JULY 2024 PROFESSIONAL EXAMINATIONS
FINANCIAL REPORTING (PAPER 2.1)
CHIEF EXAMINER'S REPORT, QUESTIONS AND MARKING SCHEME

EXAMINER'S GENERAL COMMENTS

The Financial Reporting syllabus assumes knowledge acquired in Financial Accounting, and develops and applies this further and in greater depth. The syllabus begins with the regulatory, conceptual and ethical framework of accounting. Other areas of the syllabus cover the reporting of financial information for single companies and for groups in accordance with relevant International Financial Reporting Standards. Finally, the syllabus covers the analysis and interpretation of information from financial reports.

STANDARD OF THE PAPER

The standard of the paper was in total compliance with the syllabus. There was no typographical error and the typesetting was excellent. Allocation of marks was consistent with load and difficulty level of the respective questions and sub-questions.

PERFORMANCE OF CANDIDATES

The general performance of candidates was satisfactory. The pass rate was about 35%

There was no sign of copying and no other examination malpractice was detected.

NOTABLE STRENGTHS AND WEAKNESSES OF CANDIDATES

Almost all the candidates scored good marks in Question 4 'Accounting Ratios and Financial Statement Interpretation''. That question was a 'low hanging fruit' for all the candidates. The responses to question 5 was quite good compared to the remaining questions.

Unfortunately, many candidates could not answer Question 1 (Consolidated Financial Statement) Question 2 (Content and Application of some IFRSs) and Question 3 (Preparation of Statement of Comprehensive Income and Statement of financial Position for a Single entity).

The above weighting indicates that the content and application of the IFRSs constitute about 70% of the syllabus and that hardly can a candidate pass the Financial Reporting paper if he/she does not put premium on the learning of the IFRSs.

QUESTION ONE

On 1 January 2022, Jallah Plc acquired 18 million of the equity shares of Konneh Plc in a share exchange in which Jallah Plc issued two new shares for every three shares it acquired in Konneh Plc. Additionally, on 31 December 2022, Jallah Plc will pay the shareholders of Konneh Plc GH¢2.64 per share acquired. Jallah Plc's cost of capital is 10% per annum. At the date of acquisition each share in Jallah Plc and Konneh Plc had a stock market value of GH¢9.75 and GH¢3.75 respectively.

Statements of Profit or Loss for the Year Ended 30 September, 2022

	Jallah Plc	**Konneh Plc**
	GH¢'000	**GH¢'000**
Revenue	193,800	114,000
Cost of sales	(153,600)	(78,000)
Gross profit	**40,200**	**36,000**
Distribution costs	(4,800)	(5,400)
Administrative expenses	(11,400)	(7,200)
Investment income	1,500	-
Finance costs	(1,260)	-
Profit before tax	**24,240**	**23,400**
Income tax expense	(8,400)	(4,800)
Profit for the year	**15,840**	**18,600**

Extract from Statement of Changes in Equity for the year ended 30 September 2022

	Jallah Plc	**Konneh Plc**
	GH¢'000	**GH¢'000**
Equity as at 1 October 2021		
Share capital [issued at GH¢2.25 per share]	180,000	45,000
Retained earnings	162,000	105,000

Additional information:

i) At the date of acquisition, the fair values of Konneh Plc's assets were equal to their carrying amounts with the exception of two items:

- An item of plant had a fair value of GH¢5.4 million above its carrying amount. The remaining life of the plant at the date of acquisition was three years. Depreciation is charged to cost of sales.
- Konneh Plc had a contingent liability which Jallah Plc estimated to have a fair value of GH¢1.35 million. This has not changed as at 30 September 2022.

Konneh Plc has not incorporated these fair value changes into its financial statements.

ii) Jallah Plc’s policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, Konneh Plc’s share price at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

iii) Sales from Jallah Plc to Konneh Plc throughout the year ended 30 September 2022 had consistently been GH¢2.4 million per month. Jallah Plc made a mark-up on cost of 25% on these sales. Konneh Plc had GH¢4.5 million of these goods in inventory as at 30 September 2022.

iv) Jallah Plc’s investment income is a dividend received from its investment in a 40% owned associate (Ayalo Plc) which it has held for several years. The underlying earnings for the associate for the year ended 30 September 2022 were GH¢6 million out of which a total dividend of GH¢3.75 million was declared and paid.

v) Although Konneh Plc has been profitable since its acquisition by Jallah Plc, the market for Jallah Plc’s products has been badly hit in recent months and Jallah Plc has calculated that the goodwill has been impaired by GH¢6 million as at 30 September 2022.

Required:

a) Calculate the goodwill on acquisition of Konneh Plc. **(5 marks)**

b) Prepare the Consolidated Statement of Profit or Loss for Jallah Plc group for the year ended 30 September 2022. **(15 marks)**

(Total: 20 marks)

QUESTION TWO

a) Someny Ltd (Someny) is undertaking an impairment test for one of its cash-generating units which has a three-year horizon. Someny has prepared the following list of budgeted cash flows for the purposes of calculating value in use over the next three years (31 December 2024 year end onwards) using 31 December 2023 prices:

	31 December 2024	31 December 2025	31 December 2026
	GH¢000	GH¢000	GH¢000
Cash from sales	2,875	3,000	2,250
Cash paid to acquire inventories	1,437.5	1,500	1,125
Wages and salaries costs	562.5	562.5	562.5
Interest paid on loans	125	125	125
Tax paid	200	175	187.5
Payment of restructuring costs, provided for at 31 December 2023	275		
Disposal proceeds			625

Someny's weighted average real cost of capital (i.e. adjusted for the effects of inflation) is 8% per annum. All Someny's cash-generating units exhibit similar risks. Assume all cash flows occur at the end of each year.

Required:
In accordance with ***IAS 36: Impairment of Assets***, explain the treatment of each cash flow above and calculate the value in use of the cash-generating unit as at 31 December 2023.
(6 marks)

b) In accordance with ***IAS 1: Presentation of Financial Statements***, state whether each of the following is required to be disclosed as a separate line item on the face of the IFRS statement of financial position or statement of profit or loss account:

i) Deferred tax assets
ii) Cash equivalents
iii) Goodwill
iv) After tax loss on disposal of discontinued operations
v) Gains on property revaluation
vi) Write-down of inventories to net realisable value

(3 marks)

c) ***IFRS 15: Revenue from Contracts with Customers*** establishes the principles that an entity should apply when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. According to IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Required:
In accordance with IFRS 15, explain the **FIVE (5)** steps to be applied in the recognition of revenue. **(5 marks)**

d) Funnebo Ltd (Funnebo) is one of the leading producers of furniture for exports in the country. It reports under IFRS with one-year comparative information. For the year ended 31 December 2023, profit calculated using existing policies and accounting estimates was GH¢168 million. Funnebo is considering making the following changes to its financial statements for the year ended 31 December 2023:

i) For some seasonal furniture that was first sold in 2021, Funnebo is changing the revenue recognition basis such that revenue is recognised upon delivery to the customer rather than upon shipment. This is due to a change in delivery arrangements that, beginning on January 1, 2023, shifts risk ownership from the client to Funnebo until delivery has been made to the customer.

	2023	**2022**	**2021**
	GH¢'million	**GH¢'million**	**GH¢'million**
Revenue based on shipment date	63	60.2	35
Revenue based on delivery date	61.6	58.8	32.2

The cost of the seasonal goods is consistently 80% of sales price. **(3 marks)**

ii) Funnebo is also changing the method of depreciation of its plant from straight line depreciation over five years (with a nil residual value) to reducing balance at 20% per annum with effect from 1 January 2023. The plant originally cost GH¢70 million on 1 January 2021. **(3 marks)**

Required:
Calculate the revised profit or loss for the year ended 31 December 2023 based on the changes.

(Total: 20 marks)

QUESTION THREE

The following trial balance relates to Fumba Ltd (Fumba) at 31 March 2023:

	GH¢'000	GH¢'000
Share capital		315,000
Retained earnings at 1 April 2022		50,400
Land and buildings – at cost (land GH¢50 million) (note (ii))	270,000	
Plant and equipment – at cost (note (ii))	425,250	
Accumulated depreciation at 1 April 2022:		
- Buildings		90,000
- Plant and equipment		110,250
Inventory at 31 March 2023	196,650	
Trade receivables	189,900	
Bank	30,600	
Deferred tax (note (iv))		27,900
Trade payables		157,950
Revenue (note (i))		2,547,000
Cost of sales	1,851,750	
Distribution costs	96,750	
Administrative expenses	139,050	
Dividends paid	90,000	
Bank interest	3,150	
Current tax (note (iv))	5,400	-
	3,298,500	**3,298,500**

Additional information:

i) Revenue includes a promotional sale made in order to generate or improve sales on one of the company's older products, dubbed 'something for free'. The promotion included free maintenance services for the first two years. On 1 October 2022, under the promotional offer, Fumba sold goods to a supermarket chain for GH¢45 million. A two-year maintenance contract would normally be sold for GH¢4.95 million, and the list price of the product would normally be GH¢49.5 million. The transaction has been included in revenue at GH¢45 million.

ii) Non-current assets:
Fumba stopped producing one of their product lines on 1 October, 2022. Since then, the product's manufacturing plant has been widely promoted and advertised at a market price of GH¢18.9 million. It is included in the trial balance at a cost of GH¢40.5 million with accumulated depreciation (at 1 April 2022) of GH¢22.5 million.

The Board of Directors of Fumba determined on 1 April, 2022, that if the buildings and land were revalued to market value, the financial statements would reflect a better condition. At this date, the board approved the independent valuer's assessment of the land and buildings, which was GH¢54 million for the land and GH¢157.5 million for the buildings. The remaining life of the buildings at that date was 14 years. Excess depreciation is not transferred by Fumba to retained earnings. The company pays tax on profit at the rate of 25%.

Plant and equipment is depreciated at 20% per annum using reducing balance method and time apportioned as appropriate. All depreciation is charged to cost of sales, but none has yet been charged on any non-current asset for the year ended 31 March 2023.

iii) At 31 March 2023, a provision is required for directors' bonuses equal to 1% of revenue for the year.

iv) Fumba estimates that an income tax provision of GH¢122.4 million is required for the year ended 31 March 2023 and at that date the liability to deferred tax is GH¢42.3 million. The balance on current tax in the trial balance represents the under/over provision of the tax liability for the year ended 31 March 2022.

Required:

Prepare for Fumba:

a) The Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2023.

b) The Statement of Financial Position as at 31 March 2023.

(Total: 20 marks)

QUESTION FOUR

Below are the recently issued (summarised) financial statements of Mommoh Farms Ltd, a listed company, for the year ended 30 September 2023, together with comparatives for 2022 and extracts from the Chief Executive's report that accompanied their issue.

Statement of Profit or Loss for the year ended 30 September 2023

	2023	2022
	GH¢'000	**GH¢'000**
Revenue	150,000	108,000
Cost of sales	(120,000)	(90,000)
Gross profit	**30,000**	**18,000**
Operating expenses	(15,600)	(13,200)
Finance cost	(4,800)	-
Profit before tax	**9,600**	**4,800**
Income tax expense (at 25%)	(2,400)	(1,200)
Profit for the period	**7,200**	**3,600**

Statement Of Financial Position as at 30 September 2023

	2023	2022
	GH¢'000	**GH¢'000**
Non-current assets		
Property, plant and equipment	126,000	54,000
Goodwill	6,000	-
	132,000	54,000
Current assets		
Inventory	15,000	9,000
Receivable	7,800	4,800
Bank	-	8,400
	22,800	22,200
Total assets	**154,800**	**76,200**
Enquity and liabilities		
Share capital (issued @ GH¢1 per share)	60,000	60,000
Retained earnings	8,400	7,200
	68,400	67,200
Non-Current liabilities		
10% loan notes	60,000	-
	60,000	-
Current liabilities		
Bank overdraft	10,200	-
Trade payable	13,800	7,800
Current tax payable	2,400	1,200
	26,400	9,000
Total equity and liability	**154,800**	**76,200**

Extracts from the Chief Executive Report:

Highlight of Mommoh Farms Ltd performance for the year ended 30 September 2023:

1) An increase in sales revenue of 39%
2) Gross profit margin up from 16.7% to 20%
3) A doubling of the profit for the period

In response to this improved position, the board paid a dividend of 10 pesewas per share in September 2023, an increase of 25% on the previous year.

The following ratios have been calculated for Mommoh Farms Ltd for the year ended 30 September 2022:

• Return on year-end capital employed (Profit before interest and tax over total assets less current liabilities)	7.1%
• Net asset (equal to capital employed) turnover	1.6
• Net profit (before tax) margin	4.4%
• Current ratio	2.5
• Closing inventory holding period (in days)	37
• Trade receivables' collection period (in days)	16
• Trade payables' payment period (based on cost of sales) (in days)	32
• Gearing (debt over debt plus equity)	nil

Required:

a) Compute ratios for Mommoh Farms Ltd for the year ended 30 September 2023 equivalent to those calculated for the year ended 30 September 2022.

b) Assess the financial performance and position of Mommoh Farms Ltd for the year ended 30 September 2023 compared to the previous year. Your answer should refer to the information in the Chief Executive's report.

(Total: 20 marks)

QUESTION FIVE

a) Korleh Ltd is a leading manufacturer of TVs and home appliances in Ghana. The directors of Korleh Ltd are very confident about the quality of the products that the company sells. Since the incorporation of the company in 2005, the level of complaints received about product quality has been low.

However, when calculating their warranty provision, they have over-estimated the number of items that will be returned as faulty. The directors believe that this is acceptable because it is important for financial statements to exhibit prudence.

Required:
Discuss the ethical issues raised by the treatment of the warranty provision. **(5 marks)**

b) One of the fundamental qualitative characteristics of useful financial information is faithful representation. This feature places a mandatory requirement for entities to present financial statements that accurately reflect the condition of a business. For instance, inventory valuation has a major impact on financial reporting of an entity.

Required:
Explain and assess the impact of inventory valuation errors on the financial statements of an entity. **(5 marks)**

c) Quanzema Ltd (Quanzema) after its incorporation incurred various costs. Below are some of the costs incurred in 2023 when setting up:
i) GH¢750 to register the domain name that the company will use for its brand.
ii) Costs incurred internally to design and develop content for the website amounts to GH¢7,500 and GH¢2,550 respectively.
iii) GH¢2,250 legal and administrative costs to set up and register the company.
iv) GH¢4,500 on printing of brochures presenting the company's concept and products.
v) GH¢18,000 sending staff on external computer training courses.

Required:
Determine the items that should be ***expensed*** and the items that should be ***capitalised*** on initial recognition in the financial statements of Quanzema. **(5 marks)**

d) With reference to ***IFRS 10: Consolidated Financial Statements***, an investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.

Required:
i) Define ***control***. **(2 marks)**
ii) How can an investor entity demonstrate control over an investee? **(3 marks)**

(Total: 20 marks)

SUGGESTED SOLUTIONS

QUESTION ONE

a) G**oodwill at acquisition**

		GH¢'000	
Consideration transferred			
Share capital (2/3 x18m × GH¢9.75)			117,000
Deferred consideration (18m × GH¢2.64 × 1/1.1)			43,200
			160,200
Fair value of NCI (2m × GH¢3.75)			7,500
			167,700
Fair value of net assets			
Share capital		45,000	
Retained earnings (105,000 + (18,600 × 3/12))		109,650	
Fair value adjustment to plant		5,400	
Contingent liability		(1,350)	
			(158,700)
Goodwill			9,000
Impairment			(6,000)
			3,000

(Marks are evenly spread using ticks = 5 marks)

b) **JALLAH PLC GROUP**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 SEPTEMBER 2022

	GH¢'000
Revenue (193,800+ (114,000 × 9/12) – 21,600 (W2))	257,700
Cost of sales (153,600 + (78,000 × 9/12) – 21,600 + 900(W2) + 1,350(W3))	(192,750)
Gross profit	64,950
Distribution costs (4,800 + (5,400 × 9/12))	(8,800)
Administrative expenses (11,400 + (7,200 × 9/12)	(16,800)
Goodwill impairment	(6,000)
Finance costs (W4)	(4,500)
Share of profit of associate (6,000 × 40%)	2,400
Profit before tax	31,200
Income tax expense (8,400 + (4,800 × 9/12))	(12,000)
Profit for the year	**19,200**
Profit attributable to:	
Owners of the parent	18,540
Non-controlling interest (W5)	660
	19,200

Workings

1. **Control Structure**

		Konneh
Jallah	[18m/20m]	90%
NCI	2m/20m	10%

Date of acquisition 1/1/2022 [Pre-acq = 3months; Post-acq 9 months]

2. ***Intragroup trading***

	GH¢'000	GH¢'000
Intragroup trading (2,400 × 9 months)		
Revenue	21,600	
Cost of sales		21,600
PUP (4,500 × 25/125) = 900		
Cost of sales	900	
Group inventory (SFP)		900

3. ***Fair value adjustment***

	Acquisition GH¢'000	*Movement* GH¢'000	*Year end* GH¢'000
Plant	5,400	(1,350)*	4,050

*(5,400 / 3) × 9/12

4. ***Finance costs***

	GH¢'000
Jallah per statement of profit or loss	1,260
Unwinding of discount on deferred consideration:	
((43,200 × 10%) × 9/12)	3,240
	4,500

5. ***Non-controlling interest***

	GH¢'000
Profit for the year (18,600 × 9/12)	13,950
Depreciation on fair value adjustment (W3)	(1,350)
Goodwill impairment	(6,000)
	6,600
Non-controlling share 10%	**660**

(Marks are evenly spread using ticks = 15 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question required candidates to calculate goodwill on acquisition of a subsidiary and prepare consolidated statement of profit or loss (involving a Parent and a Subsidiary). This was a standard question that required the basic calculations such as determination of control structure, net assets of subsidiary at acquisition date, cost of acquisition, intra-group adjustments, non-controlling interest and consolidated retained earnings. Most of the candidates could not earn a pass mark.

QUESTION TWO

a)

	31 December 2024	31 December 2025	31 December 2026
	GH¢000	**GH¢000**	**GH¢000**
Cash from sales	2,875	3000	2,250
Cash paid to acquire inventories	(1,437.5)	(1,500)	(1,125)
Wages and salaries costs	(562.5)	(562.5)	(562.5)
Disposal of Asset			625
	875	937.5	1187.5
Discount rate	$1/1.08$	$1/1.08^2$	$1/1.08^3$
Discounted Cash flows	**810**	**803.8**	**942.5**

Value in use GH¢2,556.3 (to the nearest GH¢1,000)

Notes:

- Interest cash flows are not included in the calculation because the cash flows are discounted.
- Tax payments are not included as the impairment loss appears above the tax line in the statement of comprehensive income (IAS 36 para 50). (Instead, impairment losses could generate a deferred tax adjustment if not recognised at the same time by the tax authorities).
- Cash flows relating to liabilities already recognised in the financial statements are not included in the value in use calculated either as that would be double counting (IAS 36 para 43(b)), although future cash flows that change as a result of a recognised restructuring liability would be included.

(6 marks)

b)

Deferred tax assets	YES (IAS 1 para 54(o))
Cash equivalents	NO (IAS 1 para 54(i) – can be combined with cash)
Goodwill	NO (IAS 1 para 54(c) – is an intangible asset)
After tax loss on disposal of discontinued operations	NO (IAS 1 para 82(e) – must be combined with profit or loss on discontinued operations
Gains on property revaluation	YES (IAS 1 para 82(g) – each component of other comprehensive income must be disclosed)
Write-down of inventories to NRV	NO (IAS 1 para 97/98(a) if material, disclosed on face or notes)

(0.5 marks each = 3 marks)

c) **To recognise revenue under IFRS 15, an entity applies the following five steps:**

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract. Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct.
- Determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. If the consideration promised in a contract includes a variable amount, an entity must estimate the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer.
- Allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract.
- Recognise revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

(Any 5 points for 5 marks)

d) Changes at Funnebo

	GH¢million
Profit using existing policies	168
Revenue (change in nature not policy, therefore apply from 1 Jan 2023) (61.6 – 63) x 20%	(0.28)
Depreciation method (change in estimate) Old depreciation 70 / 5 years	14
Revised depreciation (70 x 3/5) x 20%	(8.4)
	173.32

(3 marks each = 6 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

Question 2 required candidates to demonstrate knowledge of contents and application of IAS 36, IAS 1, IFRS 15, and IAS 8. Many candidates could not provide the right responses.

QUESTION THREE

Fumba Ltd
Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 March, 2023

	GH¢'000
Revenue (W1)	2,543,931.90
Cost of sales (W2)	(1,924,200)
Gross profit	619,731.9
Distribution costs	(96,750)
Administrative expenses (W3)	(164,489.40)
Operating profit	358,492.50
Finance costs	(3,150)
Profit before tax	355,342.5
Income tax expense (W4)	(134,325)
Profit for the year	**221,017.50**
Other comprehensive income:	
Gain on revaluation of property (net of tax) (W6)	23,625
Total comprehensive income for the year	**244,642.5**

Statement of Financial Position as at 31 December 2021

		GH¢'000
Non-current assets		
Property, plant and equipment (W8)		437,850
Current assets		
Plant Held For Sale (W9)	16,200	
Inventory	196,650	
Trade receivables	189,900	
Bank and cash	30,600	
		433,350
Total Assets		**871,200**
EQUITY AND LIABILITIES		
Equity:		
Share capital		315,000
Revaluation surplus		22,017.60
Retained earnings (W10)		183,024.90
Total equity		520,042.50
Non-current liability:		
Deferred tax	43,200	
Deferred revenue (W1)	3,068.10	45,368.10
Current liabilities:		
Trade Payables	157,950	
Income tax payable	122,400	
Directors' bonuses (W3)	25,439.40	305,789.40
Total equity and liabilities		**871,200**

WORKINGS (in GH¢'000)

1	**Revenue**	**GH¢'000**
	Per trial balance	2,547,000
	Less Deferred revenue (5.5/60.5 x 45,000) x 18/24	(3,068.10)
		2,543,931.90
2	**Cost of sales**	
	Per trial balance	1,851,750
	Depreciation on buildings (157,500/14)	11,250
	Depreciation of plant and equipment ((425,250 – 40,500) – (110,250 – 22,500) x 20%)	59,400
	Dep'n on Plant HFS (40,500 – 22,500) x 20% x 6/12	1,800
		1,924,200
3	**Administrative expenses**	
	Per trial balance	139,050
	Directors' bonuses (1% x 2,543,931.9)	25,439.40
		164,489.40
4	**Income tax expense**	
	Estimated current tax provision	122,400
	Under provision for previous year	5,400
	Deferred tax adjustment in P/L (W5)	6,525
		134,325
5	**Deferred tax**	
	Balance b/f	27,900
	Deferred tax adjustment in P/L	6,525
	Deferred tax adjustment in OCI (W6)	7,875
	Balance c/d	**42,300**
6	**Gain on revaluation of land and buildings**	
	Valuation at 1 April 2022 (54,000 + 157,500)	211,500
	Carrying amount at 1 April 2022 (270,000 - 90,000)	180,000
	Gain on revaluation	31,500
	Deferred tax @ 25%	(7,875)
	Net gain on revaluation	**23,625**
7	**Transfer to realised profits**	
	Depreciation based on revalued amount	11,250
	Depreciation based on carrying amount (270,000 - 45,000 - 90,000)/14	9,642.60
		1,607.40

8 **PPE Schedule**

COST/VALUATION:	Land & Building GH¢'000	Plant & Equipment GH¢'000	Total GH¢'000
At 1 April 2022	270,000	425,250	695,250
Rvaluation gain	31,500	-	31,500
Reclassified as HFS	-	(40,500)	(40,500)
At 31 March 2023	301,500	384,750	686,250
ACCUMULATED DEP'N:			
At 1 April 2022	90,000	110,250	200,250
Charge for the year	11,250	61,200	72,450
Reclassified as HFS	-	(24,300)	(24,300)
At 31 March 2023	101,250	147,150	248,400
CARRYING AMOUNT:			
At 31 March 2023	**200,250**	**237,600**	**437,850**
At 31 March 2022	**180,000**	**315,000**	**495,000**

9 **Plant Held For Sale**

Carrying amount (40,500 – 24,300)	16,200
Fair value	18,900

The plant held for sale is carried at the lower of carrying amount and fair value less cost of disposal of GH¢18 million.

(80 ticks @ 1/4 mark per tick = 20 marks)

EXAMINER'S COMMENTS

The question 3 required candidates to prepare statement of profit or loss and other comprehensive income and statement of financial position. It was a standard question, but almost all the candidates could not interpret additional information (i) and (ii) Unfortunately, no candidate could earn a pass mark of 10 marks.

QUESTION FOUR

a) Computation of Ratios

Ratio	Formula		2023	2022
Return on Capital Employed	PBIT x 100 / Capital Employed	14,400 x 100 / 128,400	**11.21%**	**7.10%**
Net Assets Turnover	Revenue x 100 / Capital Employed	150,000 x100 / 128,400	**1.17 times**	**1.6 times**
Net Profit Margin	Net Profit x 100 / Revenue	9,600 x 100 / 150,000	**6.4%**	**4.40%**
Current Ratio	Current Assets / Current Liabilities	22,800 / 26,400	**0.86: 1**	**2.5:1**
Inventories Holding Period	Closing Inventories x 365 / Cost of Sales	15,000 x 365 / 120,000	**46 days**	**37 days**
Receivables Collection Period	Receivables x 365 / Revenue	7,800 x 365 / 150,000	**19 days**	**16 days**
Payables Payment Period	Trade Payables / Cost of Sales	13,800 x 365 / 120,000	**42 Days**	**32 Days**
Gearing	Debt x 100 / Equity + Debt	60,000 x 100 / (68,400 +60000)	**47%**	**-**

Note: figures in the calculations of the ratios are in GH¢' 000

(1.25 marks each = 10 marks)

b) Analysis of the comparative financial performance and position of Mommoh Farms Ltd for the year ended 30 September 2023.

Note: references to 2023 and 2022 should be taken as the years ended 30 September 2023 and 2022.

Introduction

The figures relating to the comparative performance of Mommoh Farms Ltd 'highlighted' in the Chief Executive's Report may be factually correct, but they take a rather biased and one-dimensional view. They focus entirely on the performance as reflected in the statement of profit or loss and other comprehensive income without reference to other measures of performance (notably the ROCE. The following analysis of performance will consider the position as shown in the reported financial statements based on the ratios in the attached appendix (a) of the question.

Profitability.

The ROCE is often considered to be the primary measure of operating performance. because it relates the profit made by an entity (return) to the capital (or net assets) invested in generating those profits. On this basis the ROCE in 2023 of 11.2% represents a 58% improvement (i.e. 4.1% on 7.1%) on the ROCE of 7.1% in 2022. It should be observed that the other contributing factor to the ROCE is the net asset turnover of l.17 times.

Liquidity

The company's liquidity position as measured by the current ratio has deteriorated dramatically during the period. A relatively healthy 2.5: 1 is now only 0.9:1 which is rather less than what one would expect from the current and is a matter of serious concern. A consideration of the component elements of the current ratio suggests that increases in the inventory holding period and trade payables payment have largely offset each other.

There is a small increase in the collection period for trade receivables (up from 16 days to 19 days) which would actually impact the current ratio. This ratio appears unrealistically low. it is very difficult to collect credit sales so quickly and may be indicative of factoring some of the receivable or portions of the sales being cash sales.

Factoring is sometimes seen as a consequence of declining liquidity although if this assumption is correct, it does also appear to have been present in the previous year. The changes in the above three ratios do not explain the dramatic deterioration in the current ratio. The real output is the cash position. Mommoh Farms Ltd has gone from having a bank balance of GH¢ 8.4 million in 2022 to showing short term bank borrowings of GH¢ 10.2 million in 2023.

Dividends
A dividend of 10 pesewas per share in 2023 amounts to GH¢10 million (100m x 10 pesewas), thus the dividend in 2022 would have been GH¢8 million (the dividend in 2023 is 25% up on 2022). It may be that the Increase in the reported profits led the Board to pay the 25% increased dividend, but the dividend cover is 7.2 times (7.2m/10m). In 2022 the cover was only 0·45 times (3.6m/8m) meaning previous years' reserves were used to facilitate the dividend. The low retained earnings indicate that Mommoh Farms Ltd has historically paid a high proportion of its profits as dividends however in times of declining liquidity, it is difficult to justify such high dividends.

Gearing
The company has gone from a position of nil gearing (i.e. no long-term borrowings) in 2022 to a relatively high gearing of 47% in 2023. This has been caused by the issue of the GH¢60 million 8% loan notes. At the time the loan note was issued, Mommoh Farms Ltd' ROCE was 7.1%, slightly less than the finance cost of the loan note.

In 2023 the ROCE has increased to 11.2%, thus the manner of the funding has had a beneficial effect on the returns to the equity holders of Mommoh Farms Ltd. However, it should be noted that high gearing does not come without risk. Any future downturn in the results of Mommoh Farms Ltd would expose the equity holders to much lower proportionate returns and continued poor liquidity may mean payment of the loan interest could present a problem. Mommoh Farms Ltd's gearing and liquidity position would have looked far better had there been an issue of equity shares to raise additional funding.

Conclusion
There is no doubt that the actions of management of Mommoh Farms Ltd has yielded some success. However, it has disguised a serious deterioration of the underlying performance and position of Mommoh Farms Ltd's existing activities which the Chief Executive's report may be trying to downplay.

Interpretation of ratios = 8 marks
Introduction & conclusion = 2 marks

(Total: 20 marks)

EXAMINER'S COMMENTS
The question required candidates to compute some profitability, liquidity, efficiency, and gearing ratios and to use the results to analyse the performance of an entity (against that of a previous year). This was the best answered question. Almost all the candidates calculated the ratios correctly and gave good interpretation.

QUESTION FIVE

a) Financial statements are important to a range of user groups, such as shareholders, banks, employees, and suppliers. Prudence is important because over-stated assets or under-stated liabilities could mislead potential or current investors. However, excessive cautiousness means that the financial performance and position of an entity is not faithfully represented.

   A faithful representation is often presumed to have been provided if accounting standards have been complied with. The directors are not calculating the provision in line with the requirements of IAS 37, which requires provisions to be recognised at the 'best estimate' of the expenditure to be incurred. This may mean that profit is understated in the current period and then over-stated in subsequent periods. Professional ethics is a vital part of the accountancy profession and ICAG members are bound by its Code of Ethics and Conduct. This sets out the importance of the fundamental principles of confidentiality, objectivity, professional behaviour, integrity, and professional competence and due care.

   Integrity is defined as being honest and straight-forward. Over-estimating a provision in order to shift profits from one period to another demonstrates a lack of integrity.

   If the provision is being over-stated to achieve bonus targets or profit expectations in the next financial period, then this demonstrates a lack of objectivity.

   If the directors are unaware of the requirements of IAS 37, then they may not be sufficiently competent.

   Financial statements should faithfully represent the transactions that have occurred. Compliance with the ethical code thus encourages accountants to ensure that they are technically capable and sufficiently independent to comply with the requirements of IFRSs.

(5 marks)

b) Accounting for inventory is a critical function of management. Inventory accounting is significantly complicated by the fact that it is an ongoing process of constant change, in part because most companies offer a large variety of products for sale, product purchases occur at irregular times, products are acquired for differing prices, and inventory acquisitions are based on sales projections, which are always uncertain and often sporadic.

   Merchandising companies must meticulously account for every individual product that they sell, equipping them with essential information, for decisions such as these:

   - ✓ What is the quantity of each product that is available to customers?

- ✓ When should inventory of each product item be replenished and at what quantity?
- ✓ How much should the company charge customers for each product to cover all costs plus profit margin?

The company's financial statements report the combined cost of all items sold as an offset to the proceeds from those sales, producing the net number referred to as gross margin (or gross profit). This is presented in the first part of the results of operations for the period on the multi-step income statement.

The unsold inventory at period end is an asset to the company and is therefore included in the company's Statement of Financial Position. The total cost of all the inventory that remains at period end, reported as merchandise inventory on the Statement of Financial Position, plus the total cost of the inventory that was sold or otherwise removed (through shrinkage, theft, or other loss), reported as cost of goods sold on the Statement of Profit or Loss, represent the entirety of the inventory that the company had to work with during the period, or goods available for sale.

(5 marks)

c) Capitalise and expense

	Capitalise	**Expense**
	GH¢	**GH¢**
(i) Domain name registration – intangible asset	750	
(ii)Legal and administrative set-up costs – start-up costs are not capitalised IAS 38 para 69(a) as no intangible asset is created		2,250
(iii)Web design costs – capitalised under SIC-32 as represent directly attributable expenditure of developing the web site	7,500	
(iv)Web content development – expensed under SIC-32 because developed to market the entity's own products (para 8)		2,550
(v)Brochures – marketing costs are not capitalised (IAS 38 para 69(c)) as no intangible asset is created		4,500
(vi)Training costs – not capitalised (IAS 38 para 69(b)) as no intangible asset is created		18,000
	8,250	**27,300**

(1 mark each = 5 marks)

d)

i) An investor controls and investee when it is exposed or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. **(2 marks)**

ii) Thus, an investor controls an investee if and only if the investor has all the following:

1) power over the investee;
2) exposure, or rights, to variable returns from its involvement with the investee; and
3) the ability to use its power over the investee to affect the amount of the investor's returns.

(3 points @ 1 mark each = 3 marks)

(Total: 20 marks)

EXAMINER'S COMMENTS

The question required candidates to demonstrate knowledge in the content and application of fundamental ethical requirement for accountants, IAS 2, IAS 38 and IFRS 10. Majority of the candidates earned the pass marks.