NOVEMBER 2021 PROFESSIONAL EXAMINATION
CORPORATE REPORTING (PAPER 3.1)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME

STANDARD OF THE PAPER

The standard of the paper was slightly lower compared to previous diets. The questions were based on the syllabus and were largely straightforward and of the right level. The mark allocation followed the weightings in the syllabus and was fairly allocated to each sub-question. Most questions were clearly stated and largely followed higher order of the cognitive domains of learning outcomes. Questions that required a considerable amount of work were commensurate with the allotted time and marks.

PERFORMANCE OF CANDIDATES

The general performance of candidates in this examination diet was better than previous diets. There was a marginal increase in the pass rate. Candidates who performed well demonstrated a clear understanding of the subject matter. Some candidates also showed abysmal performance. The poor level of preparedness of candidates is reflected in their poor performance.

QUESTION ONE

On 1 January 2016, Rafco Ltd acquired 4,500,000 GH¢1 ordinary shares of Namco Ltd for GH¢12,000,000. The balance on Namco Ltd retained earnings as at this date was GH¢2,350,000. On 1 January 2018, Namco Ltd acquired 2,560,000 GH¢1 ordinary share of Tedco Ltd for GH¢6,000,000 when Tedco Ltd retained earnings as at that date was GH¢1,600,000.

The Financial Statements of Rafco Ltd, Namco Ltd and Tedco Ltd for the year ended 31 December 2020 are as follow:

	Rafco Ltd	**Namco Ltd**	**Tedco Ltd**
Draft Income statement			
	GH¢'000	**GH¢'000**	**GH¢'000**
Sales	75,000	40,800	37,500
Cost of sales	(29,745)	(9,000)	(8,760)
Gross profit	45,255	31,800	28,740
Selling Cost	(5,480)	(3,521)	(3,264)
Administrative cost	(5,727)	(1,566)	(3,000)
Finance cost	(536)	-	-
Profit before tax	33,512	26,713	22,476
Income tax expense	(13,678)	(8,879)	(6,990)
Profit after tax	**19,834**	**17,834**	**15,486**
Draft Statement of financial Position			
Non-Current Asset	**GH¢'000**	**GH¢'000**	**GH¢'000**
Property, Plant and Equipment	58,500	40,000	21,528
Investment in Namco Ltd at cost	12,000		
Investment in Tedco Ltd at cost	-	6,000	-
	70,500	46,000	21,528
Current Assets	2,584	14,873	14,640
Total Assets	**73,084**	**60,873**	**36,168**
Equity and Liabilities			
Share Capital(GH¢1 ordinary Shares)	13,200	5,000	3,200
Retained Earnings	38,369	39,373	32,888
	51,569	44,373	36,088
Current Liabilities	21,515	16,500	80
Total Equity and Liabilities	**73,084**	**60,873**	**36,168**

Additional Information

i) It is the group's policy to value the non-controlling interest at fair value at the date of acquisition. The fair value of the non-controlling interest in Namco Ltd on 1 January 2016 was GH¢ 800,000. The fair value of the non-controlling interest in Tedco Ltd on 1 January 2018 was GH¢1,440,000.

ii) In 2020, Tedco Ltd made intragroup sales to Namco Ltd for GH¢768,000, making a profit of 25% on cost, and GH¢120,000 of these goods were in inventory as at 31 December 2020.

In 2020, Namco Ltd also made intragroup sales to Rafco Ltd for GH¢416,000, making a profit of $33^{1}/_{3}$% on cost, and GH¢96,000 of these goods were in inventory as at 31 December 2020.

iii) On 1 January 2020, Rafco Ltd sold a group of machines to Namco Ltd at their agreed fair value of GH¢3 million. At the time of the sale, the carrying amount of the machines were GH¢2 million. The estimated remaining useful life of the machines at the date of the sale was four years. Plant and machinery are depreciated to a residual value of nil using straight-line depreciation, and on 1 January 2020, the machines had an estimated remaining life of five years.

iv) An impairment test at 31 December 2020 on the consolidated goodwill of Namco Ltd and Tedco Ltd concluded that it should be written down by GH¢150,000 and GH¢100,000, respectively. No other assets were impaired.

Required:

Prepare for the Rafco Group a Consolidated Income Statement for the year ended 31 December 2020 and a Consolidated Statement of Financial Position as at that date.

(Total: 20 marks)

QUESTION TWO

a) On 1 April 2018, Mariam Plc granted 500 share appreciation rights (SARs) to its 300 employees. All of the rights vested on 31 March 2020 can be exercised from 1 April 2020 up to 31 March 2022. At the grant date, the value of each SAR was GH¢10, and it was estimated that 5% of the employees would leave during the vesting period. The fair value of the SARs is as follows:

Date	**Fair value of SAR**
31 March 2019	GH¢9
31 March 2020	GH¢11
31 March 2021	GH¢12

All the employees who were expected to leave the employment did leave the company as expected before 31 March 2020. On 31 March 2021, 60 employees exercised their options when the intrinsic value of the right was GH¢10.50 and was paid in cash. Mariam Plc is, however, confused as to whether to account for the SARs under ***IFRS 2: Share-based Payment or IFRS 13: Fair Value Measurement*** and would like to be advised as to how the SARs should have been accounted for from the grant date to 31 March 2021.

Required:
Advise Mariam Plc on how the above transactions should be accounted for in its financial statements with reference to relevant ***International Financial Reporting Standards (IFRS)***. **(7 marks)**

b) On 1 January 2020, Barikisu Ltd (Barikisu) entered into a contract with a customer to construct a specialised building for a consideration of GH¢2 million plus a bonus of GH¢0.4 million if the building is completed within 18 months. The estimated cost to construct the building is GH¢1.5 million. If the customer terminates the contract, Barikisu can demand payment for the cost incurred to date plus a mark-up of 30%. However, on 1 January 2020, due to factors outside of its control, such as the weather and regulatory approval, Barikisu is not sure whether the bonus will be achieved.

As at 31 December 2020, Barikisu has incurred a cost of GH¢1.0 million. They are still unsure as to whether the bonus target will be met. Therefore, Barikisu decided to measure progress towards completion based on the cost incurred. To date, Barikisu has received GH¢1 million from the customer.

Required:
Recommend to the directors of Barikisu how this transaction should be accounted for in the financial statements for the year ended 31 December 2020 in accordance with relevant ***International Financial Reporting Standards (IFRS)***. **(7 marks)**

c) Zunka Ltd (Zunka) is a private pharmaceutical company in Ghana, which imports medical equipment manufactured under a patent. Zunka subsequently adapts the equipment to fit the market in Ghana and sells the equipment under its own brand name. Zunka originally spent GH¢6 million in developing the know-how required to adapt the equipment, and, in addition, it costs GH¢100,000 to adapt each piece of equipment. Zunka has capitalised the cost of the know-how and the cost of adapting each piece of equipment sold as patent rights.

Zunka is being sued for patent infringement by Sajida Ltd (Sajida), the owner of the original patent, on the grounds that Zunka has not materially changed the original product by its subsequent adaptation. If Sajida can prove infringement, the court is likely to order Zunka to pay damages and stop infringing its patent. Zunka's lawyers are the view that the court could conclude that Sajida's patent claim is not valid.

Sajida has sued Zunka for GH¢10 million for using a specific patent and a further GH¢16 million for lost profit due to Zunka being a competitor in the market for this product. Zunka has offered GH¢14 million to settle both claims but has not received a response from Sajida.

As a result, the directors of Zunka estimate that the damages it faces will be between the amount offered by Zunka and the amount claimed by Sajida. The directors of Zunka would like an advice as to whether they have correctly accounted for the costs of the adaptation of the equipment and whether they should make a provision for the potential damages in the above legal case, in the financial statements for the year ended 31 March 2021.

Required:
Advise the directors of Zunka on how the above transaction should be accounted for in its financial statements for the year ended 31 March 2021 in accordance with relevant ***International Financial Reporting Standards (IFRS).*** **(6 marks)**

(Total: 20 marks)

QUESTION THREE

a) An entity sometimes displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency simply by translating all amounts at end-of-period exchange rates. This is sometimes called a convenience translation. A result of making a convenience translation is that the resulting financial information does not comply with all IFRS, particularly ***IAS 21: The effects of Changes in Foreign Exchange Rates.***

Required:
Explain the disclosure requirements when ***convenience translation*** is used to display financial information. **(5 marks)**

b) Ajara Ltd has two receivables that it has factored to a factoring agency, the GBB Bank, in return for immediate cash proceeds of less than the face value of the invoices for the year ended 31 December 2020. Both receivables are due from long standing customers who are expected to pay in full and on time. In addition, Ajara Ltd has agreed to a three-month credit period with both customers.

The first receivable is for GH¢400,000, and in return for assigning the receivable, Ajara Ltd has just received from the factor GH¢360,000. Under the terms of the factoring arrangement, this is the only money that Ajara Ltd will receive regardless of when or even if the customer settles the debt; that is, the factoring arrangement is said to be "***without recourse***".

The second receivable is for GH¢200,000, and in return for assigning the receivable, Ajara Ltd has just received GH¢140,000. Under the terms of this factoring arrangement, if the customer settles the account on time, then a further GH¢10,000 will be paid by the factoring agency, the GBB Bank to Ajara Ltd, but if the customer does not settle the account in accordance with the agreed terms, then the receivable will be reassigned back to Ajara Ltd who will then be obliged to refund to the factor the original GH¢140,000 plus a further GH¢20,000. This factoring arrangement is said to be "***with recourse***".

Required:
Advise the directors of Ajara Ltd on the proper accounting treatment of the monies received under the terms of the two factoring arrangements in the financial statements for the year ended 31 December 2020 in accordance with ***IFRS 9: Financial Instrument.*** **(5 marks)**

c) Linda is a junior member of an audit firm and has just returned to work after taking compassionate leave to care for her sick mother. For financial reasons, Linda needs to work full-time. Linda has been having difficulties with her mother's home care arrangements, causing her to miss several team meetings, which usually occur at the start of each day, and she needs to leave work early as well.

In terms of her capabilities, Linda is very competent at her work, but her frequent absence puts severe pressure on her and her overworked colleagues. Linda's manager know that workflow through the practice is coming under intense pressure and in order that the team's output is not affected, had a discussion with the audit team on Linda's circumstance. This has however led to some members of the audit team undermining Linda at every given opportunity, putting Linda under even greater stress.

Required:
i) In accordance with the IFAC's code of ethics, assess **THREE (3)** possible fundamental ethical principles that might have been breached. **(5 marks)**
ii) Recommend the possible actions that the manager should take as a member of the Institute of Chartered Accountant, Ghana in dealing with this ethical dilemma **(5 marks)**

(Total: 20 marks)

QUESTION FOUR

a) Aboto Ltd is a private company in the printing industry. It was established by the Aboto family some twenty years ago with Mrs Aboto as the Managing Director. The business has grown in size over the years and the Directors are now considering listing the company on the Ghana Stock Exchange. The financial statements of the company for the year 2020 are given below:

Statement of Profit or Loss for the Year ended 31 December 2020

	GH¢
Turnover	220,600
Cost of Sales	(58,900)
Gross Profit	161,700
Selling, general and administrative expenses	(107,900)
Profit before tax	53,800
Tax	(12,300)
Profit after tax	41,500
Proposed dividend	(16,000)
Retained profit	**25,500**

Statement of Financial Position as at 31 December 2020

Non-Current Assets	**GH¢**
Patent	40,000
Property, Plant & Equipment	236,000
	276,000
Current Assets	
Inventory	26,520
Receivables	25,800
Bank & Cash	7,200
	59,520
Total Assets	**335,520**
Equity & Liabilities	
Equity	
Share Capital	200,000
20% Irredeemable Preference Shares	35,000
Retained earnings	74,320
	309,320
Non-current liabilities	
20% Debenture	13,000
Current Liabilities	
Trade Creditors	11,600
Accrued Charges	1,600
	13,200
Total Equity & Liabilities	**335,520**

Additional information

1) The Share Capital of Aboto Ltd consists of the ordinary share capital of no par value issued at GH¢100 per share.
2) An independent valuer estimated the fair value of the Property, Plant & Equipment at GH¢500,000. Valuation charges of 2% have not been accrued for in the above accounts.
3) The inventory includes obsolete items worth GH¢5,000 being held despite persistent advice by the auditors to have them written off.
4) Receivables include an amount of GH¢12,000 resulting from the bankruptcy of a major customer. Aboto Ltd is not likely to realise any amount from this, but the directors have refused to make any provision.
5) The patents represent a right to sell a special product. This product is expected to generate cash flows of GH¢2,000 per annum indefinitely.
6) The discounted present value of future cash payments in respect of the debentures is GH¢20,000.
7) Profits after tax of Aboto Ltd over the past four years were as follows:

Year	2019	2018	2017	2016
Profits (GH¢)	38,000	36,000	32,000	30,000

8) A corporate plan prepared by the directors of Aboto Ltd in 2018 included the following positions:

Year to 31 December	**Profit after tax and depreciation**	**Depreciation**
	GH¢	**GH¢**
2019	38,000	5,600
2020	41,500	8,300
2021	43,000	12,000
2022	45,000	15,000
2023	48,000	17,000
2024	52,000	18,000
2025	60,000	20,000

9) The price-earnings ratio and a dividend yield of quoted companies in the same industry Aboto Ltd operates are 8 and 4%, respectively.
10) The net assets of Aboto Ltd as at 31 December 2019 was GH¢251,100
11) The cost of capital of Aboto Ltd is 20%.
12) Investing in unlisted securities is about 20% more risky than investing in listed securities.

Required:

Determine the value to be placed on each share of Aboto Ltd using the following methods of valuation:

i) Net assets **(4 marks)**
ii) Price-earnings ratio **(4 marks)**
iii) Dividend yield **(3marks)**
iv) Discounted cash flow **(4 marks)**

Note:

Adjustment (2), (3), (4) above would necessitate a revision of the 2020 draft profit before tax. The dividend payment will, however, not be affected.

b) What are the disclosure requirements of a parent company that is exempt from preparing consolidated financial statements and elects not to do so and instead prepares separate financial statements? **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

You are the Senior Financial Accountant at Saglema Plc (Saglema), a company that manufactures and sells painting materials in the local market and around the West African sub-region. At the first one-on-one meeting with the recently appointed chairperson of your company's governing board, she asked you to produce a concise report on Saglema's cash flow performance relative to that of Adidome Plc (Adidome), a close competitor, over the last two years.

The following are the cash flow statements for the last two years for Saglema and Adidome:

Cash flow statements for the year ended 31 August 2020 (together with comparatives)

	Saglema		Adidome	
	2020	**2019**	**2020**	**2019**
	GH¢000	**GH¢000**	**GH¢000**	**GH¢000**
Cash flows from operating activities				
Profit before tax	454,000	338,000	306,000	124,870
Depreciation	137,000	114,000	71,370	70,170
Net finance costs	19,100	29,200	11,000	37,310
Gain on sale of assets	(6,330)	(97,050)	(940)	(3,640)
	603,770	384,150	387,430	228,710
Changes in working capital:				
Decrease/(increase) in inventory	(32,000)	(5,600)	172,380	(183,000)
Decrease/(increase) in trade receivables	(176,700)	230,800	(58,040)	112,340
Increase/(decrease) in trade payables	58,560	(88,850)	59,230	(348,060)
Cash generated from operations	**453,630**	**520,500**	**561,000**	**(190,010)**
Finance costs paid	(20,330)	(29,150)	(24,000)	(49,000)
Income tax paid	(60,280)	(176,600)	(44,690)	(1,060)
Net cash from operating activities	**373,020**	**314,750**	**492,310**	**(240,070)**
Cash flows from investing activities				
Purchase of Property, Plant, and Equipment	(270,690)	(445,250)	(87,180)	(105,600)
Purchase of long-term financial investments	(129,210)	-	-	-
Proceeds from sale of non-current assets	25,060	229,630	2,320	10,980
Investment income received	30,140	24,500	11,800	10,490
Net cash from investing activities	**(344,700)**	**(191,120)**	**(73,060)**	**(84,130)**
Cash flows from financing activities				
Additional borrowings	26,640	349,750	-	-
Repayment of loans	(188,500)	(57,330)	(47,810)	(106,600)
Dividends	(113,700)	(149,230)	-	-
Rights issue	-	-	-	634,630
Net cash from financing activities	**(275,560)**	**143,190**	**(47,810)**	**528,030**
Net increase/(decrease) in cash and cash equivalents	**(247,240)**	**266,820**	**371,440**	**203,830**
Cash and cash equivalents at beginning	753,770	486,950	237,910	34,080
Cash and cash equivalents at end	**506,530**	**753,770**	**609,350**	**237,910**

Required:

i) Produce a report showing the comparative analysis of the cash flow performance and situation of Saglema over the last two years, relative to that of Adidome. **(15 marks)**

ii) Explain **TWO (2)** uses and **THREE (3)** limitations of such analysis. **(5 marks)**

(Total: 20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

a) **Rafco Group**

Consolidated Income Statement for the Year Ended 31 December 2019

	GH¢'000
Revenue (W4)	152,116
Cost of sales (W5)	(47,169)
Gross profit	104,947
Distribution costs (5,480 + 3,521 + 3,264)	(12,265)
Administrative expenses (5,727 +1,566 + 3,000 + 150 + 100)	(10,543)
Finance costs	(536)
Profit before tax	81,603
Income tax expense (13,678 + 8,879 + 6,990)	(29,547)
Profit after tax	**52,056**
Profit attributable to:	
Owners of the parent	45,968.64
Non-controlling interest (W6)	6,087.36
	52,056

b) **Rafco Group**

Consolidated Statement of Financial Position as at 31 December 2019

	GH¢'000
Property, plant & equipment (58,500+40,000+21,528–(W3)1,000+(W3)200)	119,228
Goodwill (W7)	7,240
	126,468
Current assets (2,584 + 14,873 + 14,640 – (W2) 24 – (W2) 24)	32,049
	158,517
Equity attributable to owners of the parent	
Stated capital	13,200
Retained earnings (W9)	93,171
	106,371
Non-controlling interest (W8)	14,051
	120,422
Current liabilities (21,515 + 16,500 + 80)	38,095
	158,517

Workings

1. *Group structure*

Rafco			
	90%		
Namco		Effective control interest (90% x 80%)	= 72%
	80%	∴ Effective non-controlling interest (100% - 72%)	= 28%
Tedco			100%

2. *Intragroup trading*

i) **Reversal**

Dr group revenue (768 + 416)	GH¢1,184,000	
Cr group cost of sales		GH¢1,184,000

ii) **PUP**

Namco (120 x 25/ 125)	GH¢24,000
Tedco (96 x 33 $^{1}/_{3}$/133 $^{1}/_{3}$)	GH¢24,000

Adjust in books of seller:
Dr Cost of sales/retained earnings

3. *Intragroup transfer of equipment*

i) Cancel intragroup sale/purchases:

Dr group revenue	GH¢3,000,000	
Cr group cost of sales		GH¢3,000,000

ii) Unrealised profit on the intragroup sale of equipment:
Adjust in books of the seller (Rafco):

Dr Cost of sales/retained earnings	GH¢1,000,000	
Cr Group property, plant and equipment		GH¢1,000,000

iii) Excess depreciation:

(3,000,000 – 2,000,000) x 20%		GH¢200,000

Adjust in books of the seller (Rafco):

Dr Property, plant and equipment	GH¢200,000	
Cr Cost of sales/retained earnings		GH¢200,000

4. *Revenue*

	GH¢'000
Rafco	75,000
Namco	40,800
Tedco	37,500
Less intragroup sales (W2)	(1,184)
	152,116

5. *Cost of sales*

	GH¢'000
Rafco	29,745
Namco	9,000
Tedco	8,760
Less intragroup purchases (W2)	(1,184)
Add unrealised profit on transfer of equipment (W3)	1,000
Less excess depreciation (3,000 – 2,000) x 20%	(200)
Add PUP (W2): Namco	24
Tedco	24
	47,169

6. *Non-controlling interest (income statement)*

	GH¢'000
Namco ((17,834 – (W2) 24 + 200 – 150) x 10%)	1,786
Tedco ((15,486 – (W2) 24 – 100) x 28%)	4,301.36
	6,087.36

7. *Goodwill*

	Rafco Ltd in Namco Ltd			Namco Ltd in Tedco Ltd		
	Group		NCI	Group		NCI
	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000	GH¢'000
Consideration transferred/FV NCI		12,000	800	90% × 6,000	5,400	1,440
Share of net assets acquired:						
Share capital	5,000			3,200		
Retained earnings at acquisition	2,350			1,600		
	7,350			4,800		
Group/NCI share	**90%**		**10%**	**72%**		**28%**
		(6,615)	(735)		(3,456)	(1,344)
		5,385	65		1,944	96
Impairment		(135)	(15)		(72)	(28)
		5,250	50		1,872	68
Total Goodwill			5,300 + 1,940 = **7,240**			

8. *Non-controlling interest (in SFP)*

	Namco	Tedco
	GH¢'000	GH¢'000
Net assets per question	44,373	36,088
Less: PUP (W2)	(24)	(24)
Less: Cost of investment in Tedco	(6,000)	
	38,349	36,064
	x10%	x 28%
Non-controlling interest share	3,835	10,098
Non-controlling interests in goodwill (W7)	65	96

Goodwill impairment	(15)	(28)
	3,885	10,166

Total NCI = 3,885 + 10,166 = 14,051

9. ***Retained earnings***

	Rafco GH¢'000	Namco GH¢'000	Tedco GH¢'000
Retained earnings per question	38,369	39,373	32,888
Less: PUP (W2)		(24)	(24)
Transfer of equipment (W3): PUP	(1,000)		
Excess depreciation	200		
Goodwill impairment		(150)	(100)
Pre-acquisition retained earnings		(2,350)	(1,600)
		36,849	31,164
Share of Namco (36,849 x 90%)	33,164		
Share of Tedco (31,164 x (W1) 72%)	22,438		
	93,171		

(Total: 20 marks)

EXAMINER'S COMMENTS

All candidates averagely answered this question on consolidated financial statements. Performance was average as candidates showed lack of understanding of the principles of consolidation. The question was a straightforward one with less complex consolidation adjustments.

QUESTION TWO

a) Mariam Limited will account for this transaction under the provisions of IFRS 2; Share based payments. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). IFRS 13 specifically excludes transactions covered by certain other standards including share-based payment transactions within the scope of IFRS 2 *Share-based Payment* and leasing transactions within the scope of IFRS 16 *Leases*. **(1 mark)**

Thus share-based payment transactions are outside the scope of IFRS 13. For cash settled share-based payment transactions, the fair value of the liability is measured in accordance with IFRS 2 initially, at each reporting date and at the date of settlement using an option pricing model. Unlike equity settled transactions, the measurement reflects all conditions and outcomes on a weighted average basis. Any changes in fair value are recognised in profit or loss in the period.

Therefore, the SARs would be accounted for as follows:

Year	**expense**	**liability**	**calculation**	
31st March 2019	641,250	641,250	285 x 500 x GH¢9 x ½	Time apportioned over the vesting period. Using the estimated (300 x 95%) 285 employees
31 March 2020	926,250	1,567,500	285 x 500 x GH¢11	Expense is the difference between liabilities at 31 March 2020 and 31 March 2021
31 March 2021	97,500	1,350,000	225 x 500 x GH¢12	Cash paid is 60 x 500 x GH¢10.50, i.e. GH¢315,000. The liability has been reduced by GH¢217,500 and therefore the expense is the difference of GH¢97,500

The liability's fair value would be GH¢1,350,000 at 31 March 2021 and the expense for the year would be GH¢97,500. **(4 marks)**

Statement of profit or loss for the year ended (Extracts)

	2019	2020	2021
	GH¢	GH¢	GH¢
Staff costs	641,250	926,250	97,500

(1 mark)

Statement of financial position extract as at (Extracts)

	2019	2020	2021
	GH¢	GH¢	GH¢
SARs liabilities	641250	1,567,500	1,350,000

(1 mark)
Determination of applicable standard 1 mark
Workings 4 marks
SOPL (Extract) 1 mark
SOPL (Extract) 1 mark
7 marks

b) Constructing the building is a single performance obligation in accordance with IFRS 15 Revenue.
The bonus is a variable consideration. It is excluded from the transaction price because it is not highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The construction of the building should be accounted for as an obligation settled over time. Barikisu Ltd should recognise revenue based on progress towards satisfaction of the construction of the building.

1) Overall Contract profit

		GH¢000
Contract price		2,000
Contract cost:	Costs to date	(1,000)
	Costs to complete	(500)
Overall profit		500

2) Progress
An input method calculates the progress, being costs to date compared to total costs.
1,000,000/1,500,000 =66.7% (or 2/3)

3) Statement of profit or loss

	GH¢000
Revenue (2,000,000 x 2/3)	1,333.33
Costs of sales (1,500,000 x 2/3)	(1,000)
Profit	333.33

4) Statement of financial position

	GH¢000
Costs to date	1,000
Profit to date	333.33
Less: Billed to date	(1,000)
Contract asset	333.33

Marking scheme:
Statement of profit or loss extract = 2 marks
Statement of financial position = 2 marks
Determining total contract price = 2 marks
Identifying relevant standards and principles of accounting = 1 mark
7 marks

c) In accordance with IAS 38 *Intangible Assets,* the three features to intangible assets are identifiability, control and future economic benefits. In addition, the cost of the intangible asset should be capable of reliable measurement. Development costs are capitalised only after the technical and commercial feasibility of the asset have been established. The entity must intend and be able to complete the intangible asset, and either use it or sell it and be able to demonstrate how the asset will generate future economic benefits.

It appears in principle that the above criteria may have been satisfied in the case of the costs of adapting the medical equipment imported by Zunka Ltd. However, only the costs incurred in developing the initial know-how of GH¢6 million may be capitalised as these are the costs of establishing the technical and commercial feasibility of the equipment.

The costs of adapting each piece of equipment of GH¢100,000 are simply production costs to be included in costs of sales and, if the equipment is not sold, they should be included in the inventory valuation of the equipment.

IAS 37 *Provisions, Contingent liabilities and Contingent Assets* requires that a provision be recognised if the following conditions are met:

1. present obligation (legal or constructive) due to a past event.
2. the probable outflow of economic resources to settle the obligation; and
3. the amount of the obligation can be estimated reliably.

An outflow of economic resources is deemed probable when the outflow of resources is more likely than not to occur. For an estimate of the amount of the obligation to be reliable, it is sufficient if a range of probable outcomes can be determined.

The amount recognised as a provision should be the best estimate of the expenditure that an entity would rationally pay to settle. Zunka Ltd's lawyers feel that the court could conclude that the patent claim is not valid. However, Zunka Ltd has offered GH¢14 million to settle both claims without going to court. Therefore, this implies that Zunka Ltd believes that it is more likely than not that a present obligation exists, resulting from a past event. The amount of the provision may not correspond to the amount which has been offered to Sajida Ltd as there is no certainty that Sajida Ltd will accept the offer. Therefore, as it is difficult to determine the amount of the provision within a range of probable outcomes, IAS 37 states that where a continuous range of possible outcomes exists, and each point in that ranges is as likely as any other, the mid-point of the range should be used. Thus, Zunka Ltd should recognise a provision of GH¢10 million in its financial statements at 31 March 2021 and disclose the uncertainties relating to the amount or timing of these cash outflows.

Making scheme
1 mark per valid point up to maximum of 6 marks

(Total: 20 marks)

EXAMINER'S COMMENTS
This question on selected accounting standards (IFRS) was difficult for most candidates. Candidates performed poorly in this question, with most candidates leaving the question unanswered. It seems candidates were not familiar with IFRS provisions of shared-based payments and particularly share appreciation rights. Some, however, averagely answered the part of the question dealing with revenue from a contract with customers and intangible assets.

QUESTION THREE

a) The disclosure requirement when convenience translation is used include:

- Identify the information as supplementary information to distinguish it from the information that complies with IFRS.
- Disclose the currency in which the supplementary information is displayed.
- Disclose the entity's functional currency and the method of translation used to determine the supplementary information. **(5 marks)**

b) Accounting for factoring arrangements depends on whether there have been sales of receivables or the arrangement is a financing one with receivables used as collateral. This is determined by using the substance of the transaction as to whether rewards and risks associated with the debtors, which is bad debt, is transferred to the factor or retained by the entity.
The testing principle at stake with de-recognition or otherwise of receivables is whether, under the factoring arrangement, the risks and rewards of ownership pass from the trading company that is, Ajara Ltd in accordance with IFRS 9. The principal risk with regard to receivables is the risk of bad debt. In the case of non-recourse (without) factoring arrangements, the entity transfers the risk of bad debt to the factor and hence the arrangement represents sales of the receivable. On the other hand, for a (with) recourse factoring arrangement, the entity retains the risk of losses of receivables or bad debt.

The GH¢360,000 has been received as a one-off, non-refundable sum in the first arrangement. This is factoring without recourse for bad debts. The risk of bad debt has clearly passed from Ajara Ltd to the factoring agency, the GCB Bank Ltd. Accordingly, Ajara Ltd should derecognise the receivable and there will be an expense of GH¢40,000 recognised. No liability will be recognised.
(2.5 marks)

In the second arrangement, the GH¢140,000 is simply a payment on account. More cash may be received by Ajara Ltd, meaning that Ajara Ltd retains an element of reward. The monies received are refundable in the event of default and as such, represent an obligation. This means that the risk of slow payment and bad debt remains with Ajara Ltd and not the factoring agency, the GCB Bank, who is liable to repay the monies so far received. As a result, despite the passage of legal title of the asset (i.e. receivable) should remain recognised in the accounts of Ajara Ltd. In substance, Ajara Ltd has borrowed GH¢140,000, and this loan should be recognised immediately. This will increase the gearing of Ajara Ltd. **(2.5 marks)**

c) i)
The case is on Linda, a junior audit member faced with juggling disturbing family issue of the mother's ailment and her work schedule, as part of an audit team. However, Linda's situation has been brought to the notice of the Audit manager, and the manager has also informed team members of her current challenge.

Unfortunately, some team members have rather decided to put her under even greater stress
despite being told this.

Integrity:
Linda might have breached the principle of integrity as she has not been honest and straightforward in her employment with the company. The circumstance of Linda clearly, shows that she is not in the position to work on a full-time basis but chose to do full-time on purely financial grounds.
As the manager of Linda, you could easily violate the principle of integrity. Therefore, you need to ensure that you are always fair to all those involved and act straightforwardly and honestly.

Professional competence and due care
Though the competence of Linda is not in doubt, as a result of not finding enough time for her job, the diligence expected that she executes her assigned duties is or will be missing. The principle of professional competence and due care might have been breached;

Objectivity
The "compassionate" approach used by the manager in handling Linda's issue also raises an issue on the objectivity required by professionals in managing positions or handling tasks. Linda, on this same matter of taking care of her ailing mother, was given a compassionate leave and after her resumption to work, is being "managed" even though the manager is aware of the negative effect of her lateness and absence at team meetings on the work flow and the team's performance. There seems to be some sort of "bias" demonstrated by the manager in handling the issue. The manager wants the team members to help overcome the problem caused by Linda's current challenge without any action being taken against Linda. The principle of objectivity is seemingly breached here.

Confidentiality:
As the manager of Linda, you owe a duty of confidentiality to the staff involved. Therefore, do not disclose the personal circumstances of Linda to others without her permission to do so unless it is in the public interest or related to her employment contract. It would be best if you, the manager, remind the other team members to ensure that the confidentiality of Linda's situation is maintained.

Professional behaviour:
The manager must ensure that all relevant laws and regulations are followed to ensure that he or she can proceed with dealing with the matter so as not to discredit himself or herself, his or her profession or the practice for which you the manger work for.
Therefore, consider the firm's policies, procedures and guidelines, best practices and, with legal assistance if required, applicable laws and regulations. The manager needs to refer to a staff handbook or similar internal publication if there is one. The manager also needs to consider whether it is his or her proper role to

manage this staffing issue. Finally, the manager needs to check the appropriateness of referring the issue to the department responsible for personnel issues if the practice has one.

(Any 3 points well explained @ 1.67 marks each = 5 marks)

ii)

Possible causes of action

- As Linda's manager, you need to check all the relevant facts. If necessary, clarify staff procedures with the personnel department. Take legal advice if required.
- Discuss the matter with the junior member of staff. Possible solutions may include suggesting a more flexible approach to team meetings. Do these always have to be in the morning? At times, working from home may be an option for the junior member of staff, especially with recent technologies such as MS Teams, Zoom, Voov, to mention but a few.
- You also need to deal with Linda's colleague member of staff, who needs to be reminded about proper conduct and how such behaviour may amount to harassment and be in breach of the practice's code of conduct.
- The process of considering the issues and trying to identify a solution enables you to demonstrate that you are behaving professionally and attempting to resolve the difficulties faced by Linda, a junior member of staff. Throughout, it would be best if you were seen to be acting reasonably – both towards Linda, the junior member of staff, who is responsible for taking care of her mother's sickness and towards other members of staff as well.
- After you have considered all reasonable compromises, if the conclusion is reached that Linda, the junior employee, cannot carry out the work for which she was employed, you must turn your attention to her ongoing employment within the practice.
- This will probably be out of your hands, and you should deliver the relevant facts of the situation to the personnel department or the owners of the practice.
- You need to ensure that appropriate confidentiality must always be maintained.
- You need to document, in detail, the steps that you take in resolving your dilemma in case your ethical judgement is challenged in the future.

(Any 3 points @ 1.67 marks each = 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

The question was in two parts: accounting standards and ethics. As usual, the accounting standards part of the question dealing with the effects of changes in foreign exchange rates and factoring of receivables under financial instruments were poorly answered by most candidates. A more significant percentage of the marks earned by candidates came from the ethics part of the question. Candidates provided reasonable responses regarding the potential fundamental ethical breaches and the possible courses of action to be taken.

QUESTION FOUR

a)

i) **Net assets method**

$\frac{\text{Fair value of assets less fair value of liabilities}}{\text{No of ordinary shares in issue}}$

	GH¢
Property, plant & equipment	500,000
Patent (2,000/0.20)	10,000
Inventory (26,520-5,000)	21,520
Receivables (25,800-12,000)	13,800
Cash & Bank	7,200
Trade payables	(11,600)
Accrued charges (1,600 +10,000)	(11,600)
20% Debenture	(20,000)
20% irredeemable preference shares	(35,000)
	474,320

Net assets-Alternative method (equity method)

	GH¢
Equity per given SOFP	309,320
20% preference share capital	(35,000)
	274,320
Revaluation differences:	
Patent (10,000-40,000)	(30,000)
PPE (500,000-236,000)	264,000
20% debenture (20,000-13,000)	(7,000)
Obsolete stock	(5,000)
Bad debt	(12,000)
Valuation charges (2% *500,000)	(10,000)
Total Value	**474,320**

No of shares 2,000

Value per share = $474,320/2,000$ = GH¢237.16 **(4 marks)**

ii) **Price-earning ratio method**

Estimating earnings using the ***current year's profit*** *(i.e profit after tax less preference share dividend of FY 2020).*

		GH¢
Profit after tax		41,500
Less:		
Valuation charges	(2% x 500,000)	(10,000)
Obsolete Inventory		(5,000)
Bad debts		(12,000)
Adjusted Profit After Tax		14,500

Equity dividend

Proposed dividend	16,000
Preference share dividend (20% x 35,000)	(7,000)
	9,000

EPS $= \frac{14{,}500 - 7{,}000}{2{,}000}$ = GH¢3.75 per share

Since Aboto Ltd is not listed, it is necessary to use P/E ratio of 80% counterparts on the exchange. The P/E ratio of 8 should be deflated as profit growth is uncertain and the shares are less market table.
If the P/E ratio is marked down from 8 to 6.4:
Value per share = 6.4 x GH¢3.75
= GH¢24 per share **(4 marks)**

iii) **Dividend yield method**
Shares are valued by reference to prospective future dividends.

Value per share = $\frac{\text{Required dividend}}{\text{Required dividend yield}}$

As Aboto Ltd, an unlisted company, intends listing, it must offer a dividend that compares favourably with quoted companies in the same industrial section.

Dividend per share = $\frac{\text{GH¢}(16{,}000-7{,}000) = 9{,}000}{2{,}000}$
= GH¢4.5 per share

Dividend yield of similar company = 4%

Incorporating risk differential in the dividend yield = 4 x 1.20 = 4.80%

Value per share = $\frac{4.5}{0.048}$
= GH¢93.75per share **(3 marks)**

iv) **Discounted cash flow**
Cash flows are discounted to their present values raising the cost of capital. The sum of the present values (PVs) of the cash flows divided by the number of shares gives the value per share.

Years	Profit after tax	Depreciation	Cash flows	DCF@20%	PV
2021	43,000	12,000	55,000	0.833	45,815
2022	45,000	15,000	60,000	0.694	41,640
2023	48,000	17,000	65,000	0.579	37,635
2024	52,000	18,000	70,000	0.482	33,740
2025	60,000	20,000	80,000	0.402	32,160
					190,990

Value per share = $\frac{190,990}{2,000}$

= GH¢95.50 per share **(4 marks)**

b) When a parent, in accordance with paragraph 4(a) of IFRS 10, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:

1. The fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and principal place of business (and country of incorporation, if different) of the entity whose consolidated financial statements that comply with International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable.
2. A list of significant investments in subsidiaries, joint ventures and associates, including:
   - the name of those investees.
   - The principal place of business (and country of incorporation, if different) of those investees.
   - its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.
3. A description of the method used to account for the investments listed under (2).

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question was expected to be one of the simplest for candidates. As such, most candidates earned very high marks on this question. They could use the net assets, price-earning ratio and dividend bases to determine the value per share. Surprisingly, almost all candidates failed to appropriately answer the second part of the question related to the disclosure requirements of a parent company that is exempt from preparing consolidated financial statements and elects not to do so and instead prepares separate financial statements.

QUESTION FIVE

a) **Report**

To: Board Chairperson
From: Senior Financial Accountant
Date: 1/1/2021

Subject: Cash flow performance and situation of Saglema
This report analyses the cash flow performance of Saglema, relative to its competitor, Adidome, between 2019 and 2020 financial periods on the basis of published statements of cash flows.

Movements in cash and cash equivalents
Saglema has reported a net decrease in cash and cash equivalents in 2020, a drop in cash flow performance compared to last year. This contrasts sharply with the situation at Adidome, which experienced not just positive net cash flows in 2020 but an improvement in its cash generation over last year. The decline in cash balances at Saglema in the current period came about more cash was spent heavily in returning monies to lenders and shareholders and acquiring new long-term assets. However, it generated positive flows from operating activities. But Adidome was less active in its investment efforts and returned a relatively smaller amount to lenders.
Saglema has maintained a huge cash balance at 2020 yearend if these balances are related to outflows under investing and financing activities, though this situation is not any different at Adidome. Could the idle cash of our company not have been released to invest profitably elsewhere?

Cash flows from operating activities.
Both companies had seen improvement in their profits before tax though Adidome more than doubled its numbers over the two years. However, Saglema appears more profitable in absolute terms. In relative terms, Saglema is likely to underperform Adidome as the larger depreciation and amortisation charges of Saglema may suggest a larger asset base being employed. Profits are sufficiently backed by cash from operations by both firms. But given that it has turned negative cash from operations figure last year to a huge positive figure this year, Adidome has performed creditably better in managing its operations in 2020 over last year. Saglema, meanwhile, has suffered some reduction in its cash generated from operations. The better operational performance by Adidome was due to both improved profit performance and much better management of working capital. It has managed inventory and payables so well this year by reversing the slow inventory turnover and short supplier payment period experienced in 2019 even though collections from the customer slowed in 2020. Saglema's situation is explained mainly by poor working capital management, given its improved profit generation. Clearly, sale of inventory has become even slower in 2020 and much more significantly, very slow collections have replaced the accelerated collections

in 2019 as receivables have badly built up in 2020. These could only be partially helped by the hold-up in supplier settlement.

Cash flows from investing activities.
Both Saglema and Adidome have undertaken some investments in long-term assets over the two years. The numbers show that they are both trying to scale their operations, albeit at a slower rate. However, Saglema appears more active in this regard. Saglema has been increasing its investment in both non-financial and financial assets. The huge investment in financial assets in 2020 by Saglema and its relatively higher investment returns may indicate that it is more committed than Adidome to diversifying asset portfolio. The two have used different mixes of funds to finance their investment. While Saglema has relied on operating cash flows, asset sale, borrowings and positive cash balance over the two years, Adidome has mainly used share issue and operating cash flows to fund the new assets.

Cash flows from financing activities.
Saglema appears to favour the use of debts to augment its own resources, while Adidome prefers to rely on equity finance. Saglema's net financing flows had become negative in 2020 from the positive in 2019 when it received new large loans. This year, it has borrowed less than how much has been repaid to lenders and distributed to shareholders. Though large amount of loans have been repaid, Saglema seems to be more geared than Adidome, which obtained a huge amount from equity holders and at the same time repaid lenders last year. Saglema has consistently made dividend payments over the two years, in sharp contrast with Adidome, which has paid nothing over the period. Saglema's dividends are safely covered by net cash from operating activities and appear sustainable. Though it is possible the zero distribution by Adidome could mean it may have some future commitments to fulfil with the cash reserved or its shareholders are not dividend dependent, this situation does not provide a good signal to market players about Adidome.

Conclusion
In sum, our company has fared well in managing its operations to generate enough cash flows as well as profit, though Adidome has done remarkably better in 2020 than us. Going forward, we should take a close look at working capital management and improve upon it. Saglema has been active in committing resources to long-term assets and diversifying its activities and relied more on internal resources and debt finance, when compared to Adidome. Finally, I suggest we should identify better ways of releasing the large cash balance to undertake more profitable ventures than keeping the monies in cash equivalents.
Should any need arise for clarification, you may contact me through my official mail.
(Signed)
Accountant

(15 marks)

b) **Uses of cash flow analysis may include:**

- Investors, lenders, and other creditors are most interested in an entity's ability to generate future net cash inflows, so assessing cash flow position would enable users to appreciate how well entities have deployed their resources to generate cash flows from their activities.
- Users are able to assess the quality of reported profit. Cash generated from operations is a useful indication of the quality of the profits generated by a business. Good quality profits will generate cash.
- Users learn how the entity generates and spends its cash and cash equivalents.
- Cash flow information has some predictive value. It may assist stakeholders in making judgements about the amount, timing and certainty of future cash flows. Users can form reasonable expectations about the entity's future cash flows in terms of amount and terms of nature.
- It can provide valuable information to stakeholders on the financial adaptability of the entity.

(Any 2 points @ 1 mark each = 2 marks)

Limitations of this analysis may include:

- Cash flow performance, unlike profit performance, can be affected by one-off payments or receipts.
- Cash receipts and payments can be manipulated. Entities may intentionally delay payments in order to meet flow target.
- Comparing two different entities based on cash flow statements may be flawed as different items can be presented in different classes.
- The analysis is based on historical information and might not predict the entity's future cash flows or performance. The statement is based on past cash receipts and payments.
- Significant non-cash transactions of the entity have not been considered.
- It does not properly assess the company's liquidity as it only presents the cash position analysis.

(Any 3 points @ 1 mark each = 3 marks)

(Total: 20 marks)

Workings/appendix

`	Saglema				Adidome			
	2020	**2019**	**Change**	**% Change**	**2020**	**2019**	**Change**	**% Change**
	GH¢000	**GH¢000**	**GH¢000**		**GH¢000**	**GH¢000**	**GH¢000**	
Cash flows from operating activities:								
Profit before tax	454,000	338,000	116,000		306,000	124,870	181,130	
Depreciation	137,000	114,000	23,000		71,370	70,170	1,200	
Net finance costs	19,100	29,200	- 10,100		11,000	37,310	- 26,310	
Gain on sales of assets	- 6,330	- 97,050	90,720		- 940	- 3,640	2,700	
	603,770	384,150	219,620		387,430	228,710	158,720	
Changes in working capital:								
Decrease/(increase) in inventory	- 32,000	- 5,600	- 26,400		172,380	- 183,000	355,380	
Decrease/(increase) in trade receivables	- 176,700	230,800	- 407,500		- 58,040	112,340	- 170,380	
Increase/(decrease) in trade payables	58,560	- 88,850	147,410		59,230	- 348,060	407,290	
Cash generated from operations	**453,630**	**520,500**	- 66,870	-12.85	**561,000**	**- 190,010**	751,010	-395.25
Finance costs paid	- 20,330	- 29,150	8,820	-30.26	- 24,000	- 49,000	25,000	-51.02
Income tax paid	- 60,280	- 176,600	116,320	-65.87	- 44,690	- 1,060	- 43,630	4116.04
Net cash from operating activities	**373,020**	**314,750**	58,270	18.51	**492,310**	**- 240,070**	732,380	-305.07
			-				-	
Cash flows from investing activities:			-				-	

Purchase of property, plant and equipment	- 270,690	- 445,250	174,560	-39.2	- 87,180	- 105,600	18,420	-17.44
Purchase of long-term financial investments	- 129,210	-	- 129,210		-	-	-	
Proceeds from sale of non-current assets	25,060	229,630	- 204,570	-89.09	2,320	10,980	- 8,660	-78.87
Investment income received	30,140	24,500	5,640	23.02	11,800	10,490	1,310	12.49
Net cash from investing activities	**- 344,700**	**- 191,120**	- 153,580	80.36	**- 73,060**	**- 84,130**	11,070	-13.16
							-	
Cash flows from financing activities			-				-	
Additional borrowings	26,640	349,750	- 323,110	-92.38	-	-	-	
Repayment of loans	- 188,500	- 57,330	- 131,170	228.8	- 47,810	- 106,600	58,790	-55.15
Dividends	- 113,700	- 149,230	35,530	-23.81	-	-	-	
Rights issue	-	-	-		-	634,630	- 634,630	-100
Net cash from financing activities	**- 275,560**	**143,190**	- 418,750	-292.44	**- 47,810**	**528,030**	- 575,840	-109.05
			-				-	
Net increase/(decrease) in cash and cash equivalents	**- 247,240**	**266,820**	- 514,060	-192.66	**371,440**	**203,830**	167,610	82.23
cash and cash equivalents at beginning	753,770	486,950	266,820	54.79	237,910	34,080	203,830	598.09
cash and cash equivalents at end	**506,530**	**753,770**	- 247,240	-32.8	**609,350**	**237,910**	371,440	156.13

EXAMINER'S COMMENTS

The question was on the analysis of cash flow statement. Most candidates were unfamiliar with cash flow statement analysis. They, however used their knowledge of financial statements analysis to respond averagely to the question. The question was in two parts. Part one required a comparative analysis of one entity's cash flow performance and situation over two years, relative to that of another entity. The second part was basically on the uses and limitations of cash flow analysis. Most candidates could not provide the horizontal analysis for the comparative analysis. In addition, most candidates did not relate their analysis to the context set out in the question. Some, however, used the cash flow statements provided in the question to comment on the cash flow performance and situation of both entities. The candidate must always be mindful that the syllabus does not limit financial statement analysis to only the statement of profit or loss and the statement of financial position. Another area of concern is report writing and the format of writing reports. Some of the candidates failed to write a report using the appropriate form.

CONCLUSION

As indicated earlier, overall, candidates performed better than previous diets. However, the nature of candidates' responses suggest that there is evidence of ill preparation and lack of appreciation of accounting standards. It seems that the exemptions granted to most candidates is a factor of poor performance, given that candidates lack the pre-requisite knowledge and competence for corporate reporting. It is suggested that candidates preparing for a corporate reporting paper should thoroughly revise the financial reporting paper even when they are exempted from taking the financial reporting paper.