DECEMBER 2022 PROFESSIONAL EXAMINATIONS
FINANCIAL REPORTING (PAPER 2.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

STANDARD OF THE PAPER

The standard of the paper compares favourably with those of previous examinations. The syllabus coverage was good and the difficulty level was appropriate for the level of cognitive domain to be examined. The weighting for Regulatory, Conceptual and Ethical Framework which was reduced to 5% (instead of 10%), the marks allocation largely followed the weighting in the syllabus. The level of clarity of requirements of the respective questions was excellent. Allocation of marks was consistent with load and difficulty level of the respective questions and sub-questions.
Generally stated, a candidate who prepared well in accordance with the dictates of the syllabus should be able to pass the examination.

PERFORMANCE OF CANDIDATES

On the whole, performance of candidates was below expectation. The pass rate was about 20%. This poor performance may be as a result of short period for preparation and lack of appreciation of content and application of the relevant IFRSs.

It appears the few high performers were concentrated at some centres. While some script packs could record about 40% pass rate, others could hardly register 20% pass rate.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

Almost all the candidates scored good marks in Question four; Accounting Ratios and Financial Statement Interpretation. That question was a 'low hanging fruit' for all the candidates.

A greater number of the candidates demonstrated lack of understanding of how to present consolidated financial statements. Many could also hardly understand and apply the contents of the relevant International Financial Reporting Standards

Candidates are hereby advised to note the following for future guidance:

- The content and application of the IFRSs constitute about 70% of the syllabus. Candidates can only pass the Financial Reporting paper if they place premium on learning IFRS.
- Preparing for Financial Reporting examination requires working as many questions as possible. Read the theories and solve the practical questions.
- In the examination room, try and allocate your time evenly over the questions, based on the marks allocation. Note that each mark requires 1.8 minutes so the maximum time to be allocated to a 20 marks question is 36 minutes.
- You must also provide the answers in direct responses to the requirements of the respective questions. Try to avoid deviation.

- It is always advisable to answer the questions that you are comfortable with first. This will enhance your confidence level and sustain your focus and tenacity throughout the 3 hours.

QUESTION ONE

The following Statements of Profit or Loss and Other Comprehensive Income relate to three entities: Jomoro, Nsuaem and Amenfi for the year ended 31 October 2021.

	Jomoro	Nsuaem	Amenfi
	GH¢ million	GH¢ million	GH¢ million
Revenue	3,560	1,550	1,200
Cost of sales	(2,050)	(900)	(570)
Gross profit	1,510	650	630
Operating expenses	(845)	(580)	(480)
Finance cost	(15)	-	-
Profit before taxation	650	70	150
Taxation	(350)	(110)	(90)
Profit for the year	**300**	**(40)**	**60**
Other comprehensive income:			
Revaluations of Property Plant & Equipment	80	-	-
Total comprehensive income for the year	**380**	**(40)**	**60**

Additional information:

i) Jomoro purchased 210 million ordinary shares (representing 70% of the total number of ordinary shares) in Nsuaem on 1 February 2021, when the other reserves of Nsuaem was GH¢49 million and the retained earnings of Nsuaem was GH¢310 million. The consideration was agreed at GH¢1,430 million. This was satisfied by issuance of 120 million of Jomoro's ordinary shares at agreed fair value of GH¢1,130 million, plus GH¢300 million to be paid by Jomoro on 31 October 2021 if a profit target (GH¢80 million) is achieved by Nsuaem by the year ended 31 October 2021. The contingent element of the consideration was recorded at its fair value of GH¢240 million at 1 February 2021. As it turned out, significant losses were incurred by Nsuaem for the period to 31 October 2021. Consequently, nothing is payable by Jomoro on 31 October 2021 under this part of the deal. No entry has been made by Jomoro to reflect this change in expectation.

   At year end, book value per share was GH¢4 for Jomoro and GH¢3 for Nsuaem while market price per share was GH¢7 for Jomoro and GH¢5 for Nsuaem. Nsuaem has not issued any shares since acquisition.

ii) At the date of acquisition of Nsuaem, carrying values of its net assets were equal to fair values except a contingent liability of GH¢10 million as disclosed in the financial statements of Nsuaem which had an estimated fair value of GH¢9 million. Subsequent to acquisition, the liability has been recognised by Nsuaem in its books as GH¢7 million. Ignore deferred tax implication of this adjustment.

iii) The policy of Jomoro Group is to value non-controlling interests (NCI) at their fair value at the acquisition date. On that date, the fair value of the NCI of Nsuaem was GH¢360 million. Due to the unexpected losses incurred by Nsuaem during the year, an impairment test was

undertaken on 31 October 2021 and goodwill was found to be impaired by 40% of its acquisition value. Jomoro charges goodwill impairment to operating expenses.

iv) On 1 August 2021, Jomoro purchased 30% equity holding in Amenfi. The consideration was agreed at GH¢120 million to be settled in cash by Jomoro on 30 June 2022. Jomoro has not yet recorded this. Following an unexpected post-acquisition poor performance, the investment was impaired by GH¢1.5 million.

v) The following inter-company sales at cost plus five-eighths (5/8) were made during the year ended 31 October 2021:

	Sales	Included in buyer's closing stock-in-trade
	GH¢ million	GH¢ million
Jomoro to Amenfi	86	13 (all bought in September and October by Amenfi)
Nsuaem to Jomoro	115	26

vi) All profit or loss and other comprehensive income items occurred evenly unless otherwise indicated. Any effects of contingencies relating to the current period should be adjusted against operating expenses.

vii) The applicable discount rate is 20%. Ignore deferred tax unless otherwise stated.

Required:
Prepare Jomoro Group's consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 October 2021.

(Total: 20 marks)

QUESTION TWO

a) Sawaleh Ghana Ltd is a public listed company located in Tamale, the Northern Regional capital of Ghana. The company operates in the financial services sector. The directors of the company have some concerns regarding the application of ***International Financial Reporting Standards (IFRSs)***. The directors require explanations and advise on a number of transactions that the company have undertaken during the 2022 accounting year. The company prepares its accounts to 30 June each year. The details of the concerns and transactions undertaken by the directors are stated below:

i) A director of Sawaleh Ghana Ltd, has expressed concerns about the accounting treatment of some of the company's items of Property, Plant and Equipment which have increased in value. Her main concern is that the Statement of Financial Position does not show the true value of assets which have increased in value and that this 'undervaluation' is compounded by having to charge depreciation on these assets, which also reduces reported profit. She argues strongly that this does not make economic sense in her opinion.

Required:
Address the director's concerns by summarising the principal requirements of ***IAS 16 Property, Plant and Equipment*** in relation to the revaluation for the year ended 30 June 2022 and its subsequent treatment. **(5 marks)**

ii) On 1 July 2021, Sawaleh Ghana Ltd received a government grant of GH¢20 million towards the purchase of new plant with a gross cost of GH¢160 million. The plant has an estimated life of 10 years and is depreciated on a straight-line basis. One of the conditions of the grant is that the sale of the plant before 30 June 2025 would trigger a repayment on a sliding scale as follows:

Sale in the year ended:	Amount of repayment
30 June 2022	100%
30 June 2023	75%
30 June 2024	50%
30 June 2025	25%

Accordingly, the directors propose to credit the statement of profit or loss with GH¢5 million (GH¢20 million x 25%) being the amount of the grant they believe has been earned in the year to 30 June 2022. Sawaleh Ghana Ltd accounts for government grants as a separate item of deferred credit in its statement of financial position. The directors are also contemplating whether to sell the plant before 30 June 2025 or not.

Required:
With reference to ***IAS 20: Government Grants and Disclosure of Government Assistance***, advise, and quantify where appropriate, how the government grant should be treated in each of the decision the directors make in the financial statements. **(5 marks)**

iii) From 1 July 2021, the directors of Sawaleh Ghana Ltd have decided to reclassify amortised research and development costs as administrative expenses rather than its previous

classification as cost of sales. The directors believe that the previous treatment unfairly distorted the company's gross profit margin.

Required:
With reference to ***IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors,*** advise how the above item should be treated in Sawaleh Ghana Ltd's financial statements for the year ended 30 June 2022. **(3 marks)**

b) Rukaya Ltd is an agro-processing company which has been operating in the Western Region since 2013. At a board meeting on 1 August 2021, Rukaya's Ltd directors made the decision to close down one of its factories on 30 April 2022. The factory and its related plant would then be sold.
A formal plan was formulated, and the factory's 250 employees were given three months' notice of redundancy on 1 February 2022. Customers and suppliers were also informed of the closure at this date.

The directors of Rukaya Ltd have provided the following information: Fifty (50) of the employees would be retrained and deployed to other subsidiaries within the group at a cost of GH¢2 million; the remainder will accept redundancy and be paid an average of GH¢600,000 each. The factory plant has a carrying amount of GH¢6.4 million but is only expected to sell for GH¢3 million incurring GH¢200,000 of selling costs; however, the factory itself is expected to sell for a profit of GH¢8 million.

Rukaya Ltd also rents several machines under lease arrangements which have an average of three years to run after 30 April 2022. The present value of these future lease payments (rentals) at 30 April 2022 was GH¢3.5 million; however, the lessor has said they will accept GH¢2.2 million which would be due for payment on 31 May 2022 for their cancellation at 30 April 2022. Penalty payments due to non-completion of supply contracts are estimated at GH¢500,000. Note however, that the closure of the factory does not meet the criteria of a discontinued operation.

Required:
Explain and quantify where appropriate how the closure of the factory should be treated in Rukaya's financial statements for the year ended 30 April 2022. **(7 marks)**

(Total: 20 marks)

QUESTION THREE

Dompa Ltd prepares its financial statements in accordance with IFRSs. Below are the statement of profit or loss for the year ended 31 December 2021 and the statement of financial position as at that date, and the comparative statement of financial position as at 31 December 2020.

Statement of Profit or Loss for the year ended 31 December 2021

	GH¢000
Revenue	1,656,000
Cost of sales	(745,200)
Gross profit	910,800
Other income	15,000
Administrative expenses	(409,860)
Distribution costs	(136,620)
Profit before interest and tax	379,320
Finance cost	(3,232)
Profit before tax	376,088
Tax expense	(9,462)
Profit for the year	**366,626**

Statement of Financial Position as at 31 December

	2021	2020
Non-current assets:	**GH¢000**	**GH¢000**
Property, Plant & Equipment	33,210	23,260
Investment Property	28,500	28,000
Intangible Assets	124	155
	61,834	51,415
Current assets		
Inventory	15,700	5680
Trade receivables	82,800	10765
Cash	16,712	152
Bank	304,437	5950
	419,649	22,547
Total assets	**481,483**	**73,962**
Equity & Liabilities:		
Equity:		
Share capital	30,000	25,000
Retained earnings	373,526	11,300
Revaluation surplus	862	1,262
	404,388	37,562
Non-current liabilities		
15% bond redeemable in 2024	20,432	20,200
Deferred tax	3,762	2,300

Current liabilities:		
Trade & other payables	46,401	7,600
Current tax	6,500	6,300
Equity & Liabilities	**481,483**	**73,962**

Additional information:

i) Depreciation expense on tangible non-current assets recognised for the year is GH¢8,804,000. There was no purchase or disposal of any of the intangible non-current assets in the year.

ii) Impairment review has been undertaken on one of the machines of the company that has a carrying value of GH¢1,500,000, but an estimated recoverable amount at the impairment review date was GH¢745,000. The result of the impairment review is correctly accounted for in the above financial statements in accordance with ***IAS 36: Impairment of Assets***.

iii) One of the company's vehicles was involved in an accident in the year, and got damaged beyond repairs as a result of the accident. The carrying value of the vehicle was GH¢562,000. This vehicle has been written off in the above financial statements.

iv) The company also sold one of its machines which has been in disuse for some time now for a consideration of GH¢850,000. The carrying value of the machine at the date of disposal is GH¢689,000. Any gain or loss on disposal of non-current assets is included in other income. A new production machinery was also acquired by the company in November 2021 at the cost of GH¢8,640,000 on a 90-day credit basis. This payable is included in trade and other payables. Investment property of the company is carried at fair value. There was no purchases or sales of investment property in the year.

v) The 15% bond was issued in January 2020 at a par value of GH¢20,000 over a tenure of five (5) years, redeemable at 5% premium. The effective interest rate is estimated at 16% per annum. The liability has been correctly measured and treated at amortised cost using IFRS 9-*Financial Instruments*. Finance cost in the profit or loss account relates wholly to this bond.

vi) There has been no revaluation of any of the company's non-current assets in the year. The change in revaluation surplus represents the portion realised by the entity in the year through the usage of the revalued assets. The amount realised is the excess depreciation charges incurred under the revaluation model relative to the depreciation charges under the cost model, as provided by ***IAS 16: Property, Plant and Equipment***.

Required:

Using ***IAS 7: Statement of Cashflows***, prepare the Statement of Cashflow of Dompa Ltd for the year ended 31 December, 2021.

(Total :20 marks)

QUESTION FOUR

Madina Ltd is engaged in the processing of palm fruits to produce palm oil and palm kernel oil. The financial statements of the company for the years ended 31st December 2020 and 2021 are as follows:

Statement of Profit or Loss for the year ended

	2021	**2020**
	GH¢000	**GH¢000**
Revenue	123,817	95,620
Cost of sales	(84,940)	(76,240)
Net gains from changes in fair value of biological assets	84	754
Gross profit	**38,961**	**20,134**
Administrative expenses	(11,727)	(8,494)
Other income	1,267	927
Operating profit	**28,501**	**12,567**
Finance income	888	508
Profit before income tax	**29,389**	**13,075**
Income tax expense	(4,692)	(3,422)
Profit for the year	**24,697**	**9,653**

Statement of Financial Position as at

	2021	**2020**
Assets	**GH¢000**	**GH¢000**
Non-current assets		
Property-plant & equipment	57,909	49,471
Financial asset	5,221	5,137
	63,130	**54,608**
Current assets		
Inventories	8,490	9,370
Trade Receivables	24,663	18,304
Cash and cash equivalents	22,832	10,618
	55,985	**38,292**
Total assets	**119,115**	**92,900**
Equity & Liabilities:		
Share capital	2,000	2,000
Retained Earnings	97,634	74,851
	99,634	**76,851**
Non-current liability		
Deferred taxation	9,394	5,759
	9,394	**5,759**
Current liabilities		
Accrued expenses	477	203
Trade payables	6,957	9,403
Current income tax liabilities	2,653	684
	10,087	**10,290**
Total equity & liabilities	**119,115**	**92,900**

The following ratios have been gathered from the food and processing industry for the year ended 31 December 2021:

Return on Equity (%)	23.52
Gross profit margin (%)	29.57
Net profit margin (%)	22.16
Current ratio (times)	2.5
Acid test ratio (times)	1.8
Inventory turnover (days)	20
Trade receivables collection (days)	68
Trade payables settlement (days)	32

Required:

Write a report to the Board of Directors of Madina Ltd, assessing the company's performance for the year ended 31 December 2021 in relation to the industry and the comparative year.

(Total: 20 marks)

QUESTION FIVE

a) Damba Ltd is one of the market leaders in the fruit processing industry which started its operation in 2017. During the current year, Damba Ltd spent GH¢400,000 on training courses for its employees. This has already resulted in increased efficiency and cost savings for the entity. According to the course organisers, the training benefits should continue for at least four years. As a result, the Assistant Accountant has recognised the training costs as an intangible asset and has charged six months' amortisation based on the average month per year within which the training courses were completed.

Required:
Comment on the Assistant Accountant's treatment of the aforementioned transaction in Damba Ltd's financial statements for the year ended March 31, 2022 and advise on how it should be handled under ***International Financial Reporting Standards***. **(5 marks)**

b) The definition of a liability forms an important element of the International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements which, in turn, forms the basis for ***IAS 37: Provisions, Contingent Liabilities and Contingent Assets***.

Required:
Define ***liability*** and describe the circumstances under which provisions should be recognised. **(5 marks)**

c) On January 1, 2021, Bayor Ltd had 10 million ordinary shares in issue. On 31 March 2021 the company issued at full market price, 2 million ordinary shares. On 31 August 2021 the company made a rights issue of 1 for 5 @ GH¢3. The fair value of the shares on the last day before the issues of the rights issue was GH¢3.80. Profit for the current period is GH¢3.5 million. The reported Earnings Per Share (EPS) for the year ended December 31, 2020 was 0.33p.

Required:
Calculate the EPS for the year ended December 31, 2021 and the restated EPS for the year ended December 31, 2020. **(5 marks)**

d) An investor entity can enter into a contractual arrangement with another entity in which unanimous consent of both parties is required in order to take decisions relating to operating and financial policies of the investee. Such an arrangement could either be a joint venture or a joint operation.

Required:
Explain the distinction between joint venture and joint operation under ***IFRS 11: Joint arrangements***. **(5 marks)**

(Total: 20 marks)

SUGGESTED SOLUTION

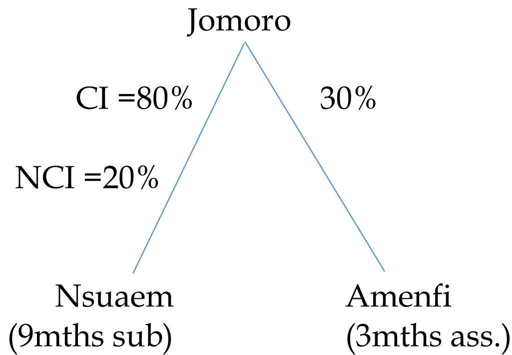
QUESTION ONE

Jomoro
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 October 2021

	GH¢ million
Revenue (3,560 + (1,550x9/12) – (115x9/12))	4,636.25
Cost of Sales (2,050 + (900x9/12) – (115x9/12) + 1.5(W5) + 10(W5))	(2,650.25)
Gross profit	1,986
Operating expenses (845 + (580x9/12) + 192(W2) – 240(W3) -2 (w3))	(1,230)
Finance cost (15 + 5(W6))	(20)
Share of profit of associate [(30% x 60 x 3/12) – 1.5 (impairment of Associate)]	3.0
Profit before taxation	739
Taxation (350 + (110x9/12)	(432.5)
Profit for the year	**306.5**
Other comprehensive income:	
Revaluation of PPE	80
Total comprehensive income for the year	**386.5**
Profit for the year attributable to:	
Owners of the parent (balancing figure (307.75 – (–68.85))	375.7
Non-controlling interest (W7)	(69.2)
	306.5
Total comprehensive income attributable to:	
Owners of the parent (balancing figure (387.75 – (–68.85))	455.5
Non-controlling interests (W7)	(69.2)
	386.5

Workings:

1. **Group structure**



2. **Goodwill – Nsuaem**

	GH¢ million	**GH¢ million**
Cost of investment:		
Issue of shares		1,130
Contingent consideration		240
		1,370
Fair value of NCI at acquisition		360
		1,730
Fair value of identifiable net assets acquired:		
Share capital (210m x 100/70 x GH¢3)	900	
Retained earnings	310	
Other reserves	49	
Contingent liability	(9)	(1,250)
Goodwill at acquisition		480
Less: Impairment (40% x 480)		(192)
Goodwill at reporting		**288**

3. **Reversal of contingent consideration**

a) Reversal of the initial contingent consideration of GH¢240 million would normally be treated as a finance income (reversal of unwound discount). It is however being reported as reduction in operating expenses per the specific directive in the question (Thus adjustment to contingencies should be treated in the operating expenses).

b) The fair value of the contingent liability was initially recognized at GH¢9 million. This was subsequently settled at GH¢7million, resulting in post acquisition gain of GH¢2 million. This is also reported as a reduction to operating expenses

4. Elimination of post-acquisition intra-group sales/purchases

Eliminate post acquisition intra-group sales and purchases (GH¢115 million x9/12) in full from group revenue and group cost of sales.

5. Provision for Unrealised profit on inventory

a) On transaction from Investor (Jomoro) to Associate (Amenfi) = GH¢13 million x 5/13 x 30%= GH¢1.5 million. (Dr Cost of sales GH¢1.5 million; Cr Investment in associate GH¢1.5 million)

b) On transaction from Subsidiary (Nsuaem) to Parent (Jomoro) = (GH¢26 million x 5/13) = GH¢10 million. (Dr Cost of Sales GH¢10 million; Cr Inventory GH¢10 million). NCI is affected as Nsuaem was the group member that recorded the gain.

6. Unwound discount on deferred consideration on Amenfi's acquisition

	GH¢ million
At acquisition (120 x 1/1.20)	100
Unwound discount (20% x 100 x 3/12)	5
At 31 October 2021	**105**

7. Determination of Non- Controlling Interest's share of profit/loss

	GH¢ million
Nsuaem per SoPL & OCI (40 x 9/12)	(30)
Less unrealised profit on inventory (W5)	(10)
Less goodwill impairment loss	(192)
Adjusted figures	(232)
NCI percentage share	30%
NCI Amount	**(69.2)**

Note

The contingent liability has crystallised, settled and recognised, so no adjustment is required again.

(Marks are evenly spread using ticks = 20 marks)

EXAMINER'S COMMENTS

The question required candidates to prepare consolidated statement of profit or loss and other comprehensive income (involving a Parent, a Subsidiary and an Associate). Unfortunately, this was the worst answered question, with most of the candidates scoring less than 8 marks (out of 20 marks).

The thrusts of the question were as follows:

- Identification of the control/group structure
- Identification of the date of acquisition and applying same to determine post -acquisition transactions
- Determination of the goodwill on acquisition. This required the determination of:
  - Cost of investment. This involved share exchange and contingent consideration;
  - Non- controlling interest valuation [at acquisition date];
  - Fair value of net asset of subsidiary at acquisition date. This involved valuation of stated capital, retained earnings, other reserves and fair value of contingent liability
- Intra-group adjustments [Sales, Unrealised Profit on Inventory, Unrealised profit on Downstream transaction between Investor and Associate]
- Unwound discount on deferred consideration for the investment in Associate
- Share of profit of Associate
- Line-by-line aggregation (after all relevant adjustments)

The poor performance of the candidates may be due to the fact that some of the items in the question [deferred consideration, contingent consideration, post-acquisition losses, unwound discount, reversal of unwound discount, the use of fraction (5/8) to indicate intra group profit loading] were unfamiliar to the candidates. Many lecturers ignore such areas.

Students and lecturers are therefore advised to ensure total coverage of IAS 27, IAS 28, IFRS 3, IFRS 10, IFRS 11, IFRS 12 and IFRS 13 in their preparation for consolidated financial statement presentation.

QUESTION TWO

a)

i) The requirements of ***IAS 16: Property, Plant and Equipment*** may, in part, offer a solution to the director's concerns. IAS 16 allows (but does not require) entities to revalue their property, plant and equipment to fair value; however, it imposes conditions where an entity chooses to do this.

- Where an item of property, plant and equipment is revalued under the revaluation model of IAS 16, the whole class of assets to which it belongs must also be revalued. This is to prevent what is known as 'selected picking' where an entity might only wish to revalue items which have increased in value and leave other items at their (depreciated) cost.

- Where an item of property, plant and equipment has been revalued, its valuation (fair value) must be kept up to date. In practice, this means that, where the carrying amount of the asset differs significantly from its fair value, a (new) revaluation should be carried out.
- The market value of land and building usually represents fair value, assuming existing use and line of business, such valuation is usually carried out by a professional valuer. In the case of plant and equipment, the fair value can be taken as market value. Where a market value is not available, however, depreciated replacement cost should be used.
- The frequency of valuation depends on the volatility of the fair value of individual items of PPE. The more volatile the fair value, the more frequently revaluation should be carried out.
- All the items within the class of PPE should be revalued at the same time to prevent selective revaluation of certain assets and to avoid disclosing a mixture of costs and values from different dates in the financial statements.
- A revaluation surplus (gain) should be credited to a revaluation surplus (reserve), via other comprehensive income, whereas a revaluation deficit (loss) should be expensed immediately assuming, in both cases, no previous revaluation of the asset has taken place. A surplus on one class of asset cannot be used to offset a deficit on a different class of asset.
- Subsequent to a revaluation, the asset should be depreciated based on its revalued amount (less any estimated residual value) over its estimated remaining useful life, which should be reviewed annually irrespective of whether it has been revalued.

  An entity may choose to transfer annually an amount of the revaluation surplus relating to a revalued asset to retained earnings corresponding to the 'excess' depreciation caused by an upwards revaluation. Alternatively, it may transfer all of the relevant surplus at the time of the asset's disposal. The effect of this, on Sawaleh Ghana Ltd's financial statements, is that its statement of financial position will be strengthened by reflecting the fair value of its property, plant and equipment.

However, the downside from the director's perspective is that the depreciation charge will actually increase as it will be based on the higher fair value and profits will be lower than using the cost model. Although the director may not be happy with the higher depreciation, it is conceptually correct. The director has misunderstood the purpose of depreciation; it is not meant to reflect the change increase in this case in the value of an asset, but rather the cost of using up part of the asset's remaining life. **(5 marks)**

ii) In accordance with IAS 20, government grants related to non-current assets should be credited to the statement of profit or loss over the life of the asset to which they relate, not in accordance with the schedule of any potential repayment. The directors' proposed treatment is implying that the government grant is a liability which decreases over four years. This is not correct as there would only be a liability if the directors intend to sell the related plant. Therefore, in the year ended 30 June 2022, GH¢2,000,000 (GH¢20 million/10 years) should be credited to the statement of profit or loss and GH¢18 million (GH¢20,000,000 million – GH¢2,000,000) should be shown as deferred income (GH¢2 million as current liability and GH¢16 million as non-current liability) in the statement of financial position.

If the Directors opt to sell the asset before 2025, the amount outstanding on the deferred grant would be reversed. This is effected by debiting the deferred credit and crediting Bank/Cash account. If the amount payable/refundable is higher than the balance on the deferred credit, the difference is charged to the statement of profit or loss (by debiting the SPL and crediting Bank/Cash. **(5 marks)**

iii) Changing the classification of an item of expense is an example of a change in accounting policy, in accordance with ***IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors.*** Such a change should only be made where it is required by an IFRS or where it would lead to the information in the financial statements being more reliable and relevant. It may be that this change does represent an example of the latter, although it is arguable that amortised development costs should continue to be included in cost of sales as amortisation only occurs when the benefits from the related project(s) come on-stream. If it is accepted that this change does constitute a change of accounting policy, then the proposed treatment by the directors is acceptable; however, the comparative results for the year ended 30 June 2021 must be restated as if the new policy had always been applied (referred to as retrospective application). **(3 marks)**

b) A board decision on its own to close the factory is not sufficient to justify the creation of a provision under ***IAS 37 Provisions, Contingent Liabilities and Contingent Assets***. However, by formulating a plan and informing interested parties (employees, customers and suppliers in this case), this is likely to constitute a constructive

obligation for a restructuring provision by raising a valid expectation of the closure. The amounts that should be provided for at 30 April 2022 are:

Items of reorganisation	**GH¢ million**
Redundancy (200 employees x GH¢600,000)	120
Impairment loss on plant (GH¢6.4 – (GH¢3 – GH¢0.2))	3.6
Onerous contract (lower amount)	2.2
Penalty payments	0.5
	126.3

The GH¢126.3 million should be charged to the statement of profit or loss for the year ended 30 April 2022 and the same amount reported in the statement of financial position as at 30 April 2022 as a current liability/plant impairment assuming all parts of the factory closure will be completed within the next 12 months.

The factory and the plant would be disclosed in the statement of financial position as non-current assets held for sale at the lower of their carrying amount (the factory) or fair value less cost to sell (the plant).

However, the GH¢2 million retraining costs cannot be provided for as they are part of future activities and the anticipated GH¢8 million profit on the disposal of the factory cannot be recognised until it is realised.

(7 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

This question required candidates to demonstrate knowledge of contents and application of ***IAS 16, IAS 20, IAS 8, IAS 17*** and ***IFRS 5.*** It was a straight forward question but regrettably, many candidates could not provide the right responses.

For sub-question ai), candidates were required to outline the principles guiding revaluation of property, plant and equipment but most of them ended up describing how to account for PPE in the financial statements.

The aii) sub-question required candidates to demonstrate how to account for Government grant as a deferred credit in line with IAS 20. It further required the description of accounting arrangement relating to refund of grant as a result of inability to meet the attached conditions. Many candidates left this question unanswered.

The sub-question aiii) required candidates to describe the accounting arrangement for change in accounting policy in line with IAS 8. Many of the candidates only explained an accounting policy. They omitted the aspect relating to circumstances that necessitate change in accounting policy and the required accounting treatment.

The b) part of the question related to provision for restructuring (IAS 37) and discontinued operation (IFRS 5). This question was poorly answered by majority of candidates who attempted it.

QUESTION THREE

Dompa Plc

Statement of cash flow for the year ended 31 December 2021

	GH¢ 000	GH¢ 000
Operating activities:		
Profit before tax		376,088
Adjustments for:		
Finance cost	3,232	
Depreciation	8,804	
Amortisation of intangible assets (155-124)	31	
Impairment (745-1000)	755	
Write-off of vehicle	562	
Gain on disposal (850-689)	(161)	
Fair value changes in investment property (28,500-28,000)	(500)	
		12,723
		388,811
Working capital changes:		
Increase in inventory (15,700 -5,680)	(10,020)	
Increase in receivable (82800-10765)	(72,035)	
Increase in trade payables[(46401-8640)-7600]	30,161	(51,894)
Net operating cash before interest and tax		336,917
Interest paid (W1)	(3,000)	
Tax paid (W2)	(7,800)	(10,800)
Net cash from operating activities		**326,117**
Investing activities		
Purchase of Property, Plant and Equipment (W3)	(12,120)	
Proceeds from disposal	850	
Net cash from investing activities		**(11,270)**
Financing activities:		
Issue of shares (30,000 - 25,000)	5,000	
Dividend paid (W4)	(4,800)	
Net cash from financing activities		**200**
Net cash & cash equivalent for the year		**315,047**
Cash & cash equivalent at January 1		6,102
Cash & cash equivalent at 31 December		**321,149**

Workings:

1. **Interest Paid**

	GH¢ 000
Balance b/d	20,200
Interest at 16% (P&L)	3,232
	23,432
Balance c/d	20,432
	3,000

2. **Tax Paid**

	GH¢ 000
Balance b/d (6300 + 2300)	8,600
P&L	9,462
	18,062
Balance c/d (6500 +3762)	10,262
	7,800

3. **Property, Plant & Equipment**

	GH¢ 000
Balance b/d	23,260
Depreciation	(8,804)
Impairment	(755)
Write-off of asset	(562)
Disposed PPE	(689)
Credit purchase	8,640
	21,090
Balance c/d	33,210
Purchase of PPE	**12,120**

4. **Payment of Dividend**

	GH¢ 000
Retained earnings b/f	11,300
Profit for the year	366,626
Realised revaluation surplus (1,262-862)	400
	378,326
Balance c/d	373,526
	4,800

Alternatively, T-accounts can be used to obtain the missing items

(Marks are evenly spread using ticks = 20 marks)

EXAMINER'S COMMENTS

This question required candidates to prepare statement of cash flows in line with IAS 7. It was a straight forward question that required only a few workings to determine the following:

- Interest paid
- Taxation paid

- PPE purchased and paid in cash
- Dividend paid to shareholders

Unfortunately, less than 10% of the candidates could obtain more than 10 marks (out of 20 marks). The poor performance may be due to the fact that, a question on preparation of cash flow statement has not been asked since the current syllabus became operational.

QUESTION FOUR

Memorandum

To: The Board of Directors
From: The Finance Manager
Date: 5 December, 2022

Subject: **<u>Analysis of the performance of Madina Ltd for the year ended 31 December 2021</u>**

As requested, this report presents analysis of the performance of the company for the year ended 31 December 2021. The company's performance in the comparative year ended 31 December 2020 is used as the benchmark. The company's performance has been assessed on the bases of profitability, working capital management and leverage. Reference should be made to the attached appendix for figures used in the report.

Profitability

The earnings generated for ordinary shareholders increased in the 2021 year. Whereas in 2020, the profit earned by shareholders was GH¢0.13 per a cedi of their investment, in 2021, it increased to GH¢0.25 per a cedi of their investment. The company's performance also exceeded the industry average of 23.52%. The trading profit of the company also increased in the 2021 year as compared to the 2020 performance. Compared to the industry, the company's performance was better than the industry average. The increase in the gross profit margin, which measures the trading performance, suggests that the company's control of cost of sales improved in the 2021 year and on average over firms in the industry. The operating performance of the company also increased following the increase in the gross profit. The increase in the operating performance emphasizes the company's ability in controlling operating expenses over time and also better than firms in the industry, on average, which could have eroded the gross profit.

Working capital management

There is an improvement in the liquidity of the company in the 2021 year. The current assets in the year 2020 could cover the current liabilities 3.72 times, but increased to 5.55 times in the 2021 year, as measured by the current ratio. The acid-test ratio also shows the strengthening in the company's liquidity in the 2021 year. The company's liquidity is stronger also than the average industry liquidity.

The inventory turnover days of the company improved in the 2021 year. In 2020, the company used 45 days to sell its inventory but in 2021 used 36 days. However, there was a decline in the performance of the company with regard to its trade receivables collection. In the year 2021, it took the company 73 days to recover sales made on credit, but in 2020, the company used only 70 days. The company's performance in the 2021

year also trailed the industry performance of 20 days for inventory turnover and 68 days for trade receivables collection.

In terms of trade payables management, there was also a decline in the performance of the company as the days granted by suppliers for credit purchases to be paid decreased. The credit days given by suppliers decreased from 45 days in the year 2020 to 28 days in the year 2021. The lower trade payables figure at the end of the 2021 year as against the 2020 year, despite the increase in purchases (cost of sales) corroborates, the shortened creditor days of the company. The average industry credit days given to firms for the 2021 year is 32 days. This also suggests that a declined or poor performance of the company in management of its trade payables.

Conclusion
The company's profitability has improved in the 2021-year when compared over time and is also better than the average industry performance. Likewise, liquidity has improved over time and the company's liquidity position is stronger than the average firm's liquidity in the industry. Inventory management has also experienced an improvement over time and when compared to the average industry performance. However, there was a decline in the performance of trade receivables and trade payables management in the 2021 year and when compared to the industry performance.

Signed
Finance Manager

Appendix

RATIOS	**FORMULA**	**2021**	**2020**
Profitability:			
Return on Equity	$= \frac{PAT}{Equity}\ x\ 100$	$\frac{24,697}{99,634} x100$ =24.77%	$\frac{9,653}{76,851} x100$ =12.56%
Gross profit margin	$= \frac{Gross\ profit}{Revenue}\ x\ 100$	$\frac{38,961}{123,817} x100$ =31.47%	$\frac{20,134}{95,620} x100$ =21.06%
Net profit margin	$\frac{PBIT}{Revenue}\ x\ 100$	$\frac{28,501}{123,817} x100$ =23.02%	$\frac{12,567}{95,620} x100$ =13.14%

Liquidity			
Current ratio	$= \frac{current\ assets}{current\ liabilities}$	$\frac{55,985}{10,087}$ =5.55 times	$\frac{38,292}{10,290}$ =3.72 times
Acid-test ratio	$= \frac{current\ assets - Inventory}{current\ liabilities}$	$\frac{55,985 - 8,490}{10,087}$ = 4.71 times	$\frac{38,292 - 9,370}{10,290}$ =2.81 times
Efficiency			
Inventory turnover (days)	$= \frac{Inventory}{cost\ of\ sales}\ x365$	$\frac{8,490}{84,940} x365$ =36 days	$\frac{9,370}{76,240}\ x365$ =45 days
Trade receivables collection (days)	$= \frac{Trade\ receivables}{Revenue}\ x365$	$\frac{24,663}{123,817} x365$ = 73 days	$\frac{18,304}{95,620} x365$ =70 days
Trade payables settlement period	$= \frac{Trade\ payables}{Cost\ of\ sales}\ x365$	$\frac{6,507}{84,940} x365$ =28 days	$\frac{9,403}{76,240}\ x365$ =45days

(1/4 mark for each correct computation of ratio = 4 marks; 16 marks for the report)

(Total = 20 marks)

EXAMINER'S COMMENTS

The question required candidates to complete some profitability and liquidity ratios and to use the results to analyse the performance of an entity (against that of a previous year and that of Industrial average). This was the best answered question. Almost all the candidates calculated the ratios correctly and gave good interpretation.

QUESTION FIVE

a) The training courses may have the characteristics of an asset in that they have provided and will continue to provide future economic benefits to Damba Ltd in the form of enhanced efficiency and cost savings. The costs, however, cannot be recorded as an asset on the balance sheet and must be charged as an expense as soon as the cost is incurred.

The fundamental reason for this is the issue of 'control'; the'skills' offered by the courses belong to Damba Ltd's employees, but those employees can leave the company and take their talents with them, or they can lose those skills due to an accident or injury.

In addition, under International Financial Reporting Standards (specifically IAS 38 Intangible assets), the capitalisation of employee training costs is expressly prohibited. **(5 marks)**

b) A liability is a present obligation of the entity to transfer an economic resource as a result of past events. Previously, a liability was defined as a present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow of economic benefits (normally cash).

Provisions are defined as liabilities of uncertain timing or amount, i.e., they are normally estimates

A provision should be recognized as a liability in the financial statements when;

- An enterprise has a present obligation (legal or constructive) as a result of past event.
- It is probable that a transfer of economic benefits will be required to settle the obligation.
- A reliable estimate can be made of the obligation.

(5 marks)

c) **Computation EPS**

Calculation of TERP

		GH¢
Before	5 @ GH¢3.80	19
During	1 @ GH¢3	3
After	6	**22**

Right factor = $\frac{\text{Fair value per share immediately before the exercise of rights}}{\text{Theoretical ex rights price (TERP)}}$

TERP = GH¢22/6 = 3.67 therefore the right issue fraction = 3.8/3.67

Calculation of shares

Date	Description	No. of shares	Time	Right fraction	Weighted Ave no. shares
1/1/21	b/d	10,000,000	3/12	3.8/3.67	2,588,556
31/3/21	Issued at FMP	2,000,000			
		12,000,000	5/12	3.8/3.67	5,177,112
31/8/18	Right issue 1/5	2,400,000			
		14,400,000	4/12	-	4,800,000
					12,565,668

The basic EPS = Net profit (loss) for the period attributable to ordinary shareholders
(Weighted average number of ordinary shares outstanding during the period or year)

GH¢3,500,000
12,565,668 = **GH¢0.28 or 28 pesewas**

The restated EPS for the year ended December 31, 2020 is:
GH¢0.33 x 3.67/3.80 = **GH¢0.32 or 32p**.

(5 marks)

d) Joint venture: In a joint venture, the parties having joint control have rights to the net assets of the arrangement. These parties are called "joint venturers".

Joint operation: In a joint operation, the parties having joint control have rights to the assets and obligations for the liabilities relating to the arrangement. These parties are called "joint operators".

When assessing the rights and obligations from the joint arrangements, it's very important to look at how the joint arrangement is structured, mainly whether the arrangement is structured through separate vehicle or not.

Separate vehicle is a separately identifiable financial structure, including separate legal entities (e.g. company) or some entities recognized by a statute (not necessarily having legal personality).

When a joint arrangement is NOT structured through a separate vehicle, then the classification is easy: it is a clear joint operation.

When the joint arrangement is structured through separate vehicle, then it can be either joint venture or joint operation.

IFRS 11 requires accounting for the investment in a joint venture using the ***equity method*** according to IAS 28 Investments in Associates and Joint Ventures.

When an investor classifies its investment as a joint operation, then you should recognize in the financial statements:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

(5 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question required candidates to demonstrate knowledge in the content and application of ***IAS 38, IFRS 37, IAS 33*** and ***IFRS 11***. Many candidates could not provide the right answers.

CONCLUSION

- The paper was of a good standard and should be maintained.
- Candidates are encouraged to use the recommended manuals.