MAY 2020 PROFESSIONAL EXAMINATION
CORPORATE REPORTING (PAPER 3.1)
CHIEF EXAMINER'S REPORT, QUESTIONS & MARKING SCHEME

EXAMINER'S GENERAL COMMENT

Compared to the November 2019 sitting, the questions for the May 2020 sitting is relatively moderate in terms of the difficulty level. The May 2020 sitting which took place in July 2020 as a result of the Covid-19 pandemic is the second examination sitting after the introduction of the 2019 to 2024 syllabus. The marking scheme was appropriate and provided a clear marking guide. Marking of scripts was generally fair.

Candidates' performance was relatively outstanding compared to the last couple of exam diets. The weight of the high performance of the candidates resulted from excellent responses to the questions on analysis of financial statements, capital reduction and the question on ethics. Majority of the candidates could not adequately answer the consolidation question as well as the question on accounting standards.

STANDARD OF THE PAPER

The standard of the questions was appropriate for the level being assessed. The requirements of the questions were clear. The difficulty level of the paper is 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 questions required critical thinking and a good mastery of the relevant areas of the syllabus.

The mark allocations generally followed the weightings in the syllabus grid. Marks were fairly allocated to questions and sub questions. The marks allocated to questions were commensurate with the amount of time and effort required to answer the questions.

PERFORMANCE OF CANDIDATES

There was much improvement in candidates' performance compared with previous sittings. The pass rate exceeded 59% as compared to the previous pass rate of 37%.

The outstanding performance was partly because the questions were clear and the requirements not overloaded. Additionally, candidates were fairly prepared for the paper. This notwithstanding, candidates who could not pass lacked the technique of answering examination questions or were simply not adequately prepared for the examinations.

Candidates' performance was consistent and was evenly spread across most centres. A few centres however recorded very low pass rates. There were no signs of copying at any centre. The worst attempted question was the question on the application of IFRS and the question on preparing consolidated financial statements. Candidates lacked the skills to apply the IFRS to the given scenarios and were unable to prepare consolidated financial statements.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

- Most candidates performed better at the theory questions but performed poorly at the questions that required application of concepts to given cases.
- Most candidates could not perform computations as required.
- Candidates' weakest point was application of IFRS and preparation of financial statements.
- On the theory questions, most candidates spent a lot of their time discussing issues not immediately relevant to the question: giving backgrounds, providing lengthy introductions, defining irrelevant terminology etc.
- The fundamental weaknesses observed is lack of appropriate knowledge, bad strategy in use of time, wrong order in which questions were attempted, and inability to apply concepts to practical scenarios.
- Most candidates could not effectively communicate their ideas on the answer booklets.
- Candidates lacked effective time management skills.
- Some candidates numbered their questions wrongly.
- Some candidates had very poor handwriting which made it difficult to read the answers properly.
- Some candidates answered the same question on several non-conservative pages without cross referencing. This made tallying their marks very difficult.
- Some candidates displayed inadequate knowledge of the issues in the syllabus.
- Other candidates clearly were poorly prepared for the paper.

QUESTION ONE

Phato Ltd, is a Public Limited Liability Company which operates in the service sector in Ghana. Phato Ltd has business relationship with two other Ghanaian companies, Sakara Ltd and Saadi Ltd, which are public limited liability companies too. The draft statements of financial position of these three companies are below as at 30 September 2019.

	Phato Ltd GH¢million	Sakara Ltd GH¢million	Saadi Ltd GH¢million
Assets:			
Non-current assets			
Property, plant and equipment	460.0	150.0	155.0
Investment in subsidiaries			
Sakara Ltd	365.0		
Saadi Ltd		160.0	
Investment in Azuri Ltd	24.0		
Intangible assets	99.0	15.0	17.5
	948.0	325.0	172.5
Current assets	447.5	240.0	125.0
Total assets	**1,395.5**	**565.0**	**297.5**
Equity and liabilities			
Share capital	460.0	200.0	100.0
Other components of equity	36.5	18.5	12.5
Retained earnings	447.5	221.0	69.5
Total equity	944.0	439.5	182.0
Non-current liabilities	247.5	61.5	46.5
Current liabilities	204.0	64.0	69.0
Total liabilities	451.5	125.5	115.5
Total equity and liabilities	**1,395.5**	**565.0**	**297.5**

Additional relevant information:

i) Phato Ltd, on 1 October 2017, acquired 60% of the equity interests of Sakara Ltd. The cost of investment comprised cash of GH¢360 million. At acquisition, the fair value of the non-controlling interest in Sakara Ltd was estimated at GH¢146 million. On acquisition date, the fair value of the identifiable net assets acquired totalled GH¢417.5 million and the retained earnings of Sakara Ltd were estimated to be GH¢159.5 million whilst other components of equity were GH¢13.5 million. The excess in fair value is resulting from a non-depreciable land.

ii) Sakara Ltd on 1 October 2018, acquired 70% of the equity interests of Saadi Ltd for a cash consideration of GH¢160 million. The fair value of a 30% holding of the non-controlling interests was estimated at GH¢36 million, and a 58% holding was GH¢80.5 million. At the date of acquisition, the identifiable net assets of Saadi Ltd had a fair value of GH¢181 million, retained earnings were GH¢53 million and other components of equity were GH¢10 million. The excess in fair value is due to non-depreciable land. It is the group's policy to measure the non-controlling interest at fair value at the date of acquisition.

iii) On 1 October 2017, Phato Ltd acquired a 14% interest in Azuri Ltd, for a cash consideration of GH¢9 million. The investment was accounted for under ***IFRS 9: Financial Instruments*** and was designated as at fair value through other comprehensive income. On 1 April 2019, Phato Ltd acquired an additional 16% interest in Azuri Ltd for a cash consideration of GH¢13.5 million and achieved significant influence. The value of the original 14% investment on 1 April 2019 was GH¢10.5 million. Azuri Ltd made profits after tax of GH¢10 million and GH¢15 million for the years to 30 September 2018 and 30 September 2019 respectively. On 30 September 2019, Phato Ltd received a dividend from Azuri Ltd amounting to GH¢1 million, which has been credited to other components of equity.

iv) Phato Ltd purchased patents amounting to GH¢5 million to use in a project to develop new products on 1 October 2018. Phato Ltd has completed the investigative phase of the project, incurring an additional cost of GH¢3.5 million and has now determined that the product can be developed profitably. An effective and working prototype was created at a cost of GH¢2 million and in order to put the product into a condition for sale, a further GH¢ 1.5 million was spent. Finally, marketing costs of GH¢1 million were incurred. All of the above costs are included in the intangible assets of Phato Ltd.

v) Impairment tests were conducted for both Sakara Ltd and Saadi Ltd on 30 September 2019. The recoverable amounts of both cash generating units as stated in the individual financial statements as at 30 September 2019 were Sakara Ltd, GH¢712.5 million, and Saadi Ltd, GH¢302 million, respectively. The directors of Phato Ltd felt that any impairment of assets was due to the poor performance of the intangible assets and it was deemed that other assets were already held at recoverable amount. The recoverable amounts have been determined without consideration of liabilities which all relate to the financing of operations.

Required:
Prepare the consolidated statement of financial position for the Phato Ltd Group as at 30 September 2019.

(20 marks)

QUESTION TWO

a) On 1 January 2018, Asankragua Ltd (Asankragua) applied to a government agency for a grant to assist with the construction of a factory in Enchi. The proposed construction cost of the factory was GH¢52 million and the company projected that 350 people would be employed after completion. The land was already owned by Asankragua.

On 1 March 2018, the government agency offered to grant a sum amounting to 25% of the factory's construction cost to a maximum of GH¢13 million. The grant aid was to be advanced on completion, and would be repayable on demand if total employment at the factory fell below 300 people within 5 years of completion.

At the financial year end, 31 March 2018, Asankragua had accepted the offer of grant aid, and had signed contracts for the construction of the factory at a total cost of GH¢52 million. Construction work was due to commence on 1 April 2018.

By 31 March 2019, the factory had been completed on budget, 400 people were employed ready to commence manufacturing activities, and the government agency agreed that the conditions necessary for the drawdown of the grant had been met.

On 1 April 2019, the factory was brought into use. It was estimated that it would have a ten-year useful economic life. On 1 June 2019, the government agency paid over the agreed GH¢13 million. In addition, the company sought and was paid an employment grant of GH¢1.2 million as employment exceeded original projections. This is expected to be payable annually for 5 years in total, at a rate of GH¢12,000 per additional person employed over 300 in each year. There are no repayment provisions attached to the employment grant.

The directors of Asankragua expect employment levels to exceed 350 people for at least 4 further years from 31 March 2020.

Required:
Demonstrate, showing calculations and relevant entries, how Asankragua Ltd should record the above transactions and events in its financial statements for years ended 31 March 2018, 2019 and 2020.

(9 marks)

b) Dompoase Ltd incurred the following borrowing costs during the financial year 2018:

	GH¢'000
Overdraft interest	12
Foreign currency loan interest (correctly translated into GH¢)	84
Foreign currency loan exchange differences on capital	140

In addition a three-year fixed rate GH¢2 million loan was taken out on 1 January 2018 at 6.5%. A loan set-up fee was charged at GH¢20,000. This increased the effective interest rate on the loan to 6.88%.

Required:
Determine the maximum amount that could potentially be capitalised as borrowing costs during the period (assuming an asset was being financed using all available finance). **(5 marks)**

c) Nzema prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) with financial year end 31 December 2018. On 1 January 2018, Nzema commenced a defined benefit pension plan for a number of head office employees. Under the pension scheme, Nzema has an obligation to provide these staff with agreed post-employment benefits. Nzema carries the actuarial and investment risk associated with the pension scheme.

The following information has been compiled from workings by Nzema's accounting staff and actuarial reports for the 2018 financial year:

	GH¢
Interest Income on plan assets	16,500
Employer contributions to plan	550,000
Current service cost	600,000
Interest on plan liability	18,000
Fair value of plan assets at 31/12/2018	580,000
Present value of plan obligation at 31/12/2018	620,000

The Accountant was not sure which accounting standard to apply when accounting for the pension scheme. The only adjustment made to account for the scheme was to expense the company's contributions of GH¢550,000 for the 2018 financial year in the Statement of Profit or Loss and Other Comprehensive Income and to credit the 'Cash' account.

Required:
Recommend, with appropriate calculations the necessary accounting treatment for this accounting issue. **(6 marks)**

(Total: 20 marks)

QUESTION THREE

a) Medina Power Ltd has carried out certain transactions denominated in foreign currency during its financial year ended 31 October 2019 and has also conducted foreign operations through a foreign entity. Medina Power Ltd.'s functional and presentation currency is the cedi.

On 31 July 2019 Medina Power Ltd purchased goods from a foreign supplier for 16 million dinars. At 31 October 2019, the supplier had not yet been paid and the goods were still held in inventory by Medina Power Ltd.

On 31 July Medina Power Ltd sold goods to a foreign customer for 8 million dinars and it received payment for the goods in dinars on 31 October 2019.
Medina Power Ltd had also purchased an investment property on 1 November 2018 for 56 million dinars. At 31 October 2019, the investment property had a fair value of 48 million dinars. The company uses the fair value model in accounting for investment properties.

Medina Power Ltd wants advice on how to treat these transactions in the financial statements for the year ended 31 October 2019.

Exchange rate (direct quotes)	**GH¢/1**	**Average rate for year to:**
1 November 2017	GH¢0.9091/1 dinar	
31 October 2018	GH¢0.7143/1 dinar	1 GH¢0.8333/1 dinar
1 November 2018	GH¢0.7143/1 dinar	
31 July 2019	GH¢0.6250/1 dinar	
31 October 2019	GH¢0.7692/1 dinar	GH¢0.6667/1 dinar

Required
Discuss the accounting treatment of the above transaction in accordance with the advice required by the directors.
(You should show detailed workings as well as a discussion of the accounting treatment used.)

(10 marks)

b) You have just obtained your full membership with the Institute of Chartered Accountants (Ghana). Following this successful achievement, you have been appointed as the Head of Finance at Asasiyemedeh Company Limited, a Ghanaian company, which provides catering services. Your former employer Akwaba Limited is a large public sector organization operating in Accra, where, as the Financial Accountant, you had the opportunity to work on areas relating to financial accounting, procurement, contracts and bids. One of Asasiyemedeh Company Limited's major contracts is with Akwaba Limited, your former employer. The contract is now due for renewal, and Asasiyemedeh Company Limited is preparing a competitive bid for this contract.

You have been tasked to lead the team responsible for bidding for this contract, but you are concerned as a professional that you might breach confidentiality if you accept this role. You also suspect that your knowledge and experience of Akwaba Limited were seen as good reasons for appointing you to the position of Head of Finance at Asasiyemedeh Company Limited. You do not in any way want to let your new employer down as you are aware that the loss of such a major contract would have a significant effect on the financial performance of Asasiyemedeh Company Limited, and its performance-related bonus scheme for management members.

Required:

i) Discuss the ***ethical issues*** raised in the above scenario. **(5 marks)**

ii) Recommend the ***possible courses of action*** that you will take in order to be ethically responsible as expected from a Professional Accountant. **(5 marks)**

(Total: 20 marks)

QUESTION FOUR

Sasasila Ltd has been operating profitably for a number of years now. However, in recent times, the company has been making losses. Find below the statement of financial position as at 30 June 2019.

Assets	**GH¢000**
Non-Current Assets	
Patents and copyrights	75,000
Land and buildings (net)	200,000
Plant and machinery (net)	150,000
	425,000
Current Assets	
Inventories	125,000
Trade receivables	125,000
Bank	37,500
Investments (cost)	100,000
	387,500
Total Assets	**812,500**
Equity and liabilities:	
Equity:	
Ordinary share capital (issued at GH¢10 each)	375,000
20% cumulative preference shares (issued at GH¢10 each)	175,000
Retained earnings	(75,000)
	475,000
Non-current Liabilities	
15% Debentures	125,000
Current Liabilities	
Interest on debentures	18,750
Trade payables	93,750
Provision for business restructuring	50,000
Provision for legal damage & claims	12,500
Provision for warranties	37,500
	212,500
Equity and liabilities	**812,500**

Additional relevant information:

The following scheme of reconstruction was approved by all parties as well as the High Court with the exception of only one ordinary shareholder:

i) The ordinary shares were to be reduced to GH¢5 per share.
ii) The preference shares were to be reduced to GH¢7.5 per share and arrears in dividend thereof for three years were to be cancelled from the company's books.

iii) **The fair values of the assets were agreed at the following values:**

	GH¢000
Patents and copyrights	Nil
Land and buildings	225,000
Plant and machinery	75,000
Investments	75,000
Inventories	105,000
Trade receivables	70,000

iv) The balance on the retained earnings is to be eliminated in full

v) The liability for legal damages and claims was to be settled for GH¢10 million and the provision for warranty reduced to GH¢27.5 million.

vi) The accrued debenture interest was to be paid in cash.

vii) Investment with a carrying amount of GH¢52.5 million were to be sold for cash at that value in desperation to strengthen the working capital position of the business.

The amount set aside for business restructuring was to be eliminated also.

viii)The High Court directed a payment of GH¢0.2 million to a member who opposed the scheme for 50 ordinary shares held by him. Mr. Salia a director of the company, has offered to take over the shares.

ix) **The following additional information is relevant:**

Sasasila Limited continued trading from 1 July 2019 to 31 December 2019 which resulted in the following changes in assets and liabilities:

	Increased by GH¢000	**Decreased by GH¢000**
Bank and cash	10,000	-
Inventories	12,500	-
Trade and other receivables	20,000	-
Trade payables	-	5,000

Plant and machinery is depreciated at 10% per annum and no depreciation is provided on land and buildings. The half year debenture interest has not been paid.

Required:

a) Prepare the Capital Reduction Account as at 30 June 2019. **(6 marks)**

b) Prepare the statement of financial position as at 31 December 2019. **(14 marks)**

(Total: 20 marks)

QUESTION FIVE

Gamashie Ltd is considering purchasing an interest in its competitor Bossman Ltd. The Managing Director of Gamashie Ltd has obtained the three most recent statements of profit or loss and statements of financial position of Bossman Ltd as shown below.

Bossman Ltd			
Statements of Profit or Loss for years ended 31 December			
	2016	**2017**	**2018**
	GH¢'000	**GH¢'000**	**GH¢'000**
Revenue	18,000	18,900	19,845
Cost of sales	(10,440)	(10,340)	(11,890)
Gross profit	7,560	8,560	7,955
Distribution costs	(1,565)	(1,670)	(1,405)
Administrative expenses	(1,409)	(1,503)	(1,591)
Profit before interest & tax	4,586	5,387	4,959
Finance cost	(704)	(815)	(1,050)
Profit before tax	3,882	4,572	3,909
Income tax	(1,380)	(2,000)	(1,838)
Profit after tax	2,502	2,572	2,071

Bossman Ltd **Statements of Financial Position as at 31 December**			
	2016	**2017**	**2018**
Assets	**GH¢'000**	**GH¢'000**	**GH¢'000**
Non-current assets			
Land and buildings	11,460	12,121	11,081
Plant and machinery	8,896	9,020	9,130
	20,356	21,141	20,211
Current assets			
Inventory	1,775	2,663	3,995
Trade receivables	1,440	2,260	3,164
Cash	50	53	55
	3,265	4,976	7,214
	23,621	**26,117**	**27,425**
Equity and liabilities			
Equity and reserves			
Share capital	8,000	8,000	8,000
Retained earnings	6,434	7,313	7,584
	14,434	15,313	15,584
Non-current liabilities			
12% loan stock	5,000	5,000	5,000
Current liabilities			
Trade payables	390	388	446
Bank	1,300	2,300	3,400

Taxation	897	1,420	1,195
Dividend payable	1,600	1,696	1,800
	4,187	5,804	6,841
	23,621	**26,117**	**27,425**

Required:

Prepare a report for the Managing Director of Gamashie Ltd commenting on the financial performance and position of Bossman Ltd and highlighting any areas that require further investigation.

(20 marks)

SOLUTION TO QUESTIONS

QUESTION ONE

Phato Ltd Group
Consolidated statement of financial position as at 30 September, 2019

Assets:	**GH¢million**
Non-current assets	
Property, plant and equipment (460 + 150 + 155 +44.5 + 18)	827.5
Goodwill (W3)	93.5
Intangible assets (99 + 15 + 17.5 – 4.5 -13.5)	113.5
Investment in Azuri (W7)	25.25
Current assets (447.5 + 240 + 125)	812.5
Total assets	**1,872.25**
Equity and liabilities	
Equity attributable to owners of parent	
Share capital	460
Retained earnings (W5)	489.41
Other components of equity (W5)	38.05
	987.46
Non-controlling interest (W4)	192.29
	1,179.75
Total non-current liabilities (247.5 + 61.5 + 46.5)	355.5
Current liabilities (204 + 64 + 69)	337.0
Total liabilities	692.5
Total equity and liabilities	**1,872.25**

Workings
(W1) Group Structure

Phato ——— Azuri Ltd (14% until April 1 2019

60% | 30% from April 1, 2019

Sakara Ltd

70% |

Saadi Ltd

The group effective interest in Saadi Ltd is 42% (60% x 70%).
The NCI holding is therefore 58% (100% - 42%).

		Sakara Ltd	Saadi Ltd
Phato Ltd (Group) interests:	Direct	60%	-
	Indirect	-	60% x 70% = 42%
Non-controlling interest:	Direct	40%	(100% - 70%) = 30%
	Indirect	-	40% x 70% = 28%
		100%	100%

(W2) Net Assets – Sakara Ltd

	Acquisition date	Reporting date	Change
	GH¢ million	GH¢ million	GH¢ million
Share capital	200	200	-
Other components	13.5	18.5	5.0
Retained earnings	159.5	221	61.5
Fair value adjustment – land	44.5	44.5	-
	417.5	484	66.5

Net Assets - Saadi Ltd

	Acquisition date	Reporting date	Change
	GH¢ million	GH¢ million	GH¢ million
Share capital	100	100	-
Other components	10	12.5	2.5
Retained earnings	53	69.5	16.5
Fair value adjustment- land	18	18	-
	181	200	19

(W3) Goodwill

Sakara Ltd

	GH¢ million
Fair value of consideration	365
Fair value of non-controlling interest	146
Fair value of identifiable net assets acquired (W2)	(417.5)
Goodwill at acquisition	93.5
Saadi Ltd	
	GH¢ million
Fair value of consideration	160
Indirect holding adjustment (40% x GH¢160)	(64)
FV of NCI at acquisition (a 58% holdings)	80.5
Less fair value of identifiable net assets (W2):	(181)
Negative Goodwill at acquisition	(4.5)
Goodwill to Profit or Loss account	4.5
Goodwill at reporting date	-

(W4) Non–controlling interest

	GH¢ million
NCI in Sakara Ltd at acquisition	146
NCI % of post-acquisition profit (40% x (GH¢484 - GH¢417.5) (W2))	26.6
Indirect holding adjustment (40% x GH¢160)	(64)
NCI in Saadi Ltd at acquisition	80.5
NCI% of post-acquisition profit (58% x (GH¢200 - GH¢181) (W2))	11.02
Impairment (58% x GH¢13.5 (W6))	(7.83)
	192.29

(W5) Reserves

Retained earnings	**GH¢ million**
Phato Ltd	447.5
Sakara Ltd: 60% x (GH¢221 - GH¢159.5 (W2))	36.9
Saadi Ltd: 42% (GH¢69.5 - GH¢53) (W2))	6.93
Impairment (42% x GH¢13.5 (W6))	(5.67)
Azuri Ltd gain from OCE (W7)	1.5
Azuri Ltd dividend (W7)	1
Share of Azuri's post-acquisition retained earnings (W7)	1.25
Capital surplus (Negative goodwill of Saadi Ltd)	4.5
Intangible assets (W8)	(4.5)
	489.41
Other components of equity	
	GH¢ million
Phato Ltd	36.5
Sakara: 60% x (GH¢18.5 - GH¢13.5) (W2)	3
Saadi Ltd: 42% (GH¢12.5 - GH¢10) (W7))	1.05
Azuri Ltd gain to retained earnings (W7)	(1.5)
Azuri Ltd dividend (W7)	(1)
	38.05

(W6) Impairment

In note 6 of the question, we are told that the recoverable amount of each subsidiary has been determined 'without consideration of liabilities'. In other words, you are given the recoverable amounts of the assets only. Make sure that you compare this the recoverable amounts of the assets only. Make sure that you compare this to the carrying value of each subsidiary's assets (rather than the net assets)

	Sakara Ltd GH¢ million	Saadi Ltd GH¢ million
Goodwill (W3)	93.5	-
Assets (per SFP)	565	297.5
Fair value adjustment (W2)	44.5	18
Total assets value	704.5	315.5

Recoverable amount	(712.5)	(302)
Impairment	n/a	13.5

There is no impairment in the case of Sakara Ltd but Saadi's Ltd assets are impaired. Group reserves will be debited with GH¢5.67 million and NCI with GH¢7.83 million, being the loss in value of the assets split according to the effective interests.

(W7) Azuri Ltd
Phato Ltd has significant influence over Azuri. Azuri ltd is therefore an associate and must be accounted for using the equity method. The gain of GH¢1.5 million (GH¢10.5 million - GH¢9 million) recorded with OCE up to April 1, 2019 would not be transferred to profit or loss for the year but can be transferred within equity and hence to retained earnings under IFRS 9 Financial instruments.

Dr OCE GH¢1.5 million
Cr retained earnings GH¢1.5 million
The dividend should have been credited to Phato's Ltd profit or loss and not OCI.

Dr OCE GH¢1 million
Cr retained earnings GH¢1 million

The amount included in the consolidated statement of financial position would be:

	GH¢ million
Cost (GH¢10.5 million + GH¢13.5 million)	24
Share of post-acquisition profits (GH¢15 million x 6/12 x 30%)	2.25
Less dividend received	(1.0)
	25.25

There is no impairment as the carrying amount of the investment in the separate financial statements does not exceed the carrying amount in the consolidated financial statements nor does the dividend exceed the total comprehensive income of the associate in the period in which the dividend is declared
The group's share the post-acquisition retained earnings movement is GH¢1.25 m (GH¢2.25 m - GH¢1.0 m). This will be held within group earnings (W5).

(W8) Development
There are strict criteria in IAS 38 governing the items that can be included in the cost of an intangible assets. Phato Ltd should recognize the GH¢5 million as an intangible asset plus the cost of the prototype of GH¢2 million and the GH¢1.5 million to get it into condition for sale. The remainder of the costs should be expensed including the marketing costs. This totals GH¢4.5 million, which should be taken out of intangibles and expensed.
Dr retained earnings GH¢ 4.5 million
Cr intangible assets GH¢4.5 million

(Suggested marking scheme: 100 ticks at 0.20 marks each up to maximum of 20 marks. These include relevant workings.)

EXAMINER'S COMMENT

This was on Consolidated Statement of Financial Position of a complex group and attracted 20 marks.

This question was fairly moderate. It involved a parent, subsidiary, sub-subsidiary and an associate. A greater number of the candidates were not able to solve this rather simple question on complex groups. This development is disturbing given the relatively high percentage pass mark in this exams diet. The obvious observation is that the nature and structure of the corporate reporting paper affords candidates the opportunity to easily pass without answering or attempting to answer the consolidation question. In the future, this weight should be increased to 30 marks.

All candidates attempted this question. The performance was average. Some candidates scored below 5 marks.

QUESTION TWO

a) **Year ended 31 March 2018:**

No accounting entry is made in this financial year, as no transaction has yet been entered into. A capital commitment exists, and should be disclosed in the notes. The grant approval should be disclosed also.

Year ended 31 March 2019:

At this date, the factory should be recorded at its cost of GH¢52 million. As all conditions for the payment of the grant have been met, recognition should be made of this amount receivable also. As the factory has not yet been brought into use, no depreciation will be charged for the year. Similarly, no amortisation of the grant will take place in the period.

Recognition of factory:

Dr Property, plant & equipment	GH¢52 million	
Cr Cash		GH¢52 million

(New factory constructed as a cost of GH¢52 million)

Recognition of grant:

Option 1

Dr Government grant receivable (current asset)	GH¢13 million	
Cr Property, plant & equipment		GH¢13 million

(Government grant approved, not received yet)

Option 2

Dr Government grant receivable (current asset)	GH¢13 million	
Cr Deferred income – current liability		GH¢1.3 million
Cr Deferred income – non-current liability		GH¢11.7 million

(Government grant approved, not received yet)

Assuming the factory has a useful life of 10 years, as stated, 10% of the amount will be recognised as income within the next financial year. This amount should be treated as a current liability.

Year end 31 March 2020:
There are a number of transactions to record based on the new factory. These are (1) depreciation and (2) amortisation of the grant. In addition, the cash was received from the government agency.

Receipt of grant:

Dr Cash	GH¢13 million	
Cr Government grant receivable		GH¢13 million

(Receipt of cash grant from government agency)

Option 1
Depreciation of factory:

Dr Profit or loss	GH¢3.9 million	
Cr Accumulated Depreciation – PPE		GH¢3.9 million

(Depreciation of cost of factory net of grant over 10 years)

Option 2
Depreciation of factory:

Dr Profit or loss	GH¢5.2 million	
Cr Accumulated Depreciation – PPE		GH¢5.2 million

(Depreciation of gross factory cost over 10 years)

Amortisation of grant:

Dr Deferred income	GH¢1.3 million	
Cr Profit or loss		GH¢1.3 million

(Amortisation of grant over 10 years, reflecting the proportional expensing of the factory to which the grant relates)
The employment grant relates entirely to the cost of employing staff in that year. Hence it should be entirely recognised as income in the year ended 31 March 2019.

Recognition of employment grant:

Dr Cash	GH¢1.2 million	
Cr profit or loss		1.2 million

(recognition of employment grant as income as received)

Initial recognition of the factory in 2019: 1 mark

Recognition of the grant in 2019: 2 marks
Treatment of receipt of grant in 2020: 2 marks
Depreciation of factory in 2020: 1 mark
Treatment of amortization of grant: 1.5 marks
Recognition of employment grant: 1.5 marks

b) Maximum amount to capitalise (IAS 23 para 6):

	GH¢'000
Overdraft	12
Foreign currency loan interest	84
Foreign currency loan exchange differences on capital	-
Effective interest on loan ((2,000 – 20) x 6.88%)	136.2
	232.2

Effective interest on loan: 2 marks
Overdraft interest: 1 mark
Foreign currency loan interest: 1 mark
Maximum amount: 1 mark

c) The applicable accounting standard is IAS 19 (Employee Benefits). Nzema's pension plan is a defined benefit plan as Nzema has an obligation to provide agreed post-employment benefits and the entity carries the actuarial and investment risk associated with the pension scheme.

The accountant has accounted for the employer contributions to the scheme incorrectly by simply recognising the employer contributions in the profit or loss. IAS 19 requires a defined benefit liability (asset) to be recognised on the balance sheet at the new amount of the present value of the obligation less the fair value of plan assets at reporting date.

A defined benefit plan may give rise to current service cost and net interest expense, which should be recognised through the profit or loss. In addition, any actuarial gains and/or losses from re-measurement of the defined pension liability (asset) should be recognised through other comprehensive income.

Workings – Calculation of Actuarial Gain/Loss:

	GH¢
Pension Asset	
Opening balance	0
Return on assets	16,500
Employer contributions	550,000
Remeasurement –Actuarial Gain	**13,500**
Closing Balance	580,000

Pension Liability

Opening balance	0
Interest Cost	18,000
Current Service Cost	600,000
Remeasurement – Actuarial Loss	**2,000**
Closing Balance	620,000

Net Actuarial Gain: GH¢13,500 - GH¢2,000 = GH¢11,500

Journals:

DR Net Interest Expense (P+L)	1,500	
CR Pension Liability		1,500
Net interest expense (18,000 – 16,500)		
DR Current Service Cost (P+L)	600,000	
CR Pension Liability		600,000
Current service cost		
DR Net Pension Liability	11,500	
CR Remeasurement – Actuarial Gain (OCI)		11,500
Recognition of net actuarial loss in OCI. (13,500 – 11,500)		

Finally, the accountant's previous accounting treatment for the employer's contributions should be corrected:

DR Net Pension Liability (SOFP)	550,000	
CR Pension Contribution Expense (P&L)		550,000

Contributions paid into defined benefit scheme – correcting previous accounting treatment of expensing contributions through P&L.

Identification of the appropriate standard to be applied: 1 mark
Net interest expense to Profit or Loss: 1 mark
Actuarial gain on pension asset: 1 mark
Actuarial loss on pension liability: 1 mark
Net actuarial gain to OCI: 1 mark
Currents service cost: 1 mark
(Total: 20 marks)

EXAMINER'S COMMENT

This question required candidates to apply the principles and concepts of IFRS to resolve given cases. Application of IFRS has always been a challenge for candidates. This question was the worse attempted question by candidates in the paper although it focused on relatively moderate to answer accounting standards including: IAS 20: Accounting for and Disclosure of Governments Grants; IAS 23: Borrowing Cost; and IAS 19: Employee Benefit Cost. Again, due, perhaps, to lack of adequate preparation and understanding of IFRS, majority of the candidates performed poorly in this question.

QUESTION THREE

a) Inventory, sale of goods and investment property

Inventory and payable

The inventory and trade payable would be recorded initially at GH¢10 million (16 million dinars × GH¢0.6250).

At the year-end on 31 October 2019, the amount payable is still outstanding. It should be re-translated at the closing rate to. GH¢12.3 million (16 million dinars × GH¢0.7692).

This creates an exchange loss of GH¢2.3 million (12.3 – 10) which should be recognised in profit or loss.

Unless it has been impaired, the inventory (a non-monetary asset) should be recorded at GH¢10 million at the year end.

Sale of goods

The sale of goods should be recorded at GH¢5 million (8 million dinars × GH¢0.6250) million as revenue and as a trade receivable.

Payment in dinars was received on 31 October 2019 and the actual cedi value of the dinars received was GH¢6.2 million (8 million dinars × GH¢0.7692). This creates a gain on exchange of GH¢1.2 million (6.2 – 5) which should be recognised in profit or loss.

Investment property

The investment property should be recognised on 1 November 2018 at GH¢40 million (56 million dinars × GH¢0.7143). At the year-end on 31 October 2019 the property should be recognised at its fair value of GH¢36.9 million (48 million dinars × GH¢0.7692). The fall in fair value (40 – 36.9 = 3.1) should be recognised in profit and loss as a loss on investment property. The property is a non-monetary asset and when a gain or loss on a non-monetary item is recognised in profit or loss, the element of the gain or loss relating to exchange rates is also recognised in profit or loss. **(10 marks)**

b)

i) Fundamental principles

Objectivity

Clearly there is a self-interest threat that arises because of the impact that losing Akwaba Limited's contract would have on Asasiyemedeh Company Limited's financial performance and reward policy. There is also intimidation threat as other employees company may be affected due to the financial implications of the contract not being renewed. You may also be feeling that you would like to impress your new employer and help to make a successful bid for the renewal of the contract, which may be normal. However, the most in important question here is that "can you safeguard against the significant self-interest threat which arises from Asasiyemedeh Company Limited's performance-related bonus scheme?

Confidentiality
Clearly there is a confidentiality threat here as you have worked with Akwaba Ltd in the past. Your previous employment with Akwaba Ltd has provided you with information which may be of value to Asasiyemedeh Company Limited.
The principle of confidentiality prohibits the use of confidential information acquired as a result of your previous employment for your advantage or that of your current employer. While you have a responsibility to advance the legitimate aims of your employing organization, this should not extend to a breach of confidentiality. In this case, you (because of Asasiyemedeh Company Limited's performance-related bonus) and Asasiyemedeh Company Limited stand to benefit from the confidential information about how bids are assessed at Akwaba Ltd. The principle would not be breached if you were in possession of information that was in the public domain, or if you were simply to use experience gained in your previous employment, so long as you do not use confidential knowledge that you acquired as a result of that employment.

If you accept this role, can you ensure that you do not use confidential information relating to your former employer to your advantage or to the advantage of your current employer? You must be careful and professional as winning that contracts may leads to confidential breaches against you or your current employers perhaps from those bidders of the same contracts who might lose the bids.

Professional behavior
You must demonstrate professionalism here. For example, what can you do to safeguard your reputation as a professional, the reputation of your employer, and the accountancy profession to which you belong? You must consider the Institute of Chartered Accountants (Ghana) code of ethics, applicable laws (procurement Act 914) and regulations, your current and previous contracts of employment, and your employer's policies and procedures.

(Any 2 ethical issues discussed @ 2.5 marks each = 5 marks)

ii) Possible courses of action

- You should discuss the situation and your obligations with your managing director in the first place, and ask for your involvement in the preparation of the contract bid to be limited. For example, you may be able to contribute to aspects of the bid that do not in any way require you to refer to confidential knowledge about your previous employment with Akwaba Ltd.
- If the managing director fails to understand the conflict that you are facing, probably he is not in your profession, you should request that you both discuss the matter with the board chairman or other member of staff. During these discussions, you should refer to the company's ethical code, if it has one, as well as that of the Institute of Chartered Accountants (Ghana).
- If there are no other formal channels available, you should make the entire board aware of your dilemma by writing formally to them. If necessary, you must refuse to take part in the bid without necessary safeguards being implemented.

- Ultimately, disassociating yourself from Asasiyemedeh Company Limited may be the only solution. However, before taking such a step, you should seek legal advice on your employment
- Rights and responsibilities (subject to the rules and guidance of the Institute of Chartered Accountants, (Ghana)).
- You should document, in detail, the steps that you take in resolving your dilemma, in case your ethical judgement is challenged in future period.
- Looking at this issue from Asasiyemedeh Company Limited's perspective, it may be appropriate to suggest to managing director or the board of your employer that a policy on conflicts of interest be developed and that the remuneration and bonus policy be reviewed in light of this contract bid with Akwaba Ltd.

(1 mark for each action taken up to a maximum of 5 marks)

(Total: 20 marks)

EXAMINER'S COMMENT

Part of the weight for accounting standards was contained in question three together with question on ethics. The ethics part was well answered by the candidates but not the accounting standards part. Candidates exhibited lack of understanding of IAS 21: Effects of Changes in Foreign Exchange Rates.

Candidates scored an average of 10 marks over 20 marks. The question was clear and the marking scheme was fair.

QUESTION FOUR

a)

Capital Reduction Account

	GH¢000		**GH¢000**
Patents and copyright	75,000	Preference Shares	43,750
Plant and Machinery	75,000	Ordinary Shares	187,500
Inventories	20,000	Land & Buildings	25,000
Trade receivables	55,000	Warranties	10,000
Retained Earnings	75,000	Provision for reconstruction	50,000
Investment	25,000	Damages/claims	2,500
		Capital surplus	6,250
	325,000		**325,000**

(6 marks)

b)

Sasasila Limited

Statement of Financial Position as at 31 December, 2019

	GH¢000	GH¢000
Non-Current assets		
Land and Buildings (200 + 25)		225,000
Plant and Machinery (150 – 75 – 3.75)		71,250
		296,250
Current Assets		
Inventories (125 – 20 + 12.5)	117,500	
Trade Receivables (125 – 55 + 20)	90,000	
Bank and Cash (37.5 + 52.5 + 10 – 10 – 18.75)	71,250	
Investment (100 – 25 – 52.5)	22,500	
	301,250	
Current Liabilities		
Trade payables (93.75 – 5)	88,750	
Provision for warranties (37.5 – 10)	27,500	
Accrued debenture; six months (18.76 x 6/12)	9,375	
	125,625	
Net Current Assets		175,625
Non-Current Liabilities		
15% debentures		(125,000)
		346,875
Financed by:		
Stated Capital		
Ordinary shares @ GH¢5 [375 – 187.5]		187,500
20% Cumulative Preference Shares @ GH¢7.5 [175 – 43.75]		131,250
Retained earnings		34,375

Capital Surplus		(6,250) **346,875**

WORKINGS

Sasasila Limited

W1): Statement of profit earned from 1 July to 31 December 2019

	GH¢000	**GH¢000**
Addition to Net worth:		
Bank and cash balances	10,000	
Trade debtors	20,000	
Stock	12,500	
Creditors	5,000	
		47,500
Less: Depreciation		
(0.1 x 75,000 x 6/12)	3,750	
Debenture interest		
(0.15 x 125,000 x 6/12)	9,375	(13,125)
NET PROFIT		**34,375**

Sasasila Limited

W2): Statement of Bank and Cash Balances as at 31 December 2019

	GH¢000	**GH¢000**
Bank and cash balance as per Balance sheet		37,500
Add:		
Proceeds from sale of investment		52,500
		90,000
Less:		
Liability for damages	10,000	
Accrued debenture interest (15% x 125,000)	18,750	28,750
		61,250
Add: Increase in Bank and Cash balances (Six months' period)		10,000
Bank and Cash balances as at 31 December, 2019		**71,250**

Suggested marking scheme: (Maximum of 50 ticks including relevant workings at 0.28 marks per tick up to a maximum of 14 marks)

EXAMINER'S COMMENT

This question required the preparation of a capital reduction account and is fairly straightforward. The standard of the question was appropriate for the level assessed Majority of the candidates performed excellently in this question.

QUESTION FIVE

To: MD of Gamashie Ltd
From: An Accountant
Date: 01/01/19
Subject: The financial position of Bossman Ltd

Introduction
This report has been prepared on the basis of the three most recent statements of comprehensive income and statement of financial position of Bossman Ltd covering the years 2016 to 2018 inclusive. Ratio analysis used in this report is based on the calculations shown in the appendix attached.

Financial Performance
Sales have increased at a steady 5% per annum over the three-year period. In contrast, the gross profit percentage has increased from 42% in 2016 to 45% in 2017 before dropping back to 40% in 2018. Similarly, operating profit as a percentage of sales was 26% in 2016, 28.5% in 2017 and 25% in 2018. This may indicate some misallocation of costs between 2017 and 2018 and should be investigated or it may be indicative of a longer downward trend in profitability. Return on capital employed, as one would expect, has shown a similar pattern with an increase in 2017 with a subsequent fall in 2018 to a level below that of 2016.

Financial Position
The debt ratio measures the ratio of a company's total debt to its total assets. Although we have no information as to the norm for the industry as a whole, the debt ratios appear reasonable. However, it should be noted that it has risen steadily over the three year period. When reviewing Bossman Ltd liquidity the situation has improved over the period. The current ratio measures a company's ability to meet its current liabilities out of current assets. A ratio of at least 1 should therefore be expected. Bossman Ltd did not meet this expectation in 2016 and 2017. This ratio can be misleading as inventory is included in current assets. Because inventory can take some time to convert into liquid assets a second ratio, the quick ratio, is calculated which excludes inventory. As can be seen, the quick ratio, although improving, is low and this shows that current liabilities cannot be met from current assets if inventory is excluded. As a major part of current liabilities is the bank overdraft, the company is obviously relying on the bank's continuing support with short-term funding. It would be useful to find out the terms of the bank funding and the projected cash flow requirements for future funding.

The efficiency ratios, receivables ratio and inventory turnover, give a useful indication of how the company is managing its current assets. As can be seen from the appendix the receivables collection period has increased over the three years from 29 days to 58 days. This may indicate that the company is failing to follow up its debts efficiently or that it has given increased credit terms to some or all of its customers. Looking at inventory turnover period, this has also risen from 62 days to 122 days. This may be an indication of over-stocking, stocking up on the expectation of a substantial sales increase or the holding of obsolete or slow-moving inventory items which should be written down. More investigation needs to be done on both receivables and inventory. The financing of additional receivables and inventory has been achieved in the main through the bank overdraft as the trade payables figure has not increased significantly.

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

Structure of the report = 2 marks
Analysis of performance = 8 marks
10 marks

Appendix to Memorandum

	2016	**2017**	**2018**
% sales increase		5%	5%
Gross profit %	42%	45%	40%
Operating profit %	25.5%	28.5%	25%
Return on capital employed			
$= \frac{\text{Profit before interest and tax}}{\text{Capital employed}} \times 100\%$	$\frac{4{,}586}{14{,}434 + 5{,}000} = 23.6\%$	$\frac{5{,}387}{15{,}313 + 5{,}000} = 27\%$	$\frac{4{,}959}{15{,}584 + 5{,}000} = 24.1\%$
Debt ratio			
$= \frac{\text{Total debt}}{\text{Total asset}} \times 100\%$	$\frac{4{,}187 + 5{,}000}{20{,}356 + 3{,}265} = 38.9\%$	$\frac{5{,}804 + 5{,}0000}{21{,}114 + 4{,}976} = 41.4\%$	$\frac{6{,}841 + 5{,}000}{20{,}211 + 7{,}214} = 43.2\%$
Current ratio			
$= \frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{3{,}265}{4{,}187} = 0.78$	$\frac{4{,}976}{5{,}804} = 0.86$	$\frac{7{,}214}{6{,}814} = 1.05$
Quick ratio			
$= \frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$	$\frac{3{,}265 - 1{,}775}{4{,}187} = 0.36$	$\frac{4{,}976 - 2{,}663}{5{,}804} = 0.40$	$\frac{7{,}214 - 3{,}995}{6{,}814} = 0.47$
Receivables collection period			
$= \frac{\text{Trade receivables}}{\text{sales}} \times 365 \text{ days}$	$\frac{1{,}440}{18{,}000} = 29.2\text{days}$	$\frac{2{,}260}{18{,}900} = 43.6 \text{ days}$	$\frac{3{,}164}{19{,}845} = 58.2 \text{ days}$
Inventory turnover period			
$= \frac{\text{Inventory}}{\text{Cost of sales}} \times 365 \text{ days}$	$\frac{1{,}775}{10{,}440} = 62 \text{ days}$	$\frac{2{,}260}{10{,}340} = 94 \text{ days}$	$\frac{3{,}995}{11{,}890} = 122.6 \text{ days}$

1 mark for orderly presentation of computation of ratios = 1 mark
1 mark for each ratio computed for 2016 x 3 ratios = 3 marks
1 mark for each ratio computed for 2017 x 3 ratios = 3 marks
1 mark for each ratio computed for 2018 x 3 ratios = 3 marks
10 marks

EXAMINER'S COMMENT

This question on analysis of financial statements is the primary driver of the high pass rate of the candidates in this exams diet. Majority of the candidates found this question to be relatively easier to answer compared to the other questions as well as questions on analysis of financial statements in previous exams diets in the corporate reporting paper. The question was straight forward and the marking scheme very flexible. Majority of the candidates scored the highest marks for this question. The average score for this question is 17 marks out of 20 marks. A number of candidates scored 20 marks out of 20 marks.

CONCLUSION

It is still apparent that some candidates did not received adequate tuition before sitting for the examinations. Candidates clearly lacked a proper appreciation of issues in IFRS and preparation of consolidated financial statements. Steps should be taken to improve tuition specifically in IFRS and preparation of consolidated financial statements. In this regard, the special intervention programme of the Institute for candidates should highlight on these areas.

Candidates should be encouraged to take their time to adequately prepare for the paper before they sit the exams. The Institute should provide intervention to candidates on how to answer exams questions as most candidates lack this critical skill needed to pass examinations.