funded by public money.

(3 points @ 2 marks each = 6 marks)

b) Under the IASB Conceptual Framework, Network Bank Ltd should not recognise any asset or liability at the time it places the order, because the transaction has not taken place. There is no obligation arising from past events.
The Framework recognises purchase transactions when delivery takes place, and title passes. At this point the bank, and not the manufacturer, has assumed the risks and rewards of owning the ATM machine.

Nonetheless, the bank has made an important and irrevocable commitment. Generally, major capital spending commitments are disclosed in the notes to the financial statements

Criteria for recognition of asset or liability – 1.5 marks
Explanation of whether or not the Bank can be recognised – 1.5 marks
(3 marks)

c) As the bond is classified at fair value through the profit and loss, the fair value can be calculated by discounting expected future cash flows using the current market interest rate. Any change in fair value is taken to the profit and loss accounting for the current year.

Date	flow GH¢'000	8%	GH¢'000
31/12/19	4,000	1.0000	4,000
31/12/20	3,500	0.9259	3,240
31/12/21	42,500	0.8573	36,435
			43,675
Fall in FV charged to profit and loss			**6,325**
Carrying value of financial asset			50,000

	GH¢million	GH¢million
Cr Financial Assets (Statement of Financial Position)		6.325
Dr Retained earnings (P & L)	6.325	

Appropriate classification of the carrying value of the bond at fair value through the profit or loss	**1 mark**
Bond schedule	**3 marks**
Charge to profit or loss for the fall in fair value of bond	**1 mark**
Recognition of value of financial asset at reporting date	**1 mark**
	(6 marks)

d)

i) Control is identified by IFRS10 Consolidated Financial Statements as the sole basis for consolidation and comprises the following three elements:
   a. **Power over the investee**, where the investor has current ability to direct activities that significantly affect the investee's returns;
   b. **Exposure, or right to, variable returns** from involvement in the investee; and
   c. **The ability to use the power** over the investee to affect the amount of the investor's returns.

   Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed where the acquirer acquires more than one-half of that other entity's voting rights (unless it can be demonstrated that such ownership does not constitute control).

(1 mark)

ii) Control may also have been obtained, even when one of the combining entities does not acquire more than one-half of the voting rights of another, if, as a result of the business combination, it obtains:

- Power over more than one-half of the voting rights of the other entity by virtue of an agreement with other investors; or
- Power to govern the financial and operating policies of the other entity under a statue or an agreement; or
- Power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the other entity; or
- Power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the other entity.

(Four points for 1 mark each) (4 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This was a theory question on a number of areas. The performance was average.

a) This was on code of ethics.

Few candidates performed exceptionally well scoring the maximum mark available

Many candidates listed the principles but failed to link them to the scenario given in the question.

b) This was on IASB Conceptual Framework recognition criteria for assets. The performance of candidates was below expectation.

Candidates failed to think critically. They demonstrated lack of appreciation on the principles on the recognition of elements of financial statements.

c) This tested measurement of debt financial asset at fair value through profit or loss. It was unexpected and most candidates simply avoided it.

d) This was on conditions where an entity may have less than 50% but can still have control. It was expected to be the easiest question. Surprisingly, however, most candidates were clueless and provided very strange answers.

CONCLUSION

- Candidates should attend classes which provide quality tuition to aid them in their preparation for the exams. Previous knowledge in financial reporting from tertiary institutions may not be enough.
- Candidates should note that the only way to passing the paper is hard work. They should not pursue selective study of topics.
- Mastery of IFRSs is not an option.
- Sufficient time must be spent on studies in order to prepare well.