DECEMBER 2022 PROFESSIONAL EXAMINATIONS
CORPORATE REPORTING (PAPER 3.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

STANDARD OF THE PAPER

The standard of the paper was moderate. The questions were based on the syllabus and were largely straight forward and of the right level. The marks allocation followed the weightings in the syllabus and was fairly allocated to each sub-question. Most questions were clearly stated and followed higher order learning outcomes. Questions that required considerable amount of work were commensurate with the allotted time and marks.

PERFORMANCE OF CANDIDATES

The general performance of candidates in this exams diet was poor compared to previous diets. There was a marginal decrease 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 some candidates reflected in their poor performance.

QUESTION ONE

Blackstars Ltd is a very successful SME business operating in a very good commercial location in Accra. The following statements of financial position are as at 30 June 2022:

	Blackstars Ltd GH¢'million	Meteors Ltd GH¢'million	Satellite Ltd GH¢'million
Assets:			
Tangible non-current assets	1,024	352	224
Investment in Meteors Ltd	320	-	-
Investment in Satellite Ltd	48	-	-
Current assets	435	152	104
Total assets	**1,827**	**504**	**328**
Equity and liabilities:			
Share capital	760	208	184
Revaluation reserve	72	-	-
Retained earnings	312	168	75.2
Total equity	1,144	376	259.2
Non-current liabilities	512	24	12.8
Current liabilities	171	104	56
Total equity and liabilities	**1,827**	**504**	**328**

On 1 July 2019, Blackstars Ltd acquired 10% holding of Meteors Ltd when the fair value of the net assets was GH¢260 million at a purchase consideration of GH¢24 million. On 1 July 2021, Blackstars Ltd further acquired 70% holding in Meteors Ltd when the fair value of the net assets was GH¢368 million at a purchase consideration of GH¢296 million.

The following additional information will be relevant to the consolidated financial statement of Blackstars Ltd:

i) The estimated fair value of the initial 10% investment in the shares of Meteors Ltd was GH¢32 million at 30 June 2021.

ii) Blackstars Ltd wishes to use the full fair value method of accounting for the acquisition of Meteors Ltd. At 1 July 2021, the estimated value of the non-controlling interests was GH¢76 million.

iii) The difference between the carrying amount of Meteors Ltd's net assets and their fair value at the date of acquisition was due to land valued at cost which on 1 July 2021 had a fair value of GH¢20 million in excess of its carrying value. There has been no subsequent significant change in that value.

iv) On 1 July 2021, Blackstars Ltd acquired 25% holdings in Satellite Ltd when the fair value of the net assets was GH¢160 million for a purchase consideration of GH¢48 million.

v) On 1 July 2021, the fair value of Satellite Ltd's land was GH¢12.8 million in excess of its carrying value. There has been no subsequent significant change in that value.

vi) Goodwill arising on acquisition is tested for impairment at each year end. The recoverable amount of goodwill in Meteors Ltd at 30 June 2022 was GH¢24 million. There has been no impairment of the investment in Satellite Ltd.

vii) During the year, the Directors of Blackstars Ltd decided to form a defined benefit pension scheme for its employees. The company contributed cash amounting to GH¢200 million to the scheme but the only accounting entry for this has been to include it in receivables at 30 June 2022. At 30 June 2022 the following details relate to the pension scheme:

	GH¢'million
Present value of obligation	253.6
Fair value of plan assets	241.6

Required:
Prepare the consolidated statement of financial position of the Blackstars Ltd group as at 30 June 2022.

(Total: 20 marks)

QUESTION TWO

a) Inaki Group (Inaki) has held a 90% interest in a subsidiary for over five years and prepares its consolidated financial statements to 31 March each year. The share consideration given for this investment was GH¢3,960 million and fair value increase in respect of non-depreciable land was GH¢200 million (this has not changed since acquisition). Due to the difficulties in determining reliable fair value of the investment in the subsidiary, Inaki measures the non-controlling interests at their proportion of the subsidiary's net assets. The subsidiary's net assets (excluding any fair value adjustment and goodwill) at acquisition and current reporting dates are provided below:

	Reporting GH¢'million	Acquisition GH¢'million
Properties	2,300	1,800
Plant & equipment	1,500	1,400
Net current assets	680	600
	4,480	**3,800**

Inaki has determined the recoverable amount of the subsidiary to be GH¢4,140 million at reporting date. No impairment losses have previously been recognised for the goodwill. Net current assets above are stated below their recoverable amount.

Required:
From the above, determine how much impairment loss (if any) would be recognised by Inaki Group at the current reporting date and indicate the revised carrying amounts (if applicable) of the subsidiary in line with the applicable IFRS. **(7 marks)**

b) On 1 January 2020, Zigi Plc (Zigi) entered into a 6-year lease of manufacturing plant with annual lease payments of GH¢5.5 million, starting from 31 December 2020. The lease agreement specified that the lease payments (except yearly baseline payments of GH¢1 million included in the GH¢5.5 million) would increase every two years on the basis of increase in the Consumer Price Index (CPI) for the preceding 24 months. The CPI at the commencement date was 125. Additionally, Zigi is required to pay GH¢500,000 every year once cost savings in that year is at least GH¢6 million. Zigi's cost savings achieved with its other assets had been averaging GH¢5.1 million prior to 1 January 2020. The initial direct non-reimbursable cost incurred by Zigi was GH¢350,000.

The rate implicit in the lease, which should have been 12% per annum, was not readily determinable by Zigi. Zigi's incremental borrowing rate was 14% per annum. At 31 December 2021, the CPI was revised to 138. The actual cost savings achieved by Zigi in the years ended 31 December 2020 and 31 December 2021 were GH¢5.3 million and GH¢6.8 million respectively.

The cumulative discount factors based on 12% and 14% are provided below:

Years	**12%**	**14%**
6	4.11	3.89
5	3.60	3.43
4	3.04	2.91

Required
In accordance with ***IFRS 16: Leases***, explain how the above lease would affect Zigi's financial statements for the years ended 31 December 2020 and 2021. **(8 marks)**

c) Ayew Plc (Ayew) decided to dispose off one of its major production plants which had become surplus to requirement. At 31 January 2021, all criteria were met for the plant to be classified as held for sale. On 31 July 2022, there was material evidence that the original sale plan would change and hence, it was considered not appropriate to retain the plant as held-for-sale. Plant is carried under the cost model.

Details of the plant are as follows:

	GH¢'million
Cost – acquired on 1 August 2019	20
Depreciation rate (straight line to nil residual value)	10%
At 31 January 2022:	
Fair value	14
Costs to sell	0.4
At 31 July 2022:	
Recoverable amount	15.2

Required:
In line with ***IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations***, recommend how the above would be accounted for within the financial statements of Ayew for the year ended 31 July 2022. **(5 marks)**

(Total: 20 marks)

QUESTION THREE

a) Samed Ltd is a Ghanaian company located in the Northern Region which manufactures goods such as washing machines, tumble dryers and dishwashers. The manufacturing industry in Ghana is highly competitive with many products on the market. Samed Ltd current accounting year end is 31 December 2022.

Samed Ltd has a production facility which started showing serious cracks and signs of possible leakage since July 2022. It is probable that Samed Ltd will have to undertake a major repair somewhere during 2023 in order to rectify the problem. Samed Ltd does not have an insurance policy covering the production facility. The Chief Operating Officer has refused to disclose the issue in the financial statement for the year ended 31 December 2022 and no repair costs have yet been undertaken although he is aware that this is contrary to International Financial Reporting Standards (IFRSs). According to the Chief Operating Officer, he does not think that the need for major repairs on the production facility is an indicator of impairment. The Chief Operating Officer argues that no provision for the repair to the production facility should be made due to the fact that there is no legal or constructive obligation to repair the facility.

Samed Ltd has a revaluation policy for property, plant and equipment and there is a balance on the revaluation surplus of GH¢20 million in the financial statements for the year ended 31 December 2022. However, this balance does not relate to the production facility, but the Chief Operating Officer is of the opinion that this surplus can be used for any future loss arising from the collapse of the production facility.

Required:
In accordance with relevant ***IFRSs***, discuss the accounting treatment which Samed Ltd should adopt to account for the above transaction in its financial statements for the year ended 31 December 2022. **(5 marks)**

b) Mensah Ltd is a telecommunication company with year end 30 September 2022 that operates a defined benefit pension scheme. On 31 March 2022, the company announced that it was to close down a business division and agreed to pay each of its 300 staff a cash payment of GH¢100,000 to compensate them for loss of pension arising from wage inflation. It is estimated that the closure will reduce the present value of the pension obligation by GH¢11.6 million. Mensah Ltd is unsure of how to deal with the settlement and curtailment and has not yet recorded the transaction in its financial statements.

Required:
In accordance with ***IAS 19: Employee Benefits***, show the accounting treatment for the above transaction in Mensah Ltd's financial statement for the year ended 30 September, 2022. **(5 marks)**

c) Salisu Medical Centre runs 24-hours services every day. To ensure smooth cash collection from walk-in-clients, the company also operates a 24-hour cash office. The cashiers work on shift basis to cover the morning, afternoon, evening and the night services. There are five (5) cashiers employed by the firm who are all supposed to work at least once in each of the shift period before the year ends. Jennifer, one of the cashiers, has never worked on night duties since she was employed. The Finance Director of the company prepares the duty roster (time-schedule) for the cashiers' shifts together with the Chief Cashier.

Jennifer's special treatment has been justified continuously by the Finance Director that, her place of abode is far from the work place. However, there are other Cashiers who come on night-shift staying in her vicinity.

Jennifer is also noted in the company for her constant "excuse" duty she receives from Doctors of the medical centre to stay away from work and her spontaneous usage of the annual leave days, to the extent of always getting additional casual leave. This behaviour of Jennifer continuously affects workflow at the Cash office, and in most cases a Cashier not on duty is called to stand in for her, and an overtime is paid to that Cashier at the end of the month. The conduct of Jennifer and the manner the Finance Director handles her case is a great worry to the other Cashiers.

Required:

i) Describe the ethical issues involved and its implications on work output at Salisu Medical Centre. **(4 marks)**

ii) Recommend the possible measures that could be instituted to prevent the occurrence of such ethical challenges in the future. **(6 marks)**

(Total: 20 marks)

QUESTION FOUR

a) Kudus Ltd (Kudus) is an unlisted agro-processing company which operates locally within the Middle Belt. Amartey Mutual Funds Ltd has identified Kudus as a target firm and would like to estimate its worth for the purpose of acquisition.

The following financial summaries relate to Kudus as at 31 March 2022:

	GH¢ million
Non-current assets	150
Current assets	145
Ordinary shares (@ GH¢1.5)	30
20% Preference shares	10
Non-current liabilities	50
Current liabilities	110
Profit after tax (Draft)	38
Number of authorised ordinary shares	30 million

Additional information:

1) Kudus has the following ordinary dividends:

	GH¢ million
Announced on 15 March 2021 but declared on 10 April 2021	2.5
Declared on 30 June 2021 but paid on 31 July 2021	1.5
Announced on 25 March 2022 but declared on 5 April 2022	2

Kudus has correctly accounted for ordinary dividends in the financial statements.

2) The preference shares are irredeemable.

3) Due diligence was carried out on Kudus as at 12 April 2022 and the following were identified which may necessitate the revision of the draft profit:

- Non-current assets include Kudus's office building with carrying value of GH¢95 million. The building is estimated to have a fair value of GH¢160 million, if used for rental purposes, and GH¢180 million, if used for industrial purposes. The rental value is before considering substantial rework required to be carried out on the property. The location of the property currently makes it legally impermissible to use it for industrial activities. The market value of the building in its current use is estimated at GH¢120 million. A plant with a carrying value of GH¢10 million is not in usable condition but could be scrapped for GH¢2 million. The value of the remaining plant and equipment has not changed.

- Non-current assets of Kudus include a four-year secured debenture carried at its year end amortised cost. No allowance was made for credit losses against this investment as the directors believed that the investment was exposed to only minimal risk of default. At year end, allowance based on lifetime expected credit loss was estimated at GH¢1.8 million while allowance for next-12 months' expected credit loss was assessed at GH¢1 million.

- The current assets include an amount due from a customer totalling GH¢20 million which has been outstanding for the last two years due to a dispute with the customer. No provision was made in relation to this. The auditors have qualified the audit report to this effect. With several follow-up activities, the customer as at 31 March 2022 has agreed to pay GH¢8 million at 31 March 2023 and GH¢4 million at 31 March 2024. However, Kudus has decided to file a case against the customer to recover the entire amount due by 31 March 2025.

- Non-current liability represents three-year 5% GH¢50 million loan notes issued on 1 April 2021 at nominal value when their effective interest rate was 7% because of a large premium at redemption. Kudus has taken the "fair value option" for these notes. At 31 March 2022, fair value of the notes based on a widely used valuation model is GH¢47 million and based on inputs drawn from a vibrant market is GH¢49 million. No fair value change is attributable to Kudus's own credit risk. Coupon has been paid and charged to income statement.

4) The following details relate to Bukari Plc, a listed firm which operates in the same sector as Kudus.

Indicators	**Ratio**
Dividend cover	4
Yield on earnings	12.5%
Annual sales growth (over last 5 years)	18%
Annual earnings growth (over last 5 years)	17%

5) Assume discount rate of 10% and unlisted firm risk factor of 20%.

Required:
Determine a range of values for each ordinary share of Kudus using:
i) Net Assets basis. **(6 marks)**
ii) Price/Earnings basis. **(5 marks)**
iii) Dividend Yield basis. **(4 marks)**
(Note: Ignore tax implications)

b) The loss of control of a subsidiary that is a business, other than in a nonreciprocal transfer to owners, results in the recognition of a gain or loss on the sale of the interest sold and on the revaluation of any retained non-controlling investment. A loss of control is an economic event, similar to that of gaining control, and therefore is a re-measurement event.

Required:
Explain in what ways an investor may lose control over an investee, indicating how such accounting event should be dealt in the consolidated financial statements. **(5 marks)**

(Total: 20 marks)

QUESTION FIVE

Partey Ltd is a company engaged in continuous casting and cold rolling of aluminium products in Ghana. The company has been in operation for several decades, and its operation did not change in the year ended 31 December, 2021.

Below are financial statements for the years 2021 and 2020:

Statement of Profit or Loss and Other Comprehensive Income

	2021	2020
	GH¢000	GH¢000
Revenue	389,507	445,963
Cost of sales	(240,731)	(237,345)
Gross profit	**148,776**	**208,618**
Other income	19,315	10,983
Distribution costs	(76,366)	(108,137)
Administrative expenses	(74,520)	(46,216)
Operating profit	**17,205**	**65,248**
Finance cost	(21,287)	(21,537)
Profit before tax	**(4,082)**	**43,711**
Tax expense	-	(16,521)
Profit for the year	**(4,082)**	**27,190**

Statement of Financial Position

	2021	2020
	GH¢000	GH¢000
Non-current assets:		
Property, plant and equipment	196,784	183,190
Investment securities	137	348
	196,921	**183,538**
Current assets		
Inventories	50,400	66,351
Trade receivables	23,769	27,688
Other receivables	9,343	1,833
Cash and cash equivalents	45,969	20,699
	129,481	**116,571**
Total assets	**326,402**	**300,109**
Equity & Liabilities:		
Stated capital	10,000	10,000
Retained earnings	124,575	111,676
	134,575	**121,676**
Non-current liabilities		
15% Loan notes	8,580	10,247
20% Loan notes-NGIC Pension Fund	100,000	100,000
	108,580	**110,247**

Current liabilities		
Trade payables	80,182	65,082
Current tax	-	3,104
Accrued expenses	3,065	-
	83,247	**68,186**
Total equity & Liabilities	**326,402**	**300,109**

Required:

a) As the Finance Manager of Partey Ltd, you have been tasked by the Board of Directors to produce a report. Assess the performance of the company over time based on ***profitability, liquidity, efficiency*** *and* ***gearing****.*
(Note: Your report should include TWO (2) ratios each of profitability, liquidity, efficiency and gearing)*.* **(16 marks)**

b) Management of the company wants to achieve improvement in technology and production process of the company to stimulate growth. This, however, will require further injection of funds and less strain on operating cash flows. To achieve this, the Board of Directors of the company has resolved to convince the company's largest debtholder, NGIC Pension Fund, to exercise the conversion right attached to the debt. The total value of the debt included in the financial statements above for both financial years is GH¢100 million. The debt was issued at a coupon rate of 20% per annum. The annual coupon payments are also included in the financial statements above for both financial years. NGIC Pension Fund is also the second largest shareholder of the company.

The estimated tax expense on the company's profit for the year ended 31 December 2021 if the debt owed to NGIC Pension Fund is converted is GH¢3.172 million. Current tax liability at 31 December 2021 is expected to increase by the same amount.

Required:

Assess the performance of the company for the year ended 31 December 2021 upon conversion of the debt owed to NGIC Pension Fund on 1 January 2021 at its carrying amount. **(4 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

QUESTION ONE

Blackstars Ltd Group
Consolidated Statement of Financial Position as at 30 June 2022

	GH¢'million
Assets:	
Tangible non-current assets (1,024+352+20wk2)	1,396
Goodwill (wk3)	24
Investment in associate (wk6)	76
	1,496
Current assets (435+152-200wk7)	387
Total assets	**1,883**
Equity and liabilities	
Share capital	760
Revaluation reserves	72
Retained earnings (wk5)	148.8
Total equity attributable to shareholders of parent	980.8
Non-controlling interest (wk4)	79.2
Total equity	1,060
Non-current liabilities (512+24+12pensions(wk7))	548
Current liabilities (171+104)	275
Total liabilities	823
Total equity and liabilities	**1,883**

Workings (GH¢ million):

1. **Group structure**

Blackstars Ltd

80% 25%

Meteors Ltd (1 yr sub) Satellite Ltd (1 yr associate)

Summary of percentages

	Meteors Ltd			Satellite Ltd
	1st purchase	**2nd purchase**	**After changes**	**No change**
Parent %	10%	70%	80%	25%
NCI %	-	-	20%	-
			100%	

2. **Net assets schedule**

	Reporting date	Acquisition date	Post-acquisition
Meteors Ltd			
Share capital	208	208	-
Retained earnings (368-208-20)	168	140	28
Fair value adj. – land	20	20	-
	396	**368**	**28**
Satellite Ltd			
Share capital	184	184	-
Retained earnings (160-12.8-184)	75.2	(36.8)	112
Fair value adj. – land	12.8	12.8	-
	272	**160**	**112**

3. **Goodwill – Meteors Ltd**

Cost of investment (32+296)	328
Fair value of NCI at acquisition	76
	404
Fair value of identifiable net assets acquired (W2)	(368)
Goodwill at acquisition	36
Impairment (bal. fig.)	(12)
Revised goodwill (recoverable amount)	**24**

4. **Non-controlling interests – Meteors Ltd**

Fair value of NCI at acquisition	76

Add: NCI % of Meteors Ltd's post –acquisition (20%x28)	5.6
Less: NCI's share of impairment (20%x12)	(2.4)
	79.2

Alternatively:

Book Value (20%x376)	75.2
Fair Value adjustment (20%x20)	4
Goodwill (76 – (20%x368) – impairment (2.4))	(0)
	79.2

5. **Retained earnings**

Blackstars Ltd

Balance b/d	312
Fair value gain on remeasurement of 10% holdings (32-24)	8
Pension expense (wk7)	(212)
Meteors Ltd	
Parent's share of post-acquisition earnings (80% x 28)	22.4
Impairment (80%x12)	(9.6)
Satellite Ltd	
Parent's share of post-acquisition earnings (25% x 112)	28
	148.8

6. **Investment in associate**

Cost of investment	48
Add: Share of profit	28
	76

7. **Pensions**

Net pension liability movements:

Bal b/d	-
Contributions made into the scheme*	(200)
Combined pension expenses (bal. fig.)	212
Bal c/d (253.6-241.6)	**12**

*Correction required for wrong posting to receivables account

Dr. Net pensions liability	*200*
Cr. Receivables (current assets)	
	200

(Marks are evenly spread using ticks = 20 marks)

EXAMINER'S COMMENT

Candidates generally had a satisfactory performance in answering the question, which tested the Candidates' understanding on preparing consolidated statement of financial position. Notwithstanding the satisfactory performance candidates had in their responses to the question, some candidates had difficulty in accounting for the step acquisition and the fair value gain on re-measurement of the initial 10% holdings. Some could not also determine the goodwill on acquisition of the subsidiary. Though fundamental, some candidates still were found including pre-acquisition equity elements like share capital, retained earnings, in the consolidated statement of financial position and in addition, the investment in the subsidiaries in the consolidated statement of financial position.

QUESTION TWO

a) **Inaki Group**

Computation of goodwill

	GH¢ million
Purchase consideration	3,960
Add: NCI's share of net assets at acquisition	
(10% x (3,800+200 =4,000))	400
	4,360
Less: Net assets at acquisition	(4,000)
Goodwill	360

Test for impairment at reporting date:

Carrying amount:	**GH¢ million**
Goodwill gross-up (360 x 100/90)	400
Properties (2,300+200)	2,500
Plant & equipment	1,500
Net current assets	680
	5,080
Recoverable amount	4,140
Impairment (5,080 – 4,140)	**940**

Allocation of impairment loss:

	Existing carrying amount GH¢ million	**Loss allocated GH¢ million**	**Revised carrying amount GH¢ million**
Goodwill	400	(400)	-
Properties	2,500	(337.5)*	2,162.5
Plant & equipment	1,500	(202.5)**	1,297.5
Net current assets	680	-	680
	5,080	**(940)**	**4,140**

*Loss allocated to properties is given by (940 – 400) x 2,500/4,000 = 337.5
**Loss allocated to plant & equipment is given by (940 – 400) x 1,500/4,000 = 202.5

Impairment loss which would be recognised is GH¢900 million (i.e. GH¢940 million less GH¢40 million loss attributed to the notional NCI's goodwill).

(30 ticks @ 0.17 mark each = 5 marks)

Explanations

- The applicable standards for the above are IAS 36 and IFRS 3.
- Impairment review under IAS 36 requires the carrying amount of a relevant asset or cash generating unit to be compared against its recoverable amount to determine whether the latter is lower. If the recoverable amount is lower, an impairment loss given by the difference would be recognised.

- Where the test is conducted at cash generating unit level, IAS 36 requires the unit's carrying amount to include assets directly and exclusively attributable to the unit and an allocation of assets that are indirectly attributable on a reasonable and consistent basis to the unit, including corporate assets and goodwill acquired through business combinations. The standard requires that a cash generating unit that contains goodwill should be test for impairment annually.
- However, the way that an entity chooses to measure the goodwill and non-controlling interests affects the nature of the test and the amount of impairment loss recognised. Under proportionate share method, a notional gross-up of the entity's goodwill balance is required to ensure the carrying value of the unit includes any goodwill attributable to the non-controlling interests.
- The grossed up amount is compared to the recoverable amount of the unit and an impairment loss calculated. Only the parent's share of the goodwill impairment loss is recognised.
- An impairment charge calculated for a cash generating unit should be allocated to the unit's individual assets as follows:
    - first of all, to goodwill allocated to the unit, and
    - then to the other assets of the unit on a pro-rata basis according to the carrying amount of each asset in the unit.

In allocating the loss, the carrying amount of each asset within the unit should not be reduced below the highest of fair value less costs of disposal, value-in-use and zero. of any related goodwill to be included in the unit's total carrying amount. The applicable goodwill, if determined on the basis of proportionate share of the subsidiary's net assets (at their fair value), is grossed up for the review purpose.

(Appropriate explanation = 2 marks)

b) Zigi would account for the lease by recognizing right-of-use asset and a corresponding lease obligation. IFRS 16 requires a lessee to recognise the asset initially at cost (including initial direct costs and lease liability). Subsequently, the asset would be depreciated over the lease term of six years.

The lease liability is recognised initially based on the present value of future lease payments discounted using the lease's implicit interest rate, or the lessee's incremental borrowing rate, if the former is not readily determinable. Since the implicit rate was not known by Zigi, Zigi would use its incremental borrowing rate of 14%. Subsequently, the lease liability is adjusted for finance charges, lease payments and any re-measurement of the liability.

On commencement, Zigi would determine the lease payments as follows:

- The baseline payments of GH¢1.0 million in years 1–6 represent fixed lease payments, are unavoidable and should be part of lease payments
- The payments of GH¢4.5 million (GH¢5.5 million less GH¢1 million) in years 1–6 represent variable lease payments that depend on an index, and therefore unavoidable and should be included in the lease payments

- The payments of GH¢500,000 a year represent variable payment that depends on usage (cost savings), are avoidable and should be excluded from the lease payments. IFRS 16 requires them to be expensed as and when they are incurred.

  The initial (estimate of) lease payments would be applied to determine lease liability and right-of-use asset. At subsequent date, the lease liability would be adjusted for finance charges, lease payments and any changes in estimates.
  Any re-measurement of lease liability is adjusted against the related right-of-use asset.

Workings:
Lease liability
The *initial lease liability* is given by the present value of future lease payments discounted at the lessee's incremental borrowing rate of 14%:

Years	**Future lease payments** GH¢000	**D.F. (14%)**	**Present value** GH¢000
1-6	5,500	3.89	**21,395**

Lease table for subsequent measurement of lease liability:

Year	**Bal. at start GH¢000**	**Interest (14%) GH¢000**	**Lease payment GH¢000**	**Bal. at end GH¢000**	**Re-measurement GH¢000**	**Revised bal. GH¢000**
2020	21,395	2,995.30	(5,500)	18,890.30	-	18,890.30
2021	18,890.30	2,644.64	(5,500)	16,034.94	1,331.94	17,366.88 *(see below)*
2022	17,366.88	2,431.36	(5,968)	13,830.24	-	13,830.24

Re-measured lease liability at 31 December 2021 is given by:

Years	**Future lease payments GH¢000**	**D.F. (14%)**	**Present value of payment GH¢000**
1-4	5,968 (1,000+(4,500x138/125))	2.91	**17,366.88**

The change in liability of GH¢1,331,940 (i.e. GH¢17,366,880 less GH¢16,034,940) due to the re-measured liability is applied to revise both lease liability and right-of-use asset at 31 December 2021.

Right-of-use asset:

Initial amount:	GH¢000
Initial direct costs	350
Lease liability	21,395
	21,745

Subsequent measurement of right-of-use asset:

Year	Bal. at start GH¢000	Depreciation GH¢000	Bal. at end GH¢000	Re-measurement GH¢000	Revised bal. at end GH¢000
2020	21,745	(3,624.17)	18,120.83	-	18,120.83
2021	18,120.83	(3,624.17)	14,496.66	1,331.94 *(see lease table)*	15,821.83

Zigi

Statements of profit or loss (extract) for the years ended 31 December

	2020 GH¢000	2021 GH¢000
Finance cost	(2,995.30)	(2,644.64)
Depreciation	(3,624.17)	(3,624.17)
Additional lease payment	-	(500)

Zigi

Statements of financial position (extract) as at 31 December

	2020 GH¢000	2021 GH¢000
Non-current assets:		
Right-of-use asset	18,120.83	18,902.04
Non-current liabilities:		
Lease liability		
2020 (16,194.30–3,232.80 *see below*)	12,961.50	
2021 (17,366.88–3,536.64 *see below*)		13,830.24
Current liabilities		
Lease liability		
2020 (5,500–2,267.20)	3,232.80	
2021 (5,968–2,431.36)		3,536.64

Appropriate explanations = 3 marks
40 ticks @ 0.125 marks each = 5 marks
8 marks

c) **Ayew PLC**

Statement of profit or loss (extract) for the year ended 31 July 2022

	GH¢000
Depreciation	(1,000)
Impairment	(1,400)
Gain on reclassification	400

Ayew PLC
Statement of financial position (extract) as at 31 July 2022

	GH¢000
Non-current assets:	
Plant	14,000

Workings

1.

	GH¢000
Cost – *acquired on 31 July 2019*	20,000
Depreciation: *1/8/19 – 31/7/21*	(4,000)
(10% x 20,000 x 2)	
Carrying amount at 31/7/21	16,000
Depreciation: *1/8/21 – 31/1/22*	(1,000)
(10% x 20,000 x 6/12)	
Carrying amount at 31 January 2022	15,000
Impairment charge	(1,400)
At 31 January 2022: Fair value less costs to sell	13,600
Gain on reclassification (bal. fig.)	400
At 31 July 2022: Restated carrying amount *(see below)*	14,000

2.

	GH¢000
Cost – *acquired on 1/8/19*	20,000
Accumulated depreciation which would have been required:	(6,000)
1/8/19 – 31/7/21	
(10% x 20,000 x 3)	
Carrying amount at 31/7/21 would have been *(A)*	14,000
Recoverable amount at 31/7/21 *(B)*	15,200
Plant would be restated to the lower of A and B:	**14,000**

(25 ticks @ 0.2 marks each = 5 marks)

Note:
IFRS 5 requires an asset held for sale to be initially re-measured to its carrying amount using the existing accounting standard. Afterwards, the asset should be held at the lower of its carrying amount and fair value less costs of disposal and would not be charged with any further depreciation. Any required impairment loss is chargeable to profit or loss.

Where, the asset held for sale no longer meets the classification criteria, IFRS 5 requires a revision of the carrying amount of the asset based on the lower of its carrying amount without the initial classification and recoverable amount on that date. This may be result in recognition of gain or loss, which should be reported within profit or loss.

(Total: 20 marks)

EXAMINER’S COMMENTS

This question on selected accounting standards (IFRS) was a difficult question for most candidates. It was generally not well answered though the questions were straight forward. Although, the question covered the syllabus and straight forward, most candidates were unable to express themselves adequately as expected. The response or answers produced were very scanty and not addressing the key issues. Most candidate failed to identify the applicable standards for the transactions as well as illustrate or produce the financial statement extracts.

QUESTION THREE

a) In line with IAS 36, the subsidence is an indication of impairment in relation to the production facility. Consideration would be required to choose a suitable cash generating unit as presumably the factory would not independently generate cash flows for Tamale Ltd as a standalone asset. The facility is likely to consist of both the factory and various items of plant and machinery and so it would not be possible to independently measure the cash flows from each of the assets. The recoverable amount of the unit would need to be assessed as the higher of fair value less costs to sell and value in use in accordance with IAS 36.

In addition, reference to IFRS 13 Fair Value Measurement would be required in estimating the fair value of the facility. For instance, by considering whether similar facilities have been on the market or recently sold. Value in use can be calculated by estimating the present value of the cash flows generated from the production facility discounted at a suitable rate of interest to reflect the risks to the business. For example, if the carrying amount exceeds the recoverable amount, an impairment has occurred.

Any impairment loss is allocated to reduce the carrying amount of the assets of the unit**. This will be expensed in profit or loss and cannot be netted off the revaluation surplus as the surplus does not specifically relate to the facility impaired.** No provision for the repair to the factory should be made because there is no legal or constructive obligation to repair the factory in accordance with IAS 37. **(5 marks)**

b) The estimated settlement on the pension liability is GH¢30 million (300 x GH¢100,000) and should be included within current liabilities in the statement of financial position. As this is GH¢18.4 million more than the estimated curtailment gains of GH¢11.6 million, a loss of GH¢18.4 million should be included within retained earnings. **Non-current liabilities** are reduced by the reduction in pension obligations of GH¢11.6 million. **(5 marks)**

c)

i) Fundamental ethical principles of IFAC code of ethics that might have been breached are:

- **Integrity**
  The Finance Director's posture on issues regarding Jennifer smacks of dishonesty. The Finance Director is not straightforward on even allocating of the cashiers' shifts. Jennifer is excluded from night shifts because she stays far from the workplace when other cashiers who are living at the same area she lives, are put on night shifts.

- **Objectivity**
  The application of the principle of objectivity ensures that the Accountant does not show bias. The special treatment given to Jennifer over the others on the time she

is allowed to come to work and her haphazard taking of days off work without a remedial action from the Finance Director only shows bias on the part of the Finance Director.

- **Professional behaviour**
  The discriminatory treatment given by the Finance Director to the cashiers which has engendered worry in the Cashiers, and the additional cost incurred by the company through overtime payment to Cashiers who stand in for Jennifer anytime she is off, only brings the reputation of the Director of Finance into question. This behaviour of the Finance Director does not portray him as a good "ambassador" of the Accounting profession, and this can bring the Accountancy profession into disrepute.

- **Professional competence**
  The professional competence of the Accountant is always expected to be demonstrated in his work. The Accountant is even encouraged to go through continuous development programme to ensure that he is able to demonstrate it. The non-responsiveness of the Director on the haphazard days Jennifer takes off work is increasing the staff cost of the company through overtime payments. The professional competence of the Director of Finance should have alerted him on the need to minimize controllable or variable costs such as overtime payments which seemingly has become a fixed cost. The professional competence principle seems to have been breached.

(Any 3 points @ 1.33 = 4 marks)

ii) Possible actions that the Finance Director should take include:

- Jennifer should be encouraged on the need to find accommodation closer to the workplace if that indeed is a challenge or be prepared to come to work regardless of the time of the shift.

- In consultation with the Human resource department, annual duty roster for the cash office should be prepared for the year to know the exact time each cashier plans to go on leave. This will help in planning on the smooth flow of work at the cash office.

- In consultation with the Human Resource department, modalities should be set for the granting of casual leave for staff members who have exhausted their allocated leave days in the year.

- In consultation with the Human Resource department, modalities should be set for the issue of excuse duty to workers by Doctors at the operational level.

- Also, in consultation with the Managing Director of the Medical centre, Doctors should be engaged on the need to stop "rampant" issue of excuse duty to workers who are not eligible to be issued excuse duty and the new modalities designed on the issue of the excuse duty.

- The Director of Finance should have a meeting with all the cashiers to drum home the need for them to work as a team and show dedication to work, willingness to stand in for one another without hesitation when the original cashier on duty is indisposed.

(Any 4 actions @ 1.5 marks each = 6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question was in two parts: accounting standards and ethics. As usual, the accounting standards part of the question was poorly answered by most candidates. Majority of candidates were unable to identify the relevant IFRSs required in addressing the treatment of the transactions in the financial statements. The question required demonstrating an understanding of IAS 36, IFRS 13 and IAS 19. A greater percentage of the marks earned by candidates came from the ethics part of the questions. Candidates provided reasonable responses regarding the fundamental ethical principles that apply and the possible courses of action to be taken to deal with the ethical dilemma.

QUESTION FOUR

a)

i) **Net Asset Basis**

Value per share is given by net assets valuation divided by number of ordinary shares issued

Revision of net assets:

		GH¢ million
Non-current assets (150 + (120 – 95) – (10 – 2) – 1		166
Current assets (145 – 9.09(W2))		135.91
		301.91
Non-current liabilities	49	
Current liabilities	110	(159)
		142.91
Less: 10% Preference shares		(10)
Restated net assets		**132.91**

Net assets value per share = 132.91/20 = GH¢6.65

Workings (All in GH¢ million)

Receivables

Carrying value	20
Impairment charge	(9.09)
Recoverable amount [(8/1.1) + (4/1.1^2)]	10.91

(Marks are evenly spread using ticks = 6 marks)

ii) **Price/Earnings Basis**

Value per share	=	EPS of Kudus x PE Ratio of Bukari
EPS	=	GH¢18.91million (see below)/20 million shares
	=	GH¢0.9455

Considering the risk factor of 20%,

Value per share	=	0.9455 x 8 x 80% risk
	=	**GH¢6.05**

Revision of profit	**GH¢ million**
Profit per draft accounts	38
Adjustments:	
Impairment of plant (10 – 2)	(8)
Expected credit losses	(1)
Irrecoverable debts	(9.09)
Fair value gain on loan notes (50 – 49)	1
Revised profit	20.91
Less: Preference dividend (20% x 10)	(2)
Profit for ordinary shareholders	**18.91**

Determination of price/earnings ratio – Kudus = 100/12.5 or 1/.125
= 8

(Marks are evenly spread using ticks = 5 marks)

iii) **Dividend Yield Basis**

Value per share = $\frac{\text{DPS of Kudus}}{\text{Dividend yield of Bukari}}$

DPS = (GH¢2.5million+ GH¢1.5 million/20 million shares

= GH¢0.20

Dividend yield = 1/dividend cover x earnings yield
= 1/4 x 12.5%
= 3.125% or 0.03125

Considering the risk factor of 20%,

Value per share = $\frac{\text{GH¢0.20}}{0.03125}$ x 80%

or

$\frac{\text{GH¢0.20}}{0.03125\text{x}100/80}$

= **GH¢5.12**

Alternatively, dividend yield can be adjusted upwards to 120% or 1.2 of the original

Value per share = $\frac{\text{GH¢0.20}}{0.03125\text{x}1.2}$

= GH¢5.56

Range of values per share: From GH¢2.34 to GH¢5.99

(Marks are evenly spread using ticks = 4 marks)

b) Events that may result in deconsolidation of a subsidiary that is a business include the following:

- A parent sells all or part of its ownership interest in its subsidiary, thereby losing its controlling financial interest in its subsidiary.
- Expiration of a contractual agreement that gave control of the subsidiary to the parent expires.
- The subsidiary issues shares, thereby reducing the parent's ownership interest in the subsidiary so that the parent no longer has a controlling financial interest in the subsidiary.
- The subsidiary becomes subject to the control of a government, court, administrator, or regulator.

If a parent loses control of a subsidiary that is a business through means other than a nonreciprocal transfer to owners, it must:

- Derecognize the assets (including an appropriate allocation of goodwill) and liabilities of the subsidiary at their carrying amounts at the date control is lost.
- Derecognize the carrying amount of any NCI at the date control is lost (including any components of accumulated other comprehensive income attributable to it).
- Recognize the fair value of the proceeds from the transaction, event, or circumstances that resulted in the loss of control.
- Recognize any non-controlling investment retained in the former subsidiary at its fair value at the date control is lost.
- Reclassify to income [profit or loss], or transfers directly to retained earnings if required, in accordance with other US GAAP [IFRS], the amounts recognized in other comprehensive income in relation to that subsidiary.
- Recognize any resulting difference as a gain or loss in income [profit or loss] attributable to the parent The gain or loss is calculated as the difference between:
    - The aggregate of:
        - The fair value of the consideration transferred.
        - The fair value of any retained noncontrolling investment in the former subsidiary on the date the subsidiary is deconsolidated.
        - The carrying amount of any noncontrolling interest in the former subsidiary (including any accumulated other comprehensive income or loss attributable to the NCI) on the date the subsidiary is deconsolidated.
    - The carrying amount of the former subsidiary's net assets.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question on share/business valuation was expected to be one of the simplest for candidates. Unfortunately, some candidates could not answer this question appropriately due to the application of standards (IFRS 13 and IFRS 9) in the valuation process. The net assets method was satisfactorily answered by most candidates that attempted it. The P/E ratio method was also well attempted, but most candidates failed to adjust the earnings to reflect the additional information provided. Most candidates also attempted the dividend yield method except that they could not determine the yield to use in the valuation.

QUESTION FIVE

a) **Partey Ltd**
Memorandum

To: The Board of Directors
From: The Finance Manager
Date: 3rd April 2022
Subject: Analysis of the performance of Partey Ltd for the year ended 31 December 2021

This report assesses the current performance of the company given its existing capital structure using the comparative year 2020 as the benchmark. As per the request, the report also assesses the expected performance of the company when existing long-term debt issued to NGIC Pension Fund, the convertible bondholder, is exercised. The performance of the company is discussed in this report on the bases of profitability, working capital management and leverage.

Profitability

The company recorded a decline in operating profit in the 2021 year. In the 2020 year, the company generated returns of GH¢0.28 on every cedi investment made by long-term investors, but recorded profit of GH¢0.07 for long-term capital providers in the 2021 year. The earnings of shareholders was even negative, with the company generating negative returns of GH¢0.03 for the shareholders in the 2021 year, but generated GH¢0.22 per cedi investment in the comparative year. The company's ability in managing its cost of sales also dwindled in the 2021 year as measured by the decline in the gross profit margin. The negative profit recorded by the company in the 2021 year is explained by the decline in revenue and disproportionate increase in cost of sales vis-à-vis increase in revenue. Revenue in the 2021 year declined by 12.66%. Cost of sales, however, did not decline but rather increased by 1.43%.

Working capital management

The current ratio declined in the 2021 year suggesting a weakening in the liquidity. The current assets in 2020 could cover the current liabilities 1.71 times, but reduced to 1.56 times in the year 2021. The acid-test ratio, however, has improved in the 2021 year suggesting a strengthening in the liquidity of the company when inventory is excluded.

There has also been a reduction in the inventory turnover, and this represents an improvement in management of the company's inventory. The company's trade receivables collection days reduced slightly in the 2021 year, representing an improvement in the performance of the company in managing its trade receivables days. There is also an improvement in the company's management of trade payables. In the 2020 year, the company had average days of 100 from its suppliers for payment of credit purchases, but had an extended credit of 122 days in the 2021 year.

Gearing/leverage

The long-term debt capital employed by the company reduced in the 2021 year. In both years, the company was highly geared, but experienced a reduction in gearing in the 2021 year. The interest cover ratio shows a reduction in the 2021 year, even though debt capital reduced in the 2021 year. The capacity of the company to cover its finance cost with profit from operations has reduced and this represents a decline in performance.

Conclusion

The company's profitability has reduced. The trade payables management, trade receivables management and inventory management also saw an improvement in the 2021 year. However, the strain of interest expense erodes the profitability of the company when incorporated. It is expected that upon conversion of the convertible bond, profit after tax will increase, gearing level will improve or financial risk will be reduced. Liquidity will however weaken because of expected reduction in tax shield on interest expense.

Signed
Finance Manager

Appendix

RATIOS	**FORMULA**	**2021**	**2020**
Profitability:			
Return on capital employed	$= \frac{PBIT}{Capital\ employed}\ x\ 100$	$\frac{17,205}{243,155} x100$ =7.08%	$\frac{65,248}{231,923} x100$ =28.13 %
Return on Equity	$= \frac{PAT}{Equity}\ x\ 100$	$\frac{-4082}{134,575} x100$ = -3.03%	$\frac{27,190}{121,676} x100$ =22.35%
Gross profit margin	$= \frac{Gross\ profit}{Revenue}\ x\ 100$	$\frac{148,776}{389,507} x100$ =38.20%	$\frac{208,618}{445,963} x100$ =46.78%
Liquidity			
Current ratio	$= \frac{current\ assets}{current\ liabilities}$	$\frac{129,481}{83,247}$ =1.56:1	$\frac{116,571}{68,186}$ =1.71:1
Acid-test ratio	$= \frac{current\ assets - Inventory}{current\ liabilities}$	$\frac{129,481 - 50,400}{83,247}$ = 0.95:1	$\frac{116,571 - 66,351}{68,186}$ =0.74:1

Efficiency			
Inventory turnover (days)	$= \frac{Inventory}{cost\ of\ sales} x365$	$\frac{50,400}{240,731} x365$ =76 days	$\frac{66,351}{237,345} x365$ =102 days
Trade receivables collection (days)	$= \frac{Trade\ receivables}{Revenue} x365$	$\frac{23,769}{389,507} x365$ =22 days	$\frac{27,688}{445,963} x365$ =23 days
Trade payables settlement period	$= \frac{Trade\ payables}{Cost\ of\ sales} x365$	$\frac{80,182}{240,731} x365$ =122days	$\frac{65,082}{237,345} x365$ =100 days
Gearing:			
Interest cover ratio	$\frac{PBIT}{Interest\ expense}$	$\frac{17,205}{21,287}$ =0.81 times	$\frac{65,248}{21,537} x100$ =3.03 times
Debt-to-equity ratio (%)	$\frac{Long-term\ debt}{Equity}$	$\frac{108,580}{134,575}$ =80.68%	$\frac{110,247}{121,676}$ =90.61%

Each ratio computed for 2 years @ 0.5 marks each = 8 marks
Report on each ratio @ 1 mark each = 8 marks
16 marks

b) **Effect of conversion of the convertible bond**

Upon conversion of the GH¢100 million convertible debt, finance cost, profit before tax, profit after tax, current liabilities, long-term debt and equity of the company will change. Profitability, liquidity and leverage will therefore be affected. Profit after tax of the company will be GH¢12,746,000 (-4,082,000 + 20,000,000 -3,172,000). Earnings of shareholders on the investment is expected to increase from 7.08% to 9.47%, representing an expected improvement in the performance of shareholders' investment.

The reduction in debt is, however, expected to reduce interest expense which is a deductible tax expenditure. Taxable income is expected to increase and hence current tax liability, increasing current liabilities of the company. This is expected consequently to cause a reduction in the liquidity of the company, all other things being equal. Current ratio and acid-test ratios will reduce to 1.50 and 0.92 times.

The proportion of long-term debt in the company's capital structure will reduce. The expected debt-to-equity ratio is a reduction from 80.68% to 3.66% given that other things stay the same. The financial risk of the company is expected to reduce as the interest cover ratio, will also increase to 13.37 times from 0.81times.

Appendix

RATIOS	**FORMULA**	**2021**
Profitability:		
Return on Equity	$= \frac{PAT}{Equity}\ x\ 100$	$\frac{12,746}{134,575} x100$ = 9.47%
Liquidity		
Current ratio	$= \frac{current\ assets}{current\ liabilities}$	$\frac{129,481}{(83,247 + 3,172)}$ =1.50:1
Acid-test ratio	$= \frac{current\ assets - Inventory}{current\ liabilities}$	$\frac{129,481 - 50,400}{(83,247 + 3,172)}$ = 0.92:1
Gearing:		
Interest cover ratio	$\frac{PBIT}{Interest\ expense}$	$\frac{17,205}{(21,287 - 20,000)}$ =13.37 times
Debt-to-equity ratio (%)	$\frac{Long - term\ debt}{Equity}$	$\frac{8,580}{234,575}$ =3.66%

Assessment of expected performance upon conversion of the convertible debt = 4 marks

(Total: 20 marks)

EXAMINER'S COMMENTS

This question required a comparative analysis of the financial performance of a company over a two-year period. The question was attempted by all the candidates. The question was unambiguous but rather clear to be understood by an average candidate or a well-prepared candidate. The main challenge with this question was the definition of the ratios computed. Another area of concern is the report writing and the format of writing reports. Some of the candidates failed to write a report using the appropriate format. Some candidates just quoted the ratios in the report, comparing them period to period without analysing or explaining their relationships. The second part of the question on conversion of the convertible bond was poorly answered by most candidates. It seems most candidates did not understand the requirement of that particular question.

CONCLUSION

As indicated earlier, overall, candidates performed poorer than previous diets although the nature and standard of the questions set were appropriate for the level being assessed. There was 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 corporate reporting paper should thoroughly revise on the financial reporting paper even when they are exempted from taking the financial reporting paper. The exemptions criteria or policy must be re-looked at. Some candidates just register and sit the paper without the aim of passing but because he/she must register for all subjects. So, they prepare for other subject(s) they have interest in.